

**POLICY FOR PROVISIONING AGAINST NON-PERFORMING DEBT SECURITIES FOR
COLLECTIVE INVESTMENT SCHEMES MANAGED BY KASB FUNDS LIMITED**

The Board of Directors of KASB Funds Limited, in compliance to circular 13 dated May 4, 2009, issued by the Securities and Exchange Commission of Pakistan (“The Commission”), has adopted the Provisioning Policy for debt securities as per the guidelines issued by the Commission vide Annexure – II of circular 1 dated January 6, 2009, as amended 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 the Provisioning Policy.

CLASSIFICATION AS A NON-PERFORMING ASSET (NPA)

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

SUSPENSION AND REVERSAL OF INTEREST / PROFIT

- 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 the Collective Investment Scheme shall be reversed immediately once a debt security is classified as non-performing.

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 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%

- In order to comply with the above requirements of the Commission and ensure that the minimum provisioning requirements are met as on the effective day, the Investment Committee may also prorate the provision amount as required to comply with the minimum provision requirements and record such provision on a daily basis, assuming no material change in the credit. The Investment Committee shall however have the right to record additional provision on any day(s) during the period, and in such cases the daily provisions for the remaining days in that period shall be adjusted accordingly. Further, in case any provision is created over and above the minimum provisioning requirements, the daily provisioning shall cease till such time there is a further requirement under the minimum provision requirements.
- 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.

PROVISIONING OVER AND ABOVE THE MINIMUM PROVISIONING AGAINST THE PRINCIPAL AMOUNT

The Investment Committee shall continuously review the provisioning status of the debt securities and decide if any additional provisioning is required over and above the minimum provisioning requirement in light of the information as available including but not limited to financials of the Investee Company, periodic announcements, valuation of underlying security, correspondence with stakeholders, industry information, etc.

CRITERIA FOR REVERSAL OF PROVISION AND RECLASSIFICATION OF NON-PERFORMING 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 both 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.
- 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 instalments 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.

PROVISIONING FOR EXPOSURES UNDER PRE IPO ARRANGEMENTS

- Any exposure under Pre IPO arrangements may be classified as non-performing, if the interest / profit and / or principal is overdue by 45 calendar days from the due date. However in case the debt security is issued within 45 calendar days or extended further with mutual consent, the exposure shall not be classified as non-performing.
- All interest / profit accrued and recognized in the books of the Collective Investment Scheme shall be reversed immediately and further accrual of interest / profit shall be suspended once the Pre IPO arrangement is classified as non-performing. The Investment Committee may also suspend the further accrual of interest / profit from any day from the first day the interest / profit payment falls due and is not received. However incase the Pre IPO arrangement is eventually not classified as non-performing, the suspension of interest/profit shall cease and shall be written back to the extent suspended earlier.
- All non-performing exposures under Pre IPO arrangements 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
60 th Day	20%	20%
150 th Day	10%	30%
240 th Day	15%	45%
335 th Day	15%	60%
425 th Day	Balance	100%

- In order to comply with the above requirements and ensure that the minimum provisioning requirements are met as on the effective day, the Investment Committee may also prorate the provision amount as required to comply with the minimum provision requirements and record such provision on a daily basis, assuming no material change in the credit. The Investment Committee shall however have the right to record additional provision on any day(s) during the period, and in such cases the daily provisions for the remaining days in that period shall be adjusted accordingly. Further, in case any provision is created over and above the minimum provisioning requirements, the daily provisioning shall cease till such time there is a further requirement under the minimum provision requirements.
- The Investment Committee shall continuously review the provisioning status of the debt securities and decide if any additional provisioning is required over and above the minimum provisioning requirement in light of the information as available including but not limited to financials of the Investee Company, periodic announcements, valuation of underlying security, correspondence with stakeholders, industry information, etc.

CRITERIA FOR REVERSAL OF PROVISION AND RECLASSIFICATION OF NON-PERFORMING PRE IPO ARRANGEMENTS

- In case a Collective Investment Scheme has received the arrears of interest / profit, the interest / profit amount reversed shall be written back to the extent it is received.
- The exposure under Pre IPO arrangement shall only be reclassified as performing once all the arrears have been received. The provision made for the principal amount may be written back at the discretion of the Investment Committee.

- Where any exposure under Pre IPO arrangement classified as non-performing undergoes restructuring, the exposure shall be treated as performing upon successful completion of the restructuring arrangement. The Collective Investment Scheme shall, thereafter, accrue interest / profit for the future periods as per the interest / profit rates agreed in the restructuring arrangement.

DISSEMINATION AND EFFECTIVE DATE OF THE POLICY

- The provisioning policy or any amendment(s) therein as approved by the Board of Directors of the Management Company, shall be disclosed:
 - to investors / unit holders, Trustee of the Scheme and the Commission
 - on the website of the Management Company
 - in the quarterly, half yearly and annual accounts of the respective Scheme.
- The Provisioning Policy shall be effective from the date of applicability of the Commission's circular no 13 of 2009 dated May 4, 2009.

**FIRST AMENDMENT TO THE PROVISIONING POLICY FOR COLLECTIVE INVESTMENT
SCHEMES MANAGED BY KASB FUNDS LIMITED**

The Board of Directors of KASB Funds Limited in compliance to circular 13 dated May 4, 2009, issued by the Securities and Exchange Commission of Pakistan ("The Commission"), had adopted the Provisioning Policy for debt securities and Pre-IPO arrangements ("Provisioning Policy"). The Provisioning Policy has been amended by the Board of Directors of KASB Funds Limited to inter alia include the POLICY FOR PROVISIONING AGAINST EXPOSURES (OTHER THAN DEBT SECURITIES AND PRE IPO ARRANGEMENTS).

This Amendment in the Provisioning Policy shall be deemed to be incorporated in the Provisioning Policy from the date of approval by the Board of Directors of KASB Funds Limited and all other terms and conditions of the Provisioning Policy shall continue in full force and effect.

POLICY FOR PROVISIONING AGAINST EXPOSURES (OTHER THAN DEBT SECURITIES AND PRE IPO ARRANGEMENTS)

Certain exposures held by the CIS may be classified as Non-Performing by the Investment Committee when:

- The principal and/or the profit is overdue and/or is being stretched and/or partly paid and/or is not in accordance with the security structure/ agreement/ broker note; or
- The Investment Committee feels that there is potential negativity / chances of non-recoverability associated with a particular counter party / security issuer based on market feedback and/or other sources of information. Following factors may play an important role in determining any such decision:
 - Sponsor backing and/or the ability and/or willingness of the owners/ shareholders to support the financial institution (counter party);
 - Failure of the issuer/counter party to meet financial obligations of others;
 - In bankruptcy, winding up or any other reorganization is evident;
 - A credit rating down grade of the issuer/counter party and/or the particular debt security;
 - Worsening or weakening of financial ratios and other key financial/non-financial data;
 - Any other information which indicates to deterioration of current or future cash flows of the entity;
 - Economic condition and/or future outlook and its particular emphasis on the industry in which the issuer/counter party operates.

The amount of provisioning will be at the discretion of the IC after keeping all or some of the points mentioned above.

Profit / Mark-up already accrued on any exposure classified as NPA may be reversed immediately if not already done so and further accrual of profit/markup may be suspended forthwith.

The pace/rate of provisioning may be varied based on considerations such as progress on recoverability / restructuring discussions with the counter-party and future outlook of the industry.

CRITERIA FOR REVERSAL OF PROVISIONS AND RECLASSIFICATION OF NON-PERFORMING EXPOSURES AS PERFORMING

Where the provision is made against such exposure (other than debt securities and Pre IPO arrangements), it may be reversed on the decision of the Investment Committee after reviewing each such case in detail.

Where any exposure classified as non-performing undergoes a successful restructuring with the CIS and/or group of creditors, the exposure may be treated as performing. Any provision and/or suspended profit/mark up may be written back to income to the extent and as per the terms and conditions of the restructuring arrangement. The CIS may thereafter accrue profit / mark up for further periods as per the terms and conditions agreed upon in the restructuring arrangement.

EFFECTIVE DATE

This amendment to the provisioning policy has been approved by the Board of Directors of KASB Funds Limited in their meeting held on October 23, 2009 and is implemented with immediate effect.