AKD Investment Management Limited

Provisioning Policy for Non-Preforming Exposure of Collective Investment Schemes

Version: PP – II

Date of Approval: September 22, 2023

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Company Secretary

AKD INVESTMENT MANAGEMENT LIMITED

PROVISIONING POLICY
FOR
NON-PERFORMING EXPOSURE OF COLLECTIVE INVESTMENT SCHEMES

1. ELIGIBILITY CRITERIA FOR DEBT SECURITY AND OTHER EXPOSURE FOR MAKING PROVISION

"Debt Securities" means any security securities issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes the following:

- Term Finance Certificates (TFC);
- Islamic Certificates / Sukuks;
- Bonds
- Commercial Papers (CP) / Islamic Commercial Papers (ICP); and
- Debentures etc.

"Other Exposure" includes:

- Certificate of Musharakas (COM);
- Certificate of Investment / Certificate of Islamic Investments (COI);
- Certificate of Deposits (COD);
- Term Deposit Receipts (TDR);
- Letter of Placements (LOP); and

Other Investments approved by Investment Committee.

2. CRITERIA FOR CLASSIFICATION AS NON-PERFORMING EXPOSURE:

A debt security or other exposures 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.

In addition to the time based criteria specified above, subjective evaluation of performing and non-performing debt securities should also be carried out and securities (including performing) may be classified as non-performing.

3. PROVISIONING REQUIREMENTS INCLUDING THE MINIMUM TIME FRAME FOR MAINTAINING THE APPLIED PROVISIONS

All non-performing debt securities and other exposures whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

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Effective day for Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90th days	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%

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

(b) The provision determined on the basis of time based criteria may be further increased subject to the probability of recovery of the principal / interest, creditworthiness of the issuer, adequacy of the security etc. The factors considered by the management in the subjective evaluation of the securities and the classification thereof as non-performing as well as the basis and provision made against these securities in addition to the provision required in accordance with the time based criteria shall be approved by the Board of Directors of the Management Company.

(c) 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.

4. CRITERIA FOR SUSPENSION OF MARK-UP

(a) The accrual of interest / profit shall be suspended from the first day the interest / profit payment falls due and is not received.

(b) All interest / profit accrued and recognized in the books shall be reversed immediately once a security is classified as non-performing.

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

5. CRITERIA FOR REVERSALS OF PROVISIONING

a) The unrealized interest mark-up amount reversed shall be written back to income up to the extent it is received in cash.

b) The provision made for 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 reversed when the security is reclassified as performing.

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c) Where a security earlier classified as non-performing subsequently performs as per the original repayment terms and all the arrears of interest and principal are duly received, such security shall immediately be re-classified as performing and the provision made against such security shall be written back.

6. RECLASSIFICATION OF NON-PERFORMING DEBT SECURITIES

(a) The security shall only be reclassified as performing once all the arrears have been received in cash and security is regular on all payments (interest as well as principal) for the next two installments.

(b) In case of non-performing securities which have been rescheduled/restructured, the security shall only be re-classified as performing if all the following conditions are met:

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

However, during rescheduling/restructuring period, no additional provisioning against restructured/rescheduled security shall be made. If the security subsequently did not perform as per rescheduling/restructuring agreement the security shall be treated as non-performing from date of its original default.

7. REQUIREMENTS FOR DISCLOSURE OF THE PROVISIONING POLICY TO UNIT HOLDERS AND PROSPECTIVE INVESTORS

The provisioning policy as approved by the Board shall be immediately disclosed / disseminated to the existing unit holders, prospective investors, trustee of the scheme and the Commission. The same shall also be disseminated on the website. In addition, requisite amendments in the constitutive documents of the scheme shall be incorporated at the earliest. A brief description of the provisioning policy and provisioning made in light of the policy shall be disclosed in the quarterly, half yearly and annual accounts of the scheme.

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EXTRACT FROM THE MEETING OF THE BOARD OF DIRECTORS OF AKD INVESTMENT MANAGEMENT LIMITED HELD ON SEPTEMBER 22, 2023

"**RESOLVED** that the Provisioning Policy for Non-Preforming Exposure of Collective Investment Schemes managed by AKD Investment Management Limited be and is hereby approved:

Certified True Copy

Yaqoob

Muhammad Yaqoob, CFA
Chief Operating Officer & Company Secretary