

## Investment Risk Reserve (IRR) Policy

- IRR shall be the amount appropriated by the Islamic Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders.
- As the credit and market risk of the financing and investment portfolio shall be borne by depositors being Rab-ul-Maal in the Mudarabah arrangement with HBL-IB, there may be scenarios where the pool may incur losses primarily due to unusually large write-offs and / or significant losses on sale of the pool's investments. Thus, to absorb / off-set such losses, HBL-IB may create the IRR to cover the future investment losses and develop models and basis to determine the size of the IRR and the periodic contributions to be made to build up the IRR.
- HBL-IB may allocate in IRR an amount up to 1% of the profit available for distribution amongst the pool's depositors after deduction of Mudarib share in every profit period.
- The funds of IRR pool shall only be invested in Shariah compliant SLR eligible securities to be maintained as a separate pool and the returns earned on these funds shall also be credited into the IRR account. The profit-sharing ratio for HBL-IB as Mudarib for the pool shall not be more than 10% for managing IRR.
- The losses, if incurred by the Pool, shall be covered from the balance available in IRR.
- Currently, HBL-IB is not maintaining IRR. It may however, establish IRR if and when required.
- The clause related to IRR shall be made part of Account Opening Form.