

ATLAS ASSET MANAGEMENT LIMITED

2nd SUPPLEMENT TO THE PROVISIONING POLICY FOR NON-PERFORMING EXPOSURE OF COLLECTIVE INVESTMENT SCHEMES **DATED FEBRUARY 12, 2013**

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) formulated such policy for making provision against exposure of the Collective Investment Schemes managed by the Company, which was approved by the Board of Directors of AAML on August 7, 2009. The Policy was amended vide the 1st Supplement dated October 26, 2011 to cover the changes. This 2nd Supplement incorporates certain amendments to the above mentioned Provisioning Policy for Non Performing Exposures consequential to the amendments implemented by the Commission through Circular no. 33 of 2012 dated October 24, 2012 and Circular no. 35 of 2012 dated November 26, 2012.

The Provisioning Policy after amendment is as under:

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) Reclassification of Non-performing debt/other securities
- 8) 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:

Effective Day for Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provisioning
90 th day	20%	20%
180 th day	10%	30%
270 th day	10%	40%
365 th day	10%	50%
455 th day	10%	60%
545 th day	10%	70%
635 th day	10%	80%
725 th day	10%	90%
815 th day	10%	100%

- In the process of arriving at minimum provisioning against non-performing debt securities as per the timeline given above, AAML may exercise discretion with respect to the timing for creating the requisite provision such as immediately on the day of classification as non-performing or spreading it over the number of days, as deemed appropriate in the best interest of unit holders. However, the minimum provisioning on effective day shall be in accordance with the schedule given above.
- Where a debt security immediately preceding its classification as non-performing is valued at a discount to its outstanding principal amount, such discount may be accounted for while arriving at the minimum provision. However, if any such discount exceeds the requisite provisioning, the excessive discount shall not be written back and debt security shall be carried at the existing value upon classification as non-performing.
- 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:

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

- 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- 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.
- 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.
- In case a Collective Investment Scheme has received all arrears on interest and the debt security has not been reclassified as performing, the suspension of interest shall continue.
- 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.

6- REVERSAL OF PROVISIONS

- The unrealized interest/mark-up amount reversed shall be written back to income upto the extent it is received in cash
- The provision made for principal amount shall be written back to the extent it is received in cash and the remaining provision shall cover the minimum provision required. The full provision shall be reversed when the debt security is reclassified as performing.

7- 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.

- The debt Security shall only be reclassified as performing once all the arrears have been received in cash and debt security is regular on all payments (interest as well as principal) for the next two installments.
- In case of non-performing debt securities which have been rescheduled/restructured, the debt security shall only be re-classified as performing if all the following conditions are met:
 - i. The terms and conditions of rescheduled/restructured debt security are fully met for a period of at least one year; and
 - ii. All the arrears (till the date of restructuring) have been received in cash;
 - iii. An amount equivalent to two installments (excluding grace period, if any) as per original repayment term (before rescheduling) are paid in cash.

However, during rescheduling/restructuring period AAML may stop creating additional provisioning against restructured/rescheduled debt security. If the debt security subsequently did not perform as per rescheduling/restructuring agreement, the debt security shall be treated as non-performing from date of its original default.

8- REQUIREMENTS FOR DISCLOSURE OF THE AMENDMENT TO THE PROVISIONING POLICY TO UNIT HOLDERS AND PROSPECTIVE INVESTORS

The schedule is as under:

Event	Date
IC approval	January 18, 2013
Board approval	February 12, 2013
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

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