

# **ATLAS ASSET MANAGEMENT LIMITED**

## **PROVISIONING POLICY FOR NON-PERFORMING EXPOSURE OF COLLECTIVE INVESTMENT SCHEMES**

### **INTRODUCTION**

The Securities and Exchange Commission of Pakistan (the Commission), vide their Circular no. 13 of 2009 dated May 4, 2009, required asset management companies to formulate, with approval of their Board of Directors, a provisioning policy for making any additional provision over and above the minimum provisioning requirements spelt out by the Commission in their Circular no. 1 of 2009 dated January 6, 2009.

Accordingly, Atlas Asset Management Limited (AAML) has formulated the following policy for making provision against exposure of the Collective Investment Schemes managed by the Company. This policy has been approved by the Board of Directors of AAML on August 7, 2009.

### **The Provisioning Policy Covers:**

- 1- Eligibility criteria for debt security and other exposure for making provision
- 2- Criteria for classification as non – performing exposure
- 3- Provisioning requirements including the minimum time frame for maintaining the applied provisions
- 4- Additional provisioning/ provision against performing securities
- 5- Criteria for suspension of mark up
- 6- Criteria for reversals of provisioning
- 7- Requirements for disclosure of the Provisioning Policy to unit holders and prospective investors

### **1-ELIGIBILITY CRITERIA FOR DEBT SECURITY AND OTHER EXPOSURE FOR MAKING PROVISION**

To be eligible for making provision, a security(s) shall be classified as follows:

- TFC (Including PPTFC)
- SUKUK (Including PP Sukuk)
- Certificate of Investment (COI)
- Certificate of Islamic Investments (COII)
- Certificate of Deposit (COD)
- Certificate of Musharakas (COM)
- Letter of Placements (LOP)
- Commercial Papers (CP)
- Any other debt and money market security

### **2-CRITERIA FOR CLASSIFICATION AS NON – PERFORMING EXPOSURE**

- (i) A debt security (TFC / Sukuk etc) shall be classified as a non-performing, if the interest and/or principal amount is past or overdue by 15 calendar days from the due date.
- (ii) Other Securities (COI, COII, COM, COD, LOP and CP etc) shall be classified as non-performing, if the interest and/or principal amount is past or overdue by 15 calendar days from the due date.

### **3- PROVISIONING REQUIREMENTS INCLUDING THE MINIMUM TIME FRAME FOR MAINTAINING THE APPLIED PROVISIONS**

- (i) All non-performing debt securities whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

<b>Effective Day for Provisioning</b>	<b>Minimum Provision as % of book value (outstanding principal amount)</b>	<b>Cumulative Provision</b>
90th day	20%	20%
180th day	10%	30%
270th day	15%	45%
365th day	15%	60%
455th day	Balance	100%

- However, full provisioning shall be made immediately if the applicable rating of the debt security is down to “D” (default).
- In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided.

(ii) Other non – performing securities shall be provided for in accordance with the following criteria from the day of classification as non-performing:

<b>Effective Day for Provisioning</b>	<b>Minimum Provision as % of book value (outstanding principal amount)</b>	<b>Cumulative Provision</b>
80% of Outstanding tenure	20%	20%
70% of Outstanding tenure	10%	30%
60% of Outstanding tenure	15%	45%
50% of Outstanding tenure	15%	60%
40% of Outstanding tenure	Balance	100%

- However, full provisioning shall be made immediately if the applicable rating of the security / issuing entity is down to “D” (default).
- In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided.

(iii) Any additional provisioning over and above the minimum criteria is subject to ratification / approval of the Board of Directors and disclosure in periodical financial statements.

#### **4- ADDITIONAL PROVISIONING/ PROVISION AGAINST PERFORMING SECURITIES**

In case of any additional provisioning over and above the minimum criteria for non performing securities and making provision against performing securities the following factors requires due consideration:

- Industry Outlook
- Management
- Operational / Financial Conditions
- Market Intelligence
- Credit Rating
- Any Other Factor

On the recommendation of the Fund Manager, the Investment Committee evaluates the rationale for additional provisioning against non – performing securities and/ or provision against performing securities and recommend to the Board of Directors for ratification / approval. Disclosure about provision will be made in the financial statements after ratification / approval of Board of Directors.

All provisioning in excess of minimum criteria in case of non performing securities and any provision against performing securities, on the recommendation of the Fund Manager shall be reversed, if the Investment Committee is satisfied and subsequently such reversal is ratified/ approved by the Board of Directors.

## 5- CRITERIA FOR SUSPENSION AND REVERSAL OF INTEREST/PROFIT

- The accrual of interest/profit shall be suspended from the first day the interest/profit payment falls due and is not received.
- If the circumstances warrant, the accrual of interest / profit on performing securities shall be suspended, however, such suspension is subject to the ratification / approval of Board of Directors and requires disclosure in financial statements. In case interest/ profit received the amount received shall be written back to the extent it is received.
- All interest/profit accrued and recognized in the books of Collective Investment Scheme shall be reversed immediately once a debt security is classified as non-performing.

## 6- CRITERIA FOR RECLASSIFICATION OF NON PERFORMING DEBT/ OTHER SECURITIES

- In case a Collective Investment Scheme has received all the arrears of interest, the interest amount reversed shall be written back to the extent it is received, if the Fund Manager is satisfied that in future there is not likelihood of default in payment of principal amount. The Fund Manager shall have his/ her reasoning recorded in the IC minutes. If however, the Fund Manager suspects that the payment of principal amount is not likely to be smooth, then the interest amount will be kept in a suspense account. This amount may be reversed whenever the Fund is reasonably satisfied that recovery of principal is not in doubt and his/ her views are noted in minutes.
- In case a Collective Investment Scheme has received all arrears of interest and the debt / other security has not been reclassified as performing, the suspension of accrual of interest shall continue.
- The debt / other security shall only be reclassified as performing once all the arrears have been received in cash and the security is regular on all payments (interest as well as principal) for the next two installments. The provision made for the principal amount shall be written back in the following manner:-
  - Where provision of principal was made due to the interest defaults only, 100% of the debt security provided for in the books shall be written back upon reclassification of the security as performing.
  - Where both installments and interest were in default, 50% of the provision made in the books shall be written back at the receipt of the first payment (interest/principal) and 50% at the receipt of second payment and the asset shall be reclassified as performing, provided that there are no overdues after these payments.

## 7- REQUIREMENTS FOR DISCLOSURE OF THE PROVISIONING POLICY TO UNIT HOLDERS AND PROSPECTIVE INVESTORS

The schedule is as under:

Event	Date
IC approval	July 24, 2009
Board approval	Through circular resolution – 07 August, 2009
Placement on Website	Immediately after Board Approval
Disseminate to Existing Unit Holders	Immediately after Board Approval
Disseminate to Prospective Unit Holders	Immediately after Board Approval
Disseminate to trustee of scheme	Immediately after Board Approval
Disseminate to the Commission	Immediately after Board Approval