

## **PROVISIONING POLICY** **FOR NON PERFORMING EXPOSURE OF NIT FUNDS**

On 06<sup>th</sup> January 2009, Securities and Exchange Commission of Pakistan (SECP) vide its Circular No. 1 prescribed the criteria for provisioning against non performing debt securities. Further amendments/clarifications in Circular No. 01 of 2009 were promulgated by SECP vide its circulars No. 06 dated 06<sup>th</sup> March 2009, No. 13 dated 04<sup>th</sup> May 2009 and No. 03 dated 20<sup>th</sup> January 2010.

In the above referred circulars all AMCs were directed to formulate a comprehensive provisioning policy.

### **1. Introduction**

This policy outlines criteria for making provisions against exposures by collective investment scheme under the management of National Investment Trust Limited (NITL).

**Exposure:** For the purpose of this policy exposures includes both Debt Securities & other exposures.

- **Debt Securities** means any security (whether secured or unsecured) issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes Term Finance Certificates, Sukuks, Commercial Papers or any other debt security/instrument by whatever name called;
- **Other exposures** include Certificates of Investment, Certificates of Deposits, Certificate of Musharka, Certificate of Modaraba/Morabaha, Letter of Placement (LOPs), other money market placements / transactions / instruments or any other investment which has been authorized by the commission.

### **2. Criteria for Classification as Non-Performing exposure**

Any exposure shall be classified as non-performing, if the principal and/or profit/interest are past or overdue by 15 calendar days from the due date.

### **3. Eligibility Criteria for making Provision against non performing exposure**

Once the exposure is classified as non-performing, the same shall be considered as eligible for provisioning for which the provisions shall be made as per the policy duly approved by the Board of Directors.

### **4. Suspension and reversal of interest/profit**

Accrual of the profit/interest shall be suspended from the first day the interest/profit payment falls due and no payment instrument is received. However,

- If cheque for the profit/interest payment is received from the issuer/counterparty but not realized the same shall be deemed to have been received and accrual of the

profit/interest shall only be suspended from the day the intimation from trustee for dishonor of cheque is received;

- If cheque for the profit/interest payment received from the issuer/counterparty, however the issuer/counterparty has requested not to lodge cheque for clearance, the accrual of the profit/interest shall only be suspended from the day the request from issuer/counterparty for not lodging a cheque is received.

All interest/profit accrued and recognized in the books of the collective investment scheme shall be reversed immediately once a security is classified as non-performing, and shall be put in Suspense Account and shall not be credited to Income Account except when realized in cash.

## **5. Provisioning Requirements against Non performing exposure including the minimum time frame for maintaining the applied provisions**

### **5.1. Debt Securities**

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:

**Table A**

<b>Effective Day for <i>Minimum</i> Provision</b>	<b>Minimum Provision as % of book value (outstanding principal amount)</b>	<b>Cumulative Provision</b>
90 <sup>th</sup> day	20%	20%
180 <sup>th</sup> day	10%	30%
270 <sup>th</sup> day	15%	45%
365 <sup>th</sup> day	15%	60%
455 <sup>th</sup> day	40%	100%

However, provisioning would be spread equally over the period in such way that at the end of the effective day, requirement of minimum provision and cumulative provision is fully met.

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. Accordingly for the purpose of applying percentage of provision as per above table principal amount shall not include overdue principal.

In addition to the time-based criteria prescribed in Table 'A', a higher provisioning can be made if circumstances warrant such provision (additional provisioning), subject to the approval of the Board of Directors and disclosure in periodical financial statements.

## 5.2. Other Exposure

All other non-performing exposures shall be provided for in accordance with the following criteria from the day of classification as non performing:

**(Table B)**

Effective Day for Provision	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90 <sup>th</sup> day	20%	20%
180 <sup>th</sup> day	20%	40%
270 <sup>th</sup> day	20%	60%
365 <sup>th</sup> day	20%	80%
455 <sup>th</sup> day	20%	100%

However, provisioning would be spread equally over the period in such way that at the end of the effective day, requirement of minimum provision and cumulative provision is fully met.

In addition to the time-based criteria prescribed in Table 'B', a higher provisioning can be made if circumstances warrant such provision (additional provisioning), subject to the approval of the Board of Directors and disclosure in periodical financial statements.

## 6. Provisioning over & above the minimum provisioning requirement

Following mechanism will be applied for additional provisioning (over & above the minimum provision requirement):

- Risk Manager or Fund Manager may, with proper justification & explaining circumstances, propose additional provisioning (over & above the minimum provisioning requirement) to the Investment Committee;
- Investment Committee will evaluate the proposal and may give recommendations to the Board of Directors;
- The Board of Directors may approve the additional provisioning; and
- Once approved, disclosure about provisioning will be made in the relevant periodical financial statements.

## 7. Reclassification of exposure and Reversal of provision

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.

Where an exposure earlier classified as non-performing pays all the arrears of interest and principal, such exposure shall immediately be re-classified as performing and the provision made against such exposure shall be written back and accruing of interest including accrual of interest for the suspended period, if any, will be resumed.

In case a collective investment scheme has received all arrears of interest and the exposure has not been reclassified as performing, keeping in view the company's fundamental, the suspension of interest shall continue.

The rescheduling/restructuring of non-performing exposure shall not change the status of classification of exposure as non-performing, unless the terms and conditions of rescheduling / restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling / restructuring. Further, the unrealized profit/interest on such exposure (held in suspense account) shall not be taken to profit & loss statement unless actually realized in cash.

The provision made for the principal amount in accordance with the minimum time based criteria as specified in tables 'A', and 'B' shall be reversed in the following manner:

- Where the provision of principal was made due to the interest/profit defaults only, 100% of the provision shall be reversed upon reclassification of the exposure as performing.
- Where the provision of principal was made due to the default in both principal and interest/profit payments, 50% of the provision shall be reversed on receipt of the first regular payment and 50% on receipt of second regular payment.

#### **8. Reversal of additional provisioning (over & above the minimum requirement)**

Where the provisioning is made in excess of the time based criteria as specified in tables 'A' & 'B' it can be reversed in the following manner to the extent that the remaining provision meets the minimum time based requirements if any.

- Fund Manager or Risk Manager may, with proper justification, propose for reversal of additional provisioning to the Investment Committee;
- Investment Committee may evaluate the proposal in detail and give recommendation to the Board of Directors;
- The Board of Directors may approve the reversal of additional provisioning; and
- Disclosure about reversal of additional provisioning will be made in the relevant periodical financial statements.

#### **9. Updation/Amendment/Modification in Provisioning Policy**

The Provisioning policy may be reviewed from time to time and updated keeping in view the changing requirements and place it to the board for their approval. However, any modification to the Circular No. 1 of 2009 dated January 6, 2009 by SECP from time to time or any other directive issued by SECP in this regard will be deemed as a modification in the provisioning policy.

#### **10. Disclosure**

The provisioning made in the light of this policy shall be disclosed in the quarterly, half yearly and annual financial statements of the Funds.

The policy may be disclosed / disseminated to the existing unit holders, prospective investors, SECP and Trustee to the scheme as per the requirements of the commission.