CHAPTER SEVEN

Policy Code: RM-7 Financial Position and Market Risk

Purpose:

The following policy sets the framework for the management of Financial Position Risk and Market Risk including an overview of Investment Risk and Asset and Liability Mismatch Risk (including Asset Liability Management, Liquidity Risk, and Market Risk).

Scope:

The scope of this policy is within the jurisdiction of RM, Finance, and Investment functions under the direct supervision of the Investment Committee, AC, and BOD.

Content:

1. Governance

The BOD

The BOD is responsible for approving and monitoring the Financial Position and Market RMF. This framework is the core component of the BOD's process to ensure a structure of adequate management controls over Financial Position and Market Risk**.**

The BOD has the overall responsibility for approving, monitoring, and periodically reviewing the company's Financial Position and Market Risk guidelines.

Specifically, the BOD is responsible for:

i. Understanding the nature and level of Financial Position and Market Risk assumed by the company and the tools used to manage that risk;

ii. Approving the company's Financial Position and Market Risk policy

iii. Establishing a structure for the management of Financial Position and Market Risk including the allocation of SM;

iv. Monitoring the company's overall liquidity profile regularly and being made aware of any material changes in current or prospective liquidity risk profile; and

v. Taking reasonable steps to ensure that liquidity risk is adequately identified, measured, monitored, and controlled.

Managing Director

The MD is responsible for ensuring that the framework is implemented effectively through the use of policies, procedures, controls, and reports sufficient to control Financial Position and Market Risk within the company.

AC

The following are the AC’s responsibilities about Financial Position and Market Risk:

1. Analyzing and managing Financial Position and Market Risks in line with BOD directives;
2. Approving corrective action in the event of limit breaches;
3. Reviewing ratios to ensure they are within regulatory guidelines;
4. Reviewing the performance of the company’s activities about the company’s current risk position;
5. Monitoring and reviewing the performance of all investment and treasury activities in terms of profitability, credit, performance, volatility, volumes and other risks;
6. Ensuring continual maintenance of adequate liquidity (current and contingency) to support the company’s funding needs;
7. Reviewing progress made by the company in the identification of Financial Position and Market Risks;
8. Setting guidelines for the overall management of the liquidity and Market Risk;
9. Setting various limits for the management of Market Risks (Profit Rate, Foreign Exchange, Investment...etc.)
10. Ensuring implementation of action plans to monitor and manage Financial Position and Market Risks;
11. Reviewing and approving of Market Risk measurement assumptions;
12. Approving new products within delegated authority; and
13. Reviewing various Market Risk reports on a monthly or quarterly and identifying appropriate action.

Investment Committee

The Investment Committee has been delegated the responsibility of monitoring the company’s investment activities and setting investment limits by the company’s risk appetite as set by market limits developed by the AC.

2. Financial Position and Market Risk Overview

Financial Position and Market Risk include investment and asset-liability management risks and the risks associated with liquidity management, use of derivatives, Foreign Exchange Risk, and Profit Rate Risk. Due to the nature of the company’s business, there is a close relationship between investment risk and asset liability mismatch risk.

Investment Risk refers to the possibility of an adverse movement in the value of the company’s assets, including off-balance-sheet exposures. Investment risk derives from several sources, including Market Risk (e.g. equity, profit rate, and Foreign Exchange Risk), Credit Risk, and investment concentration risk.

Asset-liability mismatch risk is the risk of adverse movements in the relative value of assets and liabilities due to changes in general market factors, such as interest rates, inflation, and, where relevant, foreign exchange rates. Assets and liabilities are considered to be well matched if their changes in value in response to market movements are highly correlated.

If assets and liabilities are not well matched, the possibility of a reduction in asset value that is not offset by a reduction in liability value, or an increase in liability value that is not offset by an increase in asset value, becomes significant.

The systemic part of Market Risk is included under Asset-Liability Risk. Market risk also includes non-systemic or specific risk, which principally arises in the process of implementing the investment strategy.

3. Investment Risk

The company will quantify the risks associated with any investment undertaken. The investment assessment involved in any investment will ensure that the company only undertakes investments in security by the company’s investment strategy and risk profile.

Investment proposals will be prepared for each investment to be undertaken.

JTI will develop an investment strategy that is in line with the company’s Risk Appetite.

JTI will ensure that the following risks are controlled when determining investment decisions:

Volatility Risk

Volatility Risk is the risk of an adverse movement in the value of the company’s investments which is not offset by a corresponding movement in the value of liabilities.

Off-Financial Position Asset Risk

The risks embedded in transactions or dealings other than those reflected in the company’s Financial Position. Example: Excessive (imprudent) growth and legal precedents affecting defense cost coverage.

Off-Financial Position Liability Risk Component

The risks embedded in transactions or dealings other than those reflected in the company’s Financial Position. Example: Guarantees and lawsuits that have not yet been settled.

Concentration Risk

The risks embedded in transactions or dealings other than those reflected in the company’s Financial Position. Example: The underwriting of several like risks, where the same or similar loss events could involve multiple subjects of insurance insured by the same insurer.

About Investment Risk, the Investments Policy Guideline details:

1. The company's investment objective;
2. Investment strategy;
3. Investment management process;
4. Roles and responsibilities; and
5. Limits (e.g. country, industry, currency, security, etc.).

The Investment Committee will monitor the activities of investment personnel, ensuring:

i) The Investment Strategy is updated quarterly;
ii) Qualified personnel are hired to manage takaful and own funds and their performance is quarterly assessed; and
iii) Limits are not exceeded and monitored on a timely basis.

RM will perform modeling and stress-testing of the impact of the current and alternative investment strategies on financial outcomes and asset-liability mismatch and provide its findings to the Investment Committee.

4 Asset Liability Management

General

The AC will observe a structured decision-making process for matching (and deliberately mismatching) the mix of assets and liabilities of the company's Financial Position.

AC will focus on its key objectives including:

- Stabilizing the company's investment and Takaful contribution income;
- Maximizing the company's shareholder wealth or net worth (NW); and
- Ensuring that the company does not assume high levels of risk from mismatching of maturities and amounts between assets and liabilities and from funding liquidity risk.

Asset Liability Report

The AC's objective includes managing/ overseeing:

1. Market risk;
2. Liquidity risk;
3. Trading risk;
4. Funding and capital planning;

5. Taxation;
6. Regulatory constraints/ requirements;
7. Profitability and growth requirements; and
8. Off-balance-sheet activity, such as the use of Shari ‘ah compliant hedges.

The AC will support the risk management environment through its quarterly review of Asset Liability Management issues. The AC is the primary vehicle for achieving the objectives of ALM and managing Asset-Liability Mismatch Risk.
The AC in its quarterly meeting will include, at a minimum, a follow-up/ discussion and review of the following agenda items:
1. Matters arising from the previous meeting;
2. Standard reports such as, but not limited to:
    a. Summary performance analysis;
    b. Financial Position;
    c. Contribution spreads and net investment income analysis;
    d. Alternative strategies, sensitivity, and risk analysis;
    e. Liquidity analysis;
    f. Unit/ product economic profit; and
    g. Concentration reports (currency, industry...etc.)

3. Reviews of market trends (economic outlook), rates projections, current and projected business volumes, current and projected liquidity and capital adequacy positions;

4. Decisions and action plans/ guidelines.

The AC must establish broad guidelines on the economic profit required from different portfolios and products/ business lines.

The Investment Department must participate actively in the ALM process and will assume the following responsibilities:
   a. Provide views on profit rate and foreign exchange rate movements;
   b. Offer advice on Shari ‘ah Compliant hedging instruments;

The Investment Department should manage actual profit rate, currency, liquidity, and funding risks in the market on a day-to-day basis within parameters/ limits set by the AC.

Asset Liability Management Tools

The company will use the following tools, as deemed appropriate, in performing its asset liability management function:

Gap Analysis

This tool will be used to measure Profit Rate Risk in the company's Financial Position. This will involve:

i) Slotting on and off-balance-sheet items into different time buckets. The length of the time buckets will depend on the composition of the Financial Position and the maturity mix of assets and liabilities.

ii) Producing cumulative gap reports.

Setting gap limits.

Gap limits are defined as the maximum permitted difference between assets and liabilities within a specific time bucket.

Formulating gap management strategies.

Earnings at Risk (EAR)

This calculates the potential impact of the company's various gap positions (and gap limit policies) on the income statement for the current quarter and the full year.

Duration Gap Approach

This approach measures the profit rate sensitivity of any cash flow series. This approach takes into account both the size and timing of the cash flows.

Long- term Value at Risk (VAR)

The objective of long-term VAR is to generate the statistical distributions of EAR and NW at different time horizons. This can be achieved by utilizing Monte Carlo simulations.

At each step of the simulation, pricing models will be used to assess the value of assets and liabilities. The simulation will also trigger hedges when required along a simulation path, to comply with any AC policy regarding maximum risk exposures (e.g., gap limits).

Multicurrency Financial Position issue

If The company experiences a multicurrency Financial Position issue, it would be exposed to mismatches in the currency position of assets and liabilities, in addition to Profit Rate Risk. The company will deal with this issue by either of the two approaches below as it deems appropriate:

Consolidated gap reporting, which consists of converting all foreign currency positions into the home (local) currency; or Separate currency gap reporting, which consists of preparing a gap report for each currency.

1. **Liquidity Risk**

Liquidity Management

Day-to-day management of liquidity within the guidelines established by AC is the responsibility of the Investment Department.

The company will maintain tranches of ready internal sources of funds. These will be calculated at the end of each day based on end-of-day balances.

To monitor overall Financial Position liquidity, the AC will review, regularly, overall Financial Position repayment maturity.
The AC will monitor Liquidity Concentration Risk e.g. largest counterparty investment exposure.

Key Agenda Items

The following liquidity-related issues will be covered by AC at its committee meetings:

1. Economic analysis and forecasts;
2. Financial Position size and structure;
3. Adherence to regulations on liquidity and capital requirements;
4. Important changes in customer structure and patterns;
5. Anticipated funding needs;
6. Liquidity position; and
7. Limit monitoring and excesses.

Liquidity Risk Appetite

The company's appetite for Liquidity Risk is defined by the AC and approved by the BOD annually. The appetite is shown through the limit structures. Such structures take into account the risk concentrations in the takaful portfolio for actual and potential claim liabilities. It also defines and captures the liquidity profile of the company's assets.
The company's assets consist primarily of highly liquid instruments. All funds are held with counterparties approved by the company's policy detailed in Chapter Six- RM- 6 Credit Risk.

Liquidity Gap Risk Management Guidelines

The AC is responsible for identifying Liquidity Risk through monitoring internal and external warning signs and ensuring that any liquidity issues are identified promptly. This is managed on a day-to-day basis by the Investment Department, in accordance as part of its treasury management responsibilities.

Procedures for monitoring liquidity risk include:

Completing a liquidity gap analysis between the maturity buckets of all the assets and liabilities on the company's Financial Position.

Liabilities

a) Monitoring the value, frequency, and volatility of claims liabilities, and identifying potential adverse trends that may affect these factors.
b) Assessing the external forces on the business which may adversely affect the timing of non-claim affected liabilities.

Assets

a) Assessing the impact of current and forecast market conditions on the value of assets held and their liquidity profile.

b) Assessing the asset-liability mix, in particular, the duration, currency, and timing of the matching to ensure that the profile remains within the BOD's risk tolerance levels.

c) Assessing the actual contribution receivable profile and identifying any adverse trends.

Liquidity Measurement Methodology

The methods for measuring liquidity risk are:

Static Gap Analysis

Gap analysis refers to the maturity gap between assets and liabilities. Static gap analysis refers to the gap analysis of the current assets and liabilities of the company.

The gap analysis involves measuring the gap between assets and liabilities maturing within an individual time bucket and cumulatively over several buckets. These time buckets are set by the AC, and approved by the BOD. The buckets are in line with the nature of the markets the company operates in and its risk appetite.

Dynamic Gap Analysis

Dynamic gap analysis refers to the gap analysis for the forecast Financial Position of the company. The Financial Position is forecast based on the current Financial Position and estimates of the assets and liabilities positions from the various department heads and the Investment Department.

The same methodology is adopted as in a static gap analysis, except using the forecast Financial Position instead of the current Financial Position.

Liquidity monitoring and control

The Head of Investment and RM must establish a monitoring and reporting framework for Liquidity Risk that provides pertinent information to the Risk Committee at the appropriate time.

The following lists the salient aspects of monitoring that will be completed regularly:

i) Monitoring of the implementation of the limits;

ii) Checking for limit violations;

iii) Computing the liquidity gaps, static and dynamic, of the company's portfolio;

iv) Quick detection and correction of deficiencies in the policies, processes, and procedures of liquidity gap risk management;

v) Managing liquidity risk through ongoing, periodic, and annual reviews;

vi) Verifying the authenticity and availability of the sources of funds available to a company; and

vii) Informing the Head of Internal Audit about the important changes in the liquidity risk management process.

Liquidity gap limit structures

The company’s liquidity gap limits will be defined once the company’s book of business is taking shape. It will be divided according to the following tenors, with limits to be defined in due course as follows:

Tenor

1 to 7 days
8 days to 1 month
1 to 3 months
3 to 6 months
6 to 12 months
1 to 3 years
3 years and above

Reports for liquidity gaps

The liquidity monitoring reports include:

1) Limit utilization report;
2) Static and dynamic cash-flow report; and
3) Violation of liquidity gap limits

If any of the static liquidity gap limits are violated, the Investment Department person with treasury responsibilities and the Head of RM will immediately be notified by the Manager of Financial Control. In addition, adequate steps must be taken to immediately cover liquidity gaps leading to the breach of limits.

Violation of liquidity gap limits are detailed below:

Individual or Cumulative Violation	**Report Prepared By**	**Report Approved By**	**Report Sent To**
10%	Mgr, Financial Control	CFO	MD & Head of RM
20%	Mgr, Financial Control	CFO & MD	Investment Committee
30%+	Mgr, Financial Control	CFO, MD & Head of RM	BOD

All static gap limit violations must be included in the limit utilization report.

Liquidity Contingency Plan

The company shall structure its assets to meet its expected short-term liability cash flows. However, the company shall also have in place a contingency plan for dealing with unexpected cash outflows. Contingency planning is intended to cover the action required to ensure that the company can, under stress conditions, access sufficient liquid financial resources to meet its liabilities as they fall due.

The company's formal contingency plan will contain:

1) Early warning indicators of a liquidity crisis;

2) Actions to be taken by the company in the case of a contingency situation; and

3) Liquidity enhancement advanced measures.

The AC will ensure that a Liquidity Contingency Plan (hereinafter 'LCP') is in place and is reviewed at least annually.

The AC is required to understand the liquidity implications of planned and existing activity by monitoring relevant reports. Where necessary, the AC will determine the extent to which these activities may need to be revised to protect/ ensure the soundness of the overall liquidity profile.

Will such a stressful situation occurs, the MD, together with the Head of Investments and HRM will assess the severity of the situation and identify the corrective action that will be taken.

The Head of Investment will be responsible for implementing the plan, having first obtained approval from the AC.

Under normal circumstances and minor stress conditions, the actions can include, but are not limited to, the following:

- Use of existing cash balances; and

- Reduction of existing invested liquid assets.

Reporting

Reporting to the BOD and SM showing the company's liquidity position is defined in the below table:

Table 2 Liquidity Position

Report Name	Description	Report preparer	Report recipient	Frequency
Cash flow Reporting	The investment function will be responsible for managing cash flows daily. Surplus funds will be used for investments. Deficits will be funded from the sale of investments	Investment function	AC	Monthly
Investment Reporting	Investments will hold the funds that are not required for normal operating cash flow demands	Investment function	AC	Quarterly
Combined Liquidity Reporting	The above liquidity information will be combined. The Head of Investment will be responsible for presenting the information to the Risk Committee and will provide commentary on the adequacy of	Investment function	AC	Quarterly

	the liquidity profile. Any breaches that have occurred during the period will also be reported.			
Stress testing and scenario analysis	Stress testing and scenario analysis will be conducted on an annual basis and the results reported to the AC.	RM	AC	Annually

2. **Market Risk**

Market risk appetite

The company's Market Risk appetite is defined by the AC and approved by the BOD. The Market Risk appetite is demonstrated through the establishment of limit structures that take into account Market Risk concentrations, and the capital requirements that would be required as a result of assuming different forms of Market Risk.

Identification of risk sources at the company.

a.) Profit Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

There are primarily three types of Profit Rate Risk:

1) Basis risk
2) Yield risk
3) Optionality risk.

b.) Profit Rate Risk.

Profit rate risk can be divided into discretionary and structural (non-discretionary)

i) Discretionary Profit Rate Risk is the risk managed by the Investment Department to profit from movements in profit rates.

ii) Structural Profit Rate Risk is that which originates from the re-pricing characteristics of assets and liabilities of the company and other Financial

Position items such as shareholders' funds. Structural Profit Rate Risk will be managed by the Investment Department by the risk parameters approved by the AC.

Strategies to manage Profit Rate Risk include:
1) On-balance-sheet business strategies which involve changes in product mix and pricing. These will be treated as core business decisions.
2) On-balance-sheet investment strategies that involve changes in the maturity mix and rate characteristics of investment securities and funding will be treated as discretionary business decisions.
3) Off-balance-sheet strategies that involve the use of off-Financial Position items, such as Shari 'ah compliant hedges, to manage balance-sheet risks.

Foreign Exchange Risk

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
Foreign Exchange Risk is measured by the use of outright limits expressed in USD Currency terms on an overnight and intra-day basis. Limits are set by the AC.
The AC is required to monitor utilization against outright foreign exchange limits and to monitor compliance with any regulatory requirements.
The company will adopt a policy to minimize the impact of structural foreign exchange exposures on the ability of the company to carry on its Takaful and investment activities.
Un-hedged exposures will be subject to limits approved by the AC and will be subject to their regular review. Limits will be incorporated in the limit framework overseen by RM. However, there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the US Dollar.

Equity Risk
The company will hold equity positions within its investment portfolio and takaful funds, by the company's Investment Strategy.
Equity Risk will be handled by the Investment function of the company, by AC-approved limits.
RM will ensure that an effective system to identify and forecast Equity Risk exposure from equity positions is in place.
Stop losses will be established to minimize Equity Risk exposures in the portfolio.

Additionally, the company shall set limits to ensure all equity concentration positions are by the company's investment strategy (e.g. country, sector, currency, instrument... etc.).
The company will use appropriate hedging activities or other market techniques to assist in managing Equity Risk.
RM is also responsible for ensuring that adequate stress testing and scenario analysis are performed periodically and reporting the results of these tests to AC periodically.

Hedging

The company may employ Shari 'ah-compliant derivatives (as approved by the ACE) for investment purposes or to hedge against various positions (e.g. foreign exchange positions).
The company will develop limits for undertaking derivative transactions, approved by the AC, in line with the investment delegation of authorities.

Any violations of such limits will be reported to the Investment Committee as defined in the company's Investment Policy.

Hedging will be undertaken to:

1) Protect spreads on assets and liabilities with differing maturities in a rising or falling rate environment;
2) Protect against declines in the market value of fixed-rate assets as rates rise;
3) Protect against losses on firm commitments made to buy or sell fixed-rate securities at a predetermined price;
4) Lock in the effective profit rate for future borrowings; and
5) Lock in the yield on planned investments in securities.

Hedging will be used by the treasury function within the Investment Department, only if appropriate Financial Position adjustments cannot be made.
Every month, hedge effectiveness will be measured and reported to the AC and appropriate SM. All derivative positions will be marked to market (MTM).
Finance will ensure that complete and accurate records are maintained for all hedging transactions in conformance with applicable regulations.

Measurement Methodology Value-at-risk (VaR)

VaR provides a number that represents the maximum loss value for a constant portfolio, over a given period (e.g.., 10 days to one year), with a predetermined confidence level. VaR is an alternate methodology for the quantification of Market Risk.

Monitoring and Reporting

The company shall establish a monitoring and reporting framework for Market Risk that provides pertinent information to SM at the appropriate time.

The following lists the salient aspects of monitoring that will be done on a day-to-day basis:

i) Monitoring of limit implementation;

ii) Checking for limit violations and escalation to AC;

iii) Computing the mark-to-market and mark-to-model of the trading portfolio;

iv) Identifying the Market Risks of the company exposed to by monitoring the markets and the treasury;

v) Quick detection and correction of deficiencies in the policies, processes, and procedures;

vi) Managing Market Risk through ongoing, periodic, and annual reviews;

vii) Analyzing the impact of the strategic decisions of the company on investment performance;

viii) Monitoring all the company's exposures concerning the market information sources including the quality and availability of market inputs; and

ix) Informing Internal Audit about the important changes in the Market Risk process.

Limit Structures

The company will define VaR-based limits, notional limits, and stop-loss limits for its trading portfolio, split by:

a) Total portfolio;

b) Equity portfolio; and

c) Fixed income.

Market Risk Reports

The following reports will be provided about Market Risk by the company:

Table 3. Reporting Template Market Risk

Report name	Report contents	Preparer	Recipient	Frequency
Monthly Reporting Package	List of all traded securities (including income, realized and unrealized gains and losses	Investment Department	Head of Finance	Monthly

Market Risk Report	- Exposure to individual risk factors - Standalone and aggregated VAR numbers for all major risk factors - Comparison of actual portfolio to limit portfolio	Head of RM	AC	Quarterly

Limit Violation

If any of the limits are violated, RM will immediately notify the AC. A summary of all limit violations must be included in the Asset Liability Reports prepared for the AC meetings.

3. **Stress Testing and Scenario Analysis**

As a prudent risk management practice, the company expects unusual and unexpected events to occur and accordingly prepares to face and survive such situations. This requires foreseeing situations under hypothetical scenarios considering the question 'what-if' and developing stress tests in such scenarios. This would enable the organization to be well-equipped to cope with crises when they arise.

Stress tests produce information summarizing the company's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. Stress testing addresses the large moves in key market variables of that kind that lie beyond day-to-day risk monitoring but could potentially occur.

Stress tests can be used to identify and quantify the overall impact of different stress scenarios on the future financial position of the company. Stress testing will take into account scenarios that would cause significant or extreme financial discomfort to the company.

Examples include:

1) Severe economic or market turndown leasing to profit rate movements that are unfavorable to the company's financial position.

2) Impact of price shifts in asset classes on the whole portfolio.

3) Inadequate valuation of assets (e.g. real estate and derivatives) where these are not monitored under the control of a regulated market.

4) Potential impact on the portfolio of currency devaluation, as well as the effect on related currencies and markets.
5) The extent of any mismatch of assets and liabilities, including reinvestment risk.
6) The impact on the portfolio value of a dramatic change in the spread between a market index of interest rates and profit rates received.
7) The effect of credit rating downgrades and variations in market credit spreads on the value of assets.

The following methodologies will be used in stress testing:
Profit Risk

a) Variability analysis: to assess the change in profit rate expenses over the duration of the strategic plan resulting from an interest rate shock.

b) Profit rate sensitivity analyses: to assess changes in the value of profit-rate positions by currency and maturity following a shift in the yield curve.
Foreign Exchange Risk
a) An exchange rate sensitivity analysis will be conducted to measure the change in profit expenses resulting from changes in currencies to which the company is exposed.
b) Stress testing and scenario analysis will be conducted by RM on an annual basis and the results reported to the AC.
Scenario analysis will include cash flow projections based on reasonable estimates of the impact (both on and off- Financial Position) of that scenario on the company's funding needs and sources and will take into account:
i) The potential effects of currency, and duration mismatched caused by the scenario conditions;
ii) Access to funding;
iii) Mismatching between expected asset and liability cash flows;
iv) Ability to sell assets quickly;
v) The ability of the Financial Position to withstand sharp, unexpected drops in the inflow of funds (takaful underwriting) or unexpected outflows (claims); and
vi) The possible need to reduce large asset positions at different levels of market liquidity, and the related potential costs and timing constraints.
The company shall make use of models to manage uncertain cash flows. It will choose between deterministic and stochastic analysis, as the level of sophistication of its risk management increases.
The following guidelines will be adhered to:
1) The company shall identify appropriate stress scenarios against which it will carry out testing and analysis. The scenarios will be subject to periodic review to

take into consideration any changes in potential stresses the company may face due to changes in the internal or external environment that impact the company.
2) Scenarios will be based on varying degrees of stress – both company-specific and market-wide.
3) RM will document the stress and scenario assessments and report the results to SM with a frequency deemed suitable by the AC. Deterministic models project business results into the future based on a small number of sets of cash flows. The results obtained are valid for these specific scenarios.
To estimate future cash flows under various scenarios, stochastic models based on simulations will be used. Using these techniques will assist the company in arriving at statistical distributions of simulation results, and will help the company to evaluate different strategies.

4. **Valuation**

Valuations of the company's positions, which are a potential source of Financial Position and Market risk, are separated into valuation of assets and valuation of liabilities.

Assets

Assets are recognized at their current market value. Where no common market value is available for measuring the value of an asset, an independent valuation will be adopted.
The basis for accepting such valuations will be detailed in the annual report.

Liabilities

To measure Market Risk exposures, liabilities are valued by stated accounting policies, except technical reserves held for takaful liabilities.

Takaful liabilities are valued according to economic valuation, which is managed through the company's actuaries. The economic valuations will be approved by the Head of Finance.