

Crosby Asset Management

PROVISIONING POLICY FOR NON-PERFORMING ASSETS UNDER MANAGEMENT

Effective Date: March 01, 2010

1. PREAMBLE

This policy is prepared in compliance with the requirements of circular 3 dated January 10, 2010, circular 13 dated May 4, 2009 and in the light of guidelines contained in Annexure-II to circular 1 dated January 6, 2009, as amended from time to time.

2. DEFINITIONS

For the purpose of this policy following terms are to be understood as defined in the circular 01 of 2009 dated January 6th 2009 issued by the SECP.

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 Musharaka (COMs), Letter of Placements (LOPs), Certificate of Deposits (CODs), Money Market Placements etc. This also includes securities under PRE IPO arrangements.

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

3.1 TIME BASED CRITERIA

All exposures (including debt securities) 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.

3.2 SECURITIES SUBJECT TO IPO

In case a security is subject to IPO and the security is not issued within 15 calendar days from the time stipulated for the IPO, and an extension in time is mutually agreed in writing, the exposure shall not be classified as non-performing.

4. PROVISIONING REQUIREMENTS

4.1 TIME BASED PROVISIONING (MINIMUM)

4.1.1 DEBT SECURITIES

In the light of circular 01 of 2009 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 of Provisioning	Minimum Provision as% of book value (outstanding principal amount)	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%

4.1.2 **OTHER EXPOSURE (OTHER THEN DEBT SECURITIES)**

The board has adopted the same criteria for providing for exposures other than debt securities i.e. the exposure shall be provide as per the table given below:

Effective Day of Provisioning	Minimum Provision as % of book value (outstanding principal amount)	Cumulative Provision
90 th Day	20%	20%
180 th Day	10%	30%
270 th Day	15%	45%
365 th Day	15%	60%
455 th	Balance	100%

4.1.3 **PROVISIONING MODALITIES FOR EXPOSURES OF DEBT AND OTHER SECURITIES**

- a. In order to comply with the above minimum provisioning requirements on the effective day, the Investment Committee may amortize the principal over the periods tabled above to enable the fund to make the required provisions by the given effective day of the target provisioning. The provisioning can be booked on accelerated basis in accordance with the conditions mentioned clause 4.2, subject to the approval of the CIO in order to curtail any possibility of arbitrage by knowledgeable investors.
- b. 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.

4.1.4 OVERDUE PRINCIPAL OF EXPOSURES (INCLUDING DEBT SECURITIES)

In addition to the minimum provision prescribed in note 4.1.1 and 4.1.2, any installment of principal amount in arrears of an exposure (including debt securities) during the period of non-performance shall also be fully provided.

4.2 ADDITIONAL PROVISIONING

The Investment Committee shall continuously monitor and review the non-performing exposures in accordance with the criteria laid down in Circular No. 1 of 2009 and as amended by Circular No.3 of 2010, and shall decide whether circumstances warrant any additional provisioning in exposures (including debt securities) 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:

- a. Significant financial distress reflected by adversity of key financial ratios;
- b. Probable entrance of bankruptcy or other financial organization of the company;
- c. Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets;
- d. Indications of withdrawal of financial support by debtors, other creditors and associated group components;
- e. Negative operating cash flows indicated by historical or prospective financial statements;
- f. Substantial operating losses or significant deterioration in the value of assets used to generate cash flows;
- g. Credit rating downgrade of the issuer and/or the security;
- h. Inability to obtain financing for essential new product development;
- i. Untoward economic conditions and outlook and its particular emphasis on the industry in which the issuer operates;
- j. Interest rates, State Bank stance, monetary policy statement and its specific effect on the business of the company etc;
- k. Sales, volume and price growth of the entire sector in which the issuer operates.
- l. Existing government regulations including taxation, extent and likelihood of changes in government regulations; and
- m. Corporate restructuring developments, merger, takeover, any significant change in management or board of directors etc.

4.2.1 MODALITIES OF PROVISIONING

- a) If the investment committee is of the opinion that the circumstances warrant additional provision then it shall propose the additional provisioning to the Chief Executive along with the reasoning/rationale in writing.
- b) Chief Executive will authorize and approve the additional provision recommended by the investment committee after considering the justifications put forth by the committee in writing.

5. SUSPENSIONS AND REVERSAL OF BOOKED INTEREST/PROFIT

5.1 SUSPENSION OF INTEREST ACCURAL

- The accrual of interest/profit on all exposures (including debt securities) 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 an exposure (including debt security) is classified as non-performing.

5.2 CONTINUATION OF SUSPENSION

- The accrual of interest/profit shall be suspended till 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.

6. RECLASSIFICATION OF EXPOSURES AS PERFORMING AND WRITING BACK OF INTEREST/PROFIT/PRINCIPAL AMOUNT

6.1 DEBT SECURITIES The debt security shall only be reclassified as performing once all the arrears have been received in full.

6.1.1 REVERSAL OF PROVISIONING AGAINST INTEREST/PROFIT

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.

6.1.2 REVERSAL OF PROVISIONING AGAINST PRINCIPAL AMOUNT

- 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 both installment 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.
- Full provisioning made with respect to overdue principal shall be written back to the extent it is received in cash.

6.2 OTHER EXPOSURES

6.2.1 RECLASSIFICATION AS PERFORMING:

Exposures (other than debt securities) shall be reclassified as performing once all the arrears have been received in full.

6.2.2 REVERSAL OF PROVISIONING:

Provision made against the overdue amount shall be reversed by to the extent the amount is received in cash.

6.3 RESTRUCTURED DEBT SECURITIES

If an exposure (including debt security) is classified as non-performing and it undergoes a restructuring arrangement, it shall only be classified as performing if it is regular on all payments (principal and interest income) for the next two installments.

6.4 ADDITIONAL PROVISIONING

Where the provision is made against a debt security, in excess of the requirements of the minimum provisioning against the principal amount:

- Investment Committee shall, after reviewing each such case in detail, recommend the reversal of provision booked to the Chief Executive. The reversal shall be to the extent it meets the requirements of the minimum provisioning against the principal amount.

7. 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.

8. DISSEMINATION AND EFFECTIVE DATE OF THE POLICY

- Provisioning policy and/or any amendments therein as approved by the board of directors of the management company and shall be
 - Disseminated to the existing Unit holders, Trustee(s) and the Commission.
 - Placed on the Company's website for the information of all the existing and prospective investors.
- 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 CIS.

9. GENERAL

- The policy shall be taken as effective from March 01, 2010, being the date of authorization by board of directors.
- Any modifications to the above mentioned circular y the regulator from time to time will be deemed as a modification in the provisioning policy.