

## **ELIGIBILITY CRITERIA FOR MAKING PROVISION**

The provision shall be made for any fixed income instrument that has become or likely to become non-performing including, but not limited to, the following:

- Term finance certificate
- Letter of placement
- Certificate of deposit
- Certificate of placement
- Term deposit receipt
- Call placement
- Sukkuk
- Morabaha certificate

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

The Management Investment Committee shall decide to classify a debt security or other exposure as non-performing. The events which may call for provisioning of a debt security or other exposure include, but not limited to, the following:

### DEBT SECURITY AND OTHER EXPOSURE – remaining maturity over one year

- the issuer is incurring losses for two consecutive years as per the accounts and the quantum of loss is such that it has an adverse impact on debt equity ratio;
- the issuer has defaulted on any of its debts;
- due to change in economic conditions, the margins have squeezed and it is unlikely that the issuer will be able to meet its operational costs;
- there is market report about the issuers inability to meet its financial obligations;
- rating of the instrument or the issuer has gone down by two notches;
- there is a qualification of the auditors on the profitability or the going concern assumption of the company; and / or
- the issuer has or applied for rescheduling, restructuring or roll over of any of its debts

### DEBT SECURITY AND OTHER EXPOSURE – remaining maturity less than one year

- the issuer is incurring losses for two consecutive quarters as per the accounts;
- the issuer has defaulted on any of its debts;
- there is a major loss of business due to fire, earth quake or other calamity not covered by insurance;
- the license has been cancelled by the concerned authority;
- there is a closure of significant product or business line due to economic conditions or law or there is any other factor impacting the profitability of the company;
- a significant customer / debtor of the issuer has defaulted its obligation to the issuer; and / or
- rating of the instrument or the issuer has gone down by one notch

## **PROVISION REQUIREMENTS INCLUDING MINIMUM TIME FRAME FOR MAINTAINING PROVISION**

### Provision Requirements

- Provision shall be made according to the following options as may be decided by the Management Investment Committee.

| Maturity           | Period of Provisioning | Percentage of Principal |             |
|--------------------|------------------------|-------------------------|-------------|
|                    |                        | Aggressive Option       | Slow Option |
| Over one year      | 0 – 180 days           | 30% - 50%               | 10% - 30%   |
| Less than one year | 0 – 90 days            | 35% - 70%               | 15% - 25%   |

- The above provisioning shall be in addition to the provisioning requirements specified by the Commission under the circulars, rules or regulations.
- In case the issuer makes payments falling due while the conditions calling for the classification still persists, the Management Investment Committee may decide not to make further provision.
- In case default is established, the provisioning shall be made in accordance with Circular 1 of 2009 issued by SECP over the period mentioned in the circular or the maturity period whichever is earlier.
- The provision shall be on the basis of face value of debt security; however, the amount of provision should not exceed the market value of the debt security.
- However, in case of revaluation gain, no such gain shall be included in income or reserve and provision for the same gain will be provided on the day there is a revaluation gain.

### Minimum Time Frame for Maintaining Provision

The provision shall be monitored and maintained till the time the conditions giving rise to the classification as non-performing exist.

### **CRITERIA FOR SUSPENSION OF MARKUP**

- Mark up shall be suspended from the day the security is classified as non-performing.
- In case coupon is received against debt instrument which is classified under 'maturity over one year', the mark-up so received shall be taken to income on the day the mark-up is realised. However, if the conditions still call for the security to be classified as non-performing, accrual of mark up till the next coupon will remain suspended.

### **CRITERIA FOR REVERSAL OF PROVISION**

Provision shall only be reversed when the conditions calling for the classification have ceased to exist.

### **REQUIREMENT FOR DISCLOSURE OF PROVISIONING POLICY**

The policy shall be disclosed in the accounts, existing unit holders, prospective investors through the Offering Document, Trustee and the Commission.