



DAWOOD CAPITAL MANAGEMENT LIMITED

POLICY FOR PROVISIONING AGAINST NON-PERFORMING EXPOSURES (INCLUDING DEBT SECURITIES) OF COLLECTIVE INVESTMENT SCHEMES (CIS) MANAGED BY DAWOOD CAPITAL MANAGEMENT LIMITED

1. PREAMBLE

The recent liquidity issues and the melt down in the financial industry have also adversely affected the Debt Securities and Money Market Instruments which were previously considered stable instruments. Companies were more focused on the credit analysis of the issuer of these instruments rather than also evaluating these on other risk parameters.

The Board and the management of Dawood Capital Management Limited, in compliance to circular 13 dated May 4, 2009, issued by the Securities and Exchange Commission of Pakistan (SECP), have adopted the Provisioning Policy for debt securities as per guidelines issued by the Commission vide Annexure – II of circular 1 dated January 6, 2009, as amended from time to time. The Board has also adopted the same policy for provisioning against money market instruments subject to amendments issued by the SECP from time to time. Any amendment(s) to the circular 1 dated January 6, 2009, by the Commission from time to time, will be deemed as an amendment(s) in Provisioning Policy (**ANNEXURE – A**).

2. DEFINITIONS

- **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.
- **Money Market Instruments** : means any Money Market exposure such as COIs, CODs, COMs, LOPs, Money Market Placements etc.

3. CLASSIFICATION AS NON PERFORMING EXPOSURE (NPA)

- Debt security shall be classified as non-performing, if the interest and / or principal amount is overdue by 15 calendar days from the due date.

4. CRITERIA FOR SUSPENSION AND REVERSAL OF MARK UP

- 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 and exposures other than debt securities is classified as non -performing.

5. MINIMUM PROVISIONING AGAINST THE PRINCIPAL AMOUNT

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 Provision
90th day	20	20
180th day	10	30
270th day	15	45
365th day	15	60
455th day	balance	100

- However, full provisioning shall be made immediately if the applicable rating of the debt security is down graded to 'D' (default).
- In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall be fully provided.

6. PROVISIONING PROCESS FOR OVER AND ABOVE THE MINIMUM PROVISIONING REQUIREMENTS:

Management will review the provisioning status on a monthly basis in the light of information gathered from the market, financials of the investee company (if available) or from any other source that may provide an insight of the investee company. Monthly review of the Provisioning status will be documented and submitted to CEO.

- If Management is of the opinion that the provision provided for in a particular case is not sufficient and additional provision is necessary, it will propose the additional provisioning to the CEO.
- CEO is authorized to review and approve the additional provision (if any) on a monthly basis which will be recorded along with the reasoning/rationale and the same will be reported to the BOD in writing.
- BOD will review and ratify the additional provisions on a quarterly basis.



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Developing the allowance for potential impairment of investments subject to numerous judgment and estimates in evaluating the adequacy of provisions management considers various factors including

- The requirements of the prudential regulation and other Guidelines
- The nature and characteristics of obligator
- Current economic condition
- Credit concentrations or deterioration in pledge collateral
- Historical loss experience
- Delinquencies and present value of future cash flow expected to be received

Provisions are regularly reviewed and adjusted to reflect the current best estimate.

7. CRITERIA FOR REVERSAL OF PROVISION AND RECLASSIFICATION OF NONPERFORMING DEBT SECURITIES

- In case a Collective Investment Scheme has received all the arrears of interest / profit, the interest / profit amount reversed shall be written back to the extent it is received.
- In case a Collective Investment Scheme has received all the arrears of interest / profit and the debt security has not been reclassified as performing, the suspension of interest / profit shall continue.
- The debt security shall only be reclassified as performing once all the arrears have been received and debt security is regular on all payments (interest / profit 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 interest / profit defaults only, 100% of the debt security provided for in the books shall be written back upon reclassification of the debt security as performing.
 - Where installments and interest / profit were in default, 50% of the provision made in the books shall be written back at the receipt of first payment (interest /profit and / or principal) and 50% at the receipt of second payment and the asset shall be classified as performing.



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- Where the provision is made against a debt security, in excess of the requirements of the minimum provisioning against the principal amount, it may be reversed on the decision of the Investment Committee, after reviewing each such case in detail, and to the extent, that it meets the requirements of the minimum provisioning against the principal amount.
- Where any exposure to a debt security classified as non-performing undergoes restructuring, the exposure shall be treated as performing upon successful completion of the restructuring arrangements. However, any provision and suspended interest / profit may only be written back after receipt of at least two installments under the terms and conditions of the restructuring arrangements. The Collective Investment Scheme shall, thereafter, accrue interest / profit for the future periods as per the interest / profit rates agreed in the restructuring arrangements.

8. WRITING OFF FULLY PROVIDED EXPOSURE

- Provisions shall be maintained for a period of two years after being fully provided, and thereafter the exposures (other than those in recovery suits) may be written off, after obtaining specific approval by the Board of Directors.
- However, in special cases, where the provision is either maintained or not and there is no possibility of recovery, may also be fully written off after obtaining specific approval by the Board of Directors.

9. DISCLOSURE POLICY

- The provisioning policy approved by the Board or any amendments therein, shall be disclosed to existing unit holders, trustee and SECP.
- The same policy shall also be disseminated on the web site of the company.
- The Provisioning policy and the provisions made in the light of the policy shall be disclosed in the quarterly, half yearly and annual accounts of the respective Fund.

10. Effective date

- The Provision Policy shall be effective from 6th July 2009 being the date of Authorization by the Board of Directors.



ANNEXURE - A

SUBSEQUENT CHANGES IN ANNEXURE -II

1. Circular No.1 of 2009 is amended by SECP through Para 2, Circular No. 6 of 2009 that the requirement for full provisioning in case of debt securities downgraded to 'D' (default) rating as given in Annexure II of Circular 1 of 2009 is hereby omitted and for such securities the provisioning criteria as specified in Annexure II shall be applicable.
2. It is clarified by SECP in terms of Para 2(ii) of Chapter 2 read with Annexure-II of Circular 1 of 2009 that in case of debt securities that earlier were non-investment grade and later classified as non-performing, the minimum provision requirement is 25% on the 90th day.