# UBL FUND MANAGERS LIMITED

PROVISIONING POLICY FOR NON PERFORMING EXPOSURES (INCLUDING DEBT SECURITIES) OF COLLECTIVE INVESTMENT SCHEMES (CIS) AND PENSION FUNDS UNDER MANAGEMENT OF
UBL FUND MANAGERS LIMITED

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**Revision History**

| Board Approval Date | Version | Version Description | Author |
|---|---|---|---|
| April 19, 2012 | 1.0 | First Version | Imran Khalil |
| August 25, 2016 | 1.1 | Second Version | Umair Ahmed/ Hasnain Raza Nensey |
| September 25, 2017 | 1.2 | Third Version | Umair Ahmed |
| September 24, 2020 | 1.3 | Fourth Version | Umair Ahmed / Bilal Javaid |
| August 3, 2023 | 1.4 | Fifth Version | Umair Ahmed |

## 1. PREAMBLE

Price discovery mechanism in Pakistan for debt securities is not efficient and not mirroring the true fair values the instruments available in market. The prices are not appropriately adjusted by market forces for default and credit risks associated with the corporate debt securities. This requires a comprehensive provisioning policy to be in place.

The Securities and Exchange Commission of Pakistan ("the Commission") vide Circular No. I of 2009 dated January 06. 2009 along with Annexure I and II and Circular No. 13 of 2009 dated May 04, 2009 had prescribed the valuation methodology and provisioning criteria for debt securities and other exposure respectively, which made it mandatory for all Asset Management Companies to formulate a comprehensive provisioning policy for making any additional provisioning. Subsequently, various circulars were issued clarifying the applicability of Circular I and providing guidelines in formulating the provision policy,

The Board of Directors of UBL Fund Managers Limited, in their meeting held on August 26, 2016, considered and revised the Provisioning Policy for non-performing exposures (including debt securities) in compliance with the amendments made by vide aforementioned Circulars issued by SECP.

## 2. DEFINITIONS

As defined in Circular No.01 of 2009 dated January 6, 2009 issued by the SECP, following terms are to be understood for the purpose:

**EXPOSURE** includes both debt security and other exposure.

**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 (TFCs), Bonds, Debentures, Sukuks and Commercial Papers etc.

**OTHER EXPOSURE** means Money Market exposure such as Certificate of Investments (COIs) Certificate of Deposits (CODs), Certificate of Musharaka (COMs), Letter of Placements (LOPs), Money Market Placements etc. This also includes securities under PRE IPO arrangements.

## 3. ELIGIBILITY CRITERIA FOR CLASSIFICATION AS A NON PERFORMING ASSETS (NPA)

### 3.1 CLASSIFICATION CRITERIA FOR ALL EXPOSURES

All Exposures shall be classified as non-performing, if the interest/profit and/or principal amount is/are overdue by 15 calendar days from the due date. While determining an exposure as non-performing, the Investment Committee with the approval of Chief Executive Officer is empowered to take necessary decisions which are in the best interest of the unit holders. The decision taken should be incorporated in Investment Committee minutes and should be subsequently ratified by Board of Directors.

## 4. PROVISIONING REQUIREMENTS- PRINCIPAL

### 4.1 TIME BASED PROVISIONING (MINIMUM)

#### 4.1.1 DEBT SECURITIES

All Performing Debt Securities whether secured or unsecured shall be provided for in accordance with the criteria mentioned below from the day of classification as non-performing:

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

#### 4.1.2 OTHER EXPOSURE (OTHER THAN DEBT SECURITIES)

The same provisioning criteria shall be applied for providing non-performing exposures other than debt securities).i.e. the exposure shall be provided as per the table given below:

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

#### 4.1.3 PROVISIONING MODALITIES FOR EXPOSURES INCLUDING DEBT SECURITIES

- In the process of arriving at minimum provisioning against non-performing exposure as per the timeline mentioned in Annexure II of SECP Circular No. 33 of 2012 (as amended or replaced from time to time) read with Circular 1 of 2009, the Investment Committee of the Company 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/participants in order to curtail any possibility of arbitrage by the knowledgeable investor. However, the minimum provision on effective day shall be in accordance with the schedule provided in Annexure II of SECP Circular No. 01 of 2009 (as amended or replaced from time to time). All such provisions shall be approved by the Investment Committee of the Company and subsequently ratified by the Board of Directors in its next board meeting.

- 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.

**4.2 ACCELARATED PROVISIONING**

The above criteria outline the minimum provisioning requirements; however, the Company has the discretion to provide for more than these requirements if the circumstances warrant such provision. Any accelerated provisioning shall be subject to the prior approval by Boards' Audit Committee BAC) and subject to the approval of Board of Directors and disclosure in quarterly, half yearly and annual accounts.

The Investment Committee shall continuously monitor and review the non-performing exposures in accordance with the criteria laid down in SECP Circular No. 01 of 2009 (as amended or replaced from time to time) and shall decide whether circumstances warrant any accelerated provisioning in Exposures over and above the minimum provisioning requirement. The decision shall be subjected to thorough due diligence and consideration of factors including but not limited to the following:

- Significant financial distress reflected by adversity of key financial ratios;
- Probable entrance into bankruptcy or other financial reorganization of the company;
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets;
- Indications of withdrawal of financial support by debtors, other creditors and associated group components;
- Negative operating cash flows indicated by historical or prospective financial statements;
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows;
- a credit rating down grade of the issuer and / or the particular security;
- Inability to comply with the terms of other major loan agreements entered into by the

company;
- Inability to obtain financing for essential new product development;
- Untoward economic conditions and outlook and its particular emphasis on the industry in which the issuer operates;
- Interest rates, State Bank stance, monetary policy statement and its specific effect on the business of the company etc.
- sales, volume and price growth of the entire sector in which the issuer operates;
- existing government regulations including taxation, extent and likelihood of changes in government regulations and
- Corporate restructuring developments, merger, take over, any significant change in management or board of directors etc; &
- The disappearance of an active market for that financial asset because of financial difficulties.

### 4.2.1 MODALITIES OF PROVISIONING

- If the investment committee is of the opinion that the circumstances warrant additional provision, it shall propose the additional provisioning to the Chief Executive Officer along with the reasoning / rationale in writing;
- Chief Executive Officer will authorize and approve the additional provision recommended by the investment committee after considering the justifications put forth by the committee in writing. The decision shall be recorded in writing, and shall be reported immediately to the Board of Directors provided that additional provisioning shall be prior approved from BAC and;
- Any accelerated provisioning subject to the approval of Board of Directors.

## 5. SUSPENSION AND REVERSAL OF ALREADY BOOKED INTEREST / PROFIT

### 5.1. SUSPENSION OF INTEREST ACCRUAL

- The accrual of interest / profit on non-performing exposures shall be suspended from the first day the interest/profit payment falls due i.e. (past or overdue by 15 calendar days from the due date) and is not received.
- All interest/profit accrued and recognized in the books of fund shall be reversed immediately once an exposure is classified as non-performing.
- In case the fund has received all arrears of interest and the Exposure has not been reclassified as performing, the suspension of interest shall continue.

### 5.2. CONTINUATION OF SUSPENSION

The accrual of interest / profit shall be suspended till the time the exposure (including debt securities) is reclassified as performing. However any interest / profit received in the interim shall be taken to the income to the extent it is received in cash.

## 6. WRITE-OFF AND SETTLEMENT OF EXPOSURE

Where an asset has been classified as non-performing or impaired, whether or not any provision/impairment is held against the asset, any transaction* pertaining to such asset shall require approval of the Board under the following mechanism:

- The proposal would first be presented and approved at the Fund's Investment Committee;
- Proposal is then sent to Board Risk Committee for approval;
- Post BRCC approval, final approval to be obtained from the Board of Directors.

However, to expedite the process, the above approvals can be obtained through resolution by circulation.

In certain circumstances, where the management fears loss of opportunity due to turnaround time in the abovementioned approval process, a prior approval - based on settlement price range - shall be obtained from the Board of Directors following the same protocol. Where such prior approval mechanism is followed and the transaction is conducted within the approved range, intimation will be given to the Board at least 24 hours before the actual transaction. Where no response to the contrary is received within 24 hours from any Board member, the management can conduct the transaction within the approved range.

*[*Transaction shall include settlement of any nature with the issuer or with any other party, sale of non-performing securities in the market, voluntary write off, litigation settlement, asset swap, or any other form which would result in extinguishment of claim against an amount less than the initial default amount only that plus mark-up which is taken/accrued in income/NAV and not received, if any.]*

## 7. RECLASSIFICATION OF NON PERFORMING EXPOSURE

- The Exposure shall only be reclassification 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 Exposure which have been rescheduled /restructured, the debt security shall only be re-classified as performing if all the following conditions are met.

    1. The terms and conditions of rescheduled/restructured debt security are fully met for a period of at least one year; and
    2. All the arrears (till the date of restructuring ) have been received in cash
    3. An amount equivalent to two installments (excluding grace period, if any) as per original repayment term (before rescheduling) is paid in cash.

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

## 8. REVERSAL OF PROVISIONS FOR EXPOSURES

- The unrealized interest/mark-up amount reversed shall be written back to income up to the extent it is received in cash.
- The provision made of 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 reserved when the debt security is reclassified as performing.

## 9. DISSEMINATION

- Provisioning Policy and / or any amendments therein as approved by the Board of Directors of the management company and shall be

  - disseminated to the Trustee(s), existing unit holders, prospective investors and the Commission.
  - placed on the Company's website for the information of all the existing and prospective investors.

- Any modifications to the above mentioned circular by the Regulator from time to time will be deemed as a modification in the provisioning policy. However, a review of policy will be done every 3 years.
- Provisioning made in light of the above policy / amended policy shall require to be disclosed in the quarterly, half yearly and annual financial statements of the fund.