

Provisioning Policy for Non-Performing Exposure of Collective Investment Schemes

1. Introduction

- 1.1 The Securities and Exchange Commission of Pakistan, vide its Circular No. 13 of 2009, requires Asset Management Companies to formulate Provisioning Policy for non-performing exposure of collective investment schemes under their management. Such Policy is required to be approved by the Board of Directors of the AMC and disclosed to the investors, the trustee of the collective investment scheme, the Commission and is also required to be displayed on the AMC’s web-site.
- 1.2 For the purpose of this Policy a “**debt security**” means any security 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, bonds, debentures, sukuks, commercial papers, certificate of investment (COI), certificates of deposits (COD) certificate of Musharika (COM), letters of placements (LOP) and includes Pre-IPO Investments in any of the above financial instruments.
- 1.3 This Circular was in reaction to recent liquidity issues and the meltdown in the financial industry that have adversely affected fixed income instruments which were previously considered as stable instruments. Companies (including mutual funds) were more focused on the credit analysis of the issuer of these instruments instead of evaluating other risk parameters associated with such fixed income securities such as credit spread widening, market liquidity and tenor to maturity.

2. Criteria for classification as non-performing exposures

Annexure II of Circular 1 of 2009 issued by the Securities and Exchange Commission of Pakistan states that a debt security 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.

JS Investments Limited shall immediately make provision for all such non-performing exposures of a collective investment scheme under its management.

3. Provisioning requirements including the minimum time frame for maintaining the applied provisions

- 3.1 All non-performing exposures 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 Outstanding Principal	Cumulative Provision
90 th day	20%	20%
180 th day	10%	30%
270 th day	15%	45%
365 th day	15%	60%
455 th day	Balance	100%

- 3.2 In addition to the minimum provision prescribed above, any installment of the amount in arrears during the period of non-performance shall also be fully provided.

- 3.3 The Investment Committee shall continuously review the provisioning status of the debt securities and decide if any additional provisioning is required over and above the minimum provisioning requirement in light of the information as available including but not limited to financials of the Investee Company, periodic announcements, valuation of underlying security, correspondence with stakeholders, industry information, etc.

Paragraph 3.2 is not applicable to advances including the Pre-IPO investments.

4. Criteria for suspension of mark-up

The collective investment scheme shall immediately suspend further accrual of mark-up / profit on a debt security from the day it is classified as non-performing exposure. Full provision shall be made against mark-up / profit accrued but not received up to the date of classification of debt security as non-performing exposure on the date of such classification.

5. Criteria for reversal of Provisioning / Reclassification of non-performing debt securities

- 5.1 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.

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

- 5.3 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. 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 the books shall be written back upon reclassification of the debt security as performing.
- Where both installments and interest were in defaults, 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.

6. Disclosure of Provisioning Policy

The Policy shall be disseminated to the investors on the website of JS Investment Limited and if required via a letter to each unit holder. A copy of the Policy shall be provided to the Trustee of the collective investment scheme and the Commission for their information and record and if required the constitutive documents of the funds may also be modified to reflect this provisioning policy.

7. Approval of the Board of Directors

This Provisioning Policy has been approved by the Board of Directors of JS Investments Limited on 21 August 2009 and is implemented with immediate effect.