Lucky Investments

PROVISIONING POLICY

LUCKY INVESTMENTS LIMITED

1. PREAMBLE

SECP, vide its circular # 1 dated January 06, 2009 (Annexure II) and two additional Circulars (Circular # 6 dated March 06, 2009, and Circular # 3 dated January 20, 2010) had prescribed the criteria for making provisions against nonperforming debt securities held by the Collective Investment Schemes (CIS). In continuation to this, Circular # 13 dated May 04, 2009, made it mandatory for all Asset Management Companies to formulate a comprehensive provisioning policy for making any additional provision over and above the required provision as laid out in Circular 1 of 2009.

Later in 2012, SECP issued Circular # 33 dated October 24, 2012 pertaining to the matter of provisioning criteria, which replaced the Annexure II of Circular # 1 of 2009 and its ensuing two circulars (Circular No. 6 of 2009 dated March 6, 2009 and Circular No. 3 of 2010 dated January 20, 2010) on this matter.

Major changes in the provisioning requirements brought about by this new circular (circular 33 of 2012) are the following:

i. The time-based criteria whereby the number of days over which 100% provisioning was supposed to be carried out has been changed from 455 days to 815 days.

ii. Reclassification of debt securities

- Criteria clearly separated for non-performing securities and rescheduled/restructured non-performing securities.
- For rescheduled/restructured non-performing securities, a new requirement has been added whereby the terms and conditions of rescheduling/restructuring shall have to be complied for one year.

The salient features of this policy are:

i. Scope of the policy

ii. Eligibility criteria to be classified as a debt security.

iii. Policy for classification as a non-performing exposure

iv. Policy for making time based provisioning for securities.

v. Policy for suspension of markup/profit

vi. Policy for excess provisioning at AMC’s Management’s discretion

vii. Policy for reclassification
   - For non-performing assets
   - For rescheduled/restructured non-performing assets

viii. Policy for reversal of provisioning

ix. Policy for provisioning exposures other than those classified as debt securities.

2. DEFINITIONS

For this policy the following terms are to be understood as defined in circular No.01 of 2009 dated January 6, 2009, issued by the SECP:

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 NON-PERFORMING ASSETS (NPA)

3.1 CLASSIFICATION CRITERIA FOR ALL EXPOSURES

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. While determining exposure as nonperforming the Investment Committee with the approval Chief Executive Officer is empowered to take necessary decision 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 the 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 an 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, subject to the approval of Board 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 (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:

- 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 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, mergers, takeovers, any significant change in management or board of directors etc.

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; and
- The Board of Directors will review and ratify the additional provisions in the immediate next board meeting.

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 and is not received.
- All interest/profit accrued and recognized in the books shall be reversed immediately once an exposure is classified as non-performing.
- In case the fund has received all arrears of interest, and the debt security 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. RECLASSIFICATION OF NON-PERFORMING DEBT SECURITIES

- The debt security 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 debt securities 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 debt security. If the debt security subsequently did not perform as per rescheduling/ restructuring agreement the debt security shall be treated as non-performing from date of its original default.

7. REVERSAL OF PROVISIONS FOR EXPOSURES

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

- The provision made of the 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.

8. MAINTENANCE AND UPDATION OF POLICY

- The basic responsibility of maintenance and updating of this policy resides with the Chief Investment Officer. This Policy shall be reviewed on a periodic basis but at least once in three years and shall be updated, if required.
- Subsequent updates/ amendments to the policy shall be approved by the Board. In case of no change, the policy shall even then be placed before the Board for ratification.