

Profit Equalization Reserve & Investment Risk Reserve

1. PER Accounting and Disclosures

- i. PER is a mechanism which acts to mitigate the fluctuation of Profit rates arising from the flux of income or vice versa and movement in total deposits in the Mudarabah Pool.
- ii. The creation of PER is to ensure that FBL IBD profit rates remain competitive and stable. During times of low returns to depositors and investors, FBL IBD can choose to utilize/draw from PER to improve and stabilize the Rate of Return to its depositors and investors and in case of high returns than expected FBL IBD can choose to build by adding to PER from Net income of the pool.. Essentially, PER is a tool to provide stability in Mudarabah returns over a long period of time.
- iii. FBL IBD may maintain Profit Equalization Reserve (PER) from Net Income of Pool i.e. the gross income less direct expenses and losses if any.
- iv. The monthly contribution into PER is not to exceed 2% of Net Income, and the accumulated balance of PER is not exceed 30% of FBL IBD Fund to ensure a balance between relationship as Mudarib & Rabb-ul-Mal
- v. 50% of the balance available in PER will be reflected as liability and remaining 50 % as reserve in the books of the FBL IBD.
- vi. The funds of PER will be y invested in Shariah compliant SLR eligible securities and the returns earned on these funds will be credited into the PER account. The profit sharing ratio (PSR) for FBL IBD as Mudarib is not more than 10% for managing PER. For example PER earns PKR 100, FBL IBD will charge PKR 10 as PSR for Mudarib service provided. PKR 90 will be credit to PER in pool.
- vii. The FBL IBD may fully or partly utilize/the amount of PER to improve the returns to the depositors during periods when the pool's profits are below market expectations.
- viii. The clause related to PER is part of account opening form or any other document for this purpose.
- ix. PER is a tool for smoothing of and does not guarantee the capital or profit in case of loss to the PLS depositors/investors.

1.1 PER Accounting and Disclosures

- FBL IBD will maintain proper accounts and disclose the movement in PER in annual accounts as per AAOIFI accounting standards

2. Investment Risk Reserve (IRR)

- i. As the credit and market risk of the financing and investment portfolio is to be borne by depositors being Rabb-ul-Mal in the Mudarabah arrangement with the FBL IBD , 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 FBL IBD may create the Investment Risk Reserve (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. Till the development of the model, FBL IBD may contribute towards IRR an amount up to 1.0 percent of the profit available for distribution amongst the pool's depositors after deduction of Mudarib share in every profit period.
- ii. The IRR, if any created and maintained will be reflected as liability in FBL IBD books.
- iii. The funds of IRR will be invested in Shariah compliant SLR eligible securities and the returns earned on these funds will be credited to the IRR account. The profit sharing ratio (PSR) for FBL IBD as Mudarib is not more than 10% for managing IRR. For example IRR earns PKR 100; FBL IBD will charge PKR 10 as PSR for Mudarib service provided. PKR 90 will be credit to IRR in pool.
- iv. The losses, if any, incurred by the pool will be covered from the balance available in IRR.
- v. The clauses related to IRR are part of account opening form or any other document for this purpose.