

Section 13

13. PROFIT SMOOTHENING

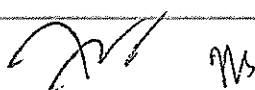
13.1. Profit Equalization Reserve (PER) Policy

- PER will be the amount appropriated out of Net Income of Pool (Gross Income less Direct Expenses) before allocating the working partner share, in order to compensate for Profit smoothening.
- HBL-IB may maintain PER from Net Income of Pool i.e. the gross income less direct expenses and losses if any.
- The monthly contribution into PER pool will not exceed 2% of Net Income, and the accumulated balance of PER will not exceed 30% of the Islamic Banking Fund (IBF) of the Bank.
- The 50% balance of PER pool will be reflected as liability and remaining 50% as reserve in the books of HBL-IB.
- The funds of PER pool will only be invested in Shariah compliant SLR eligible securities as a separate pool and the returns earned on these funds will also be credited into the PER account. The profit sharing ratio for HBL-IB as Mudarib will not be more than 10% for managing PER pool.
- HBL-IB may fully or partially utilize the amount of PER to improve the returns to the depositors during periods when the Pool's profit is below the market expectations.
- The PER related clause will be made part of Account Opening Form of the HBL-IB.
- The deduction/utilization of PER shall only be at the level of Net Income of the pool.
- Currently, HBL-IB is maintaining PER in General Pool. It may establish PER for other pools as and when required.

13.2. Hiba:

- In case HBL-IB profit rates are not as expected, then HBL-IB may offer HIBA (gift) from HBL-IB share of profit (Mudarib share).
- HBL-IB may forego up to 60% of its Mudarib share as Hiba to meet the market expectation in case of lower than expected market returns earned by the pool.
- In case of Profit smoothening, HBL-IB will first utilize PER to address the requirement. Further to meet the expectation of profit payment, HBL-IB may offer HIBA.
- No specific HIBA will be allowed in favor of any particular customer or a particular class or category of customers / investors. As such, HIBA by HBL-IB will be distributed across the board to all the deposit categories in a pool based on weightages.

13.3. Investment Risk Reserve (IRR) Policy



- IRR will 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 will 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 will only be invested in Shariah compliant SLR eligible securities to be maintained as a separate pool and the returns earned on these funds will also be credited into the IRR account. The profit sharing ratio for HBL-IB as Mudarib for the pool will 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 will be made part of Account Opening Form.

