

**DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)
Product Outline: Savings Account - Mudarabah**

Product Outline: Savings Account Mudarabah

Accountable Executive & Custodian	Islamic Banking Division
Policy Owner	Head of Islamic Banking Division

Approved by DAB Governor:	Date	DAB Board Secretary
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ISLAMIC REPUBLIC OF AFGHANISTAN

**DA AFGHANISTAN BANK, PRODUCT OUTLINE – SAVINGS ACCOUNT -
MUDARABA**

PART A: PREAMBLE

1 Background

- 1.1. This product outline for an Islamic Savings Account (hereinafter referred to as “the Product Outline”) is issued by the Da Afghanistan Bank (hereinafter referred to as “DAB”) which shall be adopted and become the guiding principles for Islamic Financial Institutions, Financial Institutions operating with an Islamic Window and Financial Institutions operating with an Islamic Unit (collectively referred to as “the Bank”) in the Islamic Republic of Afghanistan offering Islamic financial products.
- 1.2. This Product Outline is intended to:
- i) Enable Banks to develop their own Islamic savings account products using this Product outline as a baseline for the product development process; and
 - ii) Illustrate to the Bank global best practices in adopting the Product Outline.
- 1.3. The objectives of this Product Outline are to:
- 1.3.1. Facilitate the development of Islamic savings accounts in Banks in the Islamic Republic of Afghanistan; and
 - 1.3.2. Establish a precedent Product Outline that the Banks shall use when developing and operationalising their own Islamic savings account products.
- 1.4. Any particular exemption to any of the provisions as provided herein shall only be permitted via a formal application being submitted by the Bank after prior consultation with its Shariah Board (hereinafter referred to as “the Shariah

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Board”), to the Shariah Supervisory Board of DAB (hereinafter referred to as “the SSB”) outlining the reasons and justifications for such requests.

- 1.5. If any new or additional guidelines on the Product Outline are to be adopted, the Shariah Board of the Banks shall always be consulted first before the adoption of same.

2 Legal Provision

- 2.1. This Product Outline is issued pursuant to Article 2.2 of the Afghanistan Bank Law gazetted on 12/17/2003 (corresponding to 30/10/1382) in relation to the powers of DAB to regulate and supervise Banks in the Islamic Republic of Afghanistan and any amendments thereto.
- 2.2. This Product Outline shall be read together with the following manuals/guidelines:
 - 2.2.1. National Shariah Governance Framework;
 - 2.2.2. Shariah Parameter on Mudaraba;
 - 2.2.3. Shariah Review Manual;
 - 2.2.4. Shariah Compliance Manual;
 - 2.2.5. Guidelines on Ibra;
 - 2.2.6. Guidelines on Late Payment Charges;
 - 2.2.7. Other relevant regulations guidelines or circulars that Da Afghanistan Bank (“DAB”) may issue from time to time.

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PART B: PRODUCT OUTLINE – ISLAMIC SAVINGS ACCOUNT

3 Product Outline Structure

- 3.1. This product is based on the Islamic concept of Mudaraba. Mudaraba is a form of partnership where one partner provides the funds while the other provides expertise and management. The former is referred to as Rab al-Mal and the latter as the Mudarib. Any profit earned is shared between both them on a pre-agreed ratio, while loss is entirely borne by the provider of the capital.
- 3.2. In case of savings account under Mudaraba arrangement, the customer becomes a capital provider (Rab al-Mal), and the Bank (the Bank) becomes the Manager (Mudarib) of the funds deposited by the customers. Besides acting as Mudarib, the Bank can also invest a share of its equity in the Mudaraba Pool. This will transform the arrangement between the customer and the Bank into a Musharaka as well as Mudaraba relationship.
- 3.3. The salient features of a savings account are:
 - 3.3.1 The Rabb al-Mal may withdraw their capital from the bank as they wish with regards to the amount and time. Both parties may agree on the effective or minimum amount of investment to maintain the Mudaraba arrangement.
 - 3.3.2 The sharing of profit between the Mudarib (the Bank) and the Rab al Mal (Customer) shall be in accordance with an agreed Profit Sharing Ratio ("PSR"). Both parties may agree to vary and modify this PSR at any time with the consent of both parties.
 - 3.3.3 All losses in capital are borne by the Rab al Mal (Customer) whereas the Mudarib (the Bank) loses only his time and effort in managing the Rab al Mal's savings as well as his expected profit.
- 3.4. The customer will enter into a Mudaraba agreement with the Bank serving as his Mudarib (entrepreneur) to allow the utilization of his deposit to be invested in Sharia-compliant transactions whereby the investment decisions will be at the full discretion of the bank. The customer and the bank will then share the profit (if any) from the investments made by the bank based on a pre-agreed **Profit Sharing Ratio**.

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- 3.5. All the funds for investment are collected in a pool of funds which will be used to invest in profit oriented Shariah-compliant financing and investments such as Murabaha or Ijara financing. Both the Rab al Mal and the Mudarib will agree to a PSR prior to the start of the savings.
- 3.6. The Mudaraba capital may be mixed with other sources of fund of the bank such as Qard, Tawarruq as well as Musharaka and Wakala for investment to provide Islamic financing and investment.

4 Product Features

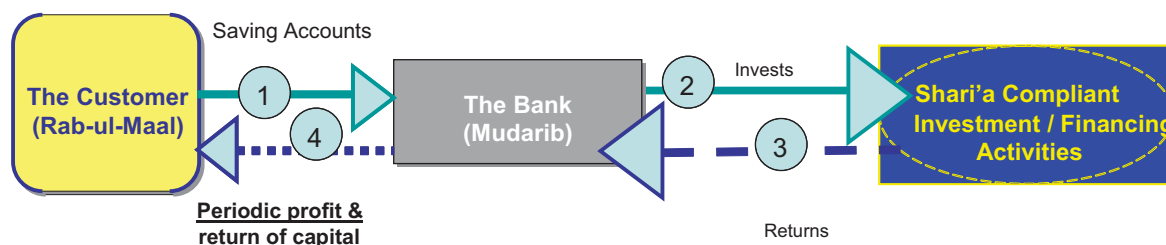
- 4.1 Mudaraba saving accounts will be considered as Unrestricted Investment Accounts (URIA). In case of URIA, the account holders authorize the Bank to invest the funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds shall be invested.
- 4.2 This product will be offered to the customers who seek to earn a nominal return of investment (if any) on their savings and at the same time having the flexibility to withdraw their capital as they wish.
- 4.3 Profit for savings account shall be calculated based on daily accrual basis and could be paid on periodical basis as agreed in the contract. The profit calculation is based on the lowest monthly balance in the account provided that the balance of the account does not fall below the minimum balance, as agreed between the parties, at any day of the month.
- 4.4 Profits will be distributed at the gross income level. The gross income will be calculated after deducting only the direct expenses payable by the customer to the Bank for the savings account facility.
- 4.5 The Banks may opt to have an arrangement where profit will not be paid for the month in which the account does not have a credit balance for at least 15 days, e.g., a savings account opened on the 17th day of the month shall not be eligible to share in the profits for that month, however, a saving account opened on 13th day of a month shall share in the profits for that month in proportion to the number of days the account had the minimum required balance.

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- 4.6 Customer may give standing instructions for payment of bills and other periodical payments including the payment to the same bank for any financing obligation which is to be debited from the savings account.
- 4.7 Savings account holders are entitled to ATM Card Facilities (daily ATM Cash withdrawals and limit as per Risk Policies).
- 4.8 Account can be opened with a minimum balance to be decided by the Bank for savings account.
- 4.9 There is a minimum balance restriction of an amount to be decided by the Bank, and the balance shall not participate in the profit for a month if it falls below that particular amount at any time during the period of profit calculation. Subject to maintenance of minimum balance in the account, there are no limits on number of withdrawals.
- 4.10 Transaction charges for other services shall be in line with the Bank's approved Schedule of Charges.
- 4.11 The bank may advertise the expected profit for this account and may also provide some incentive such as lucky draw or any other rewards for opening and maintaining certain amount in this account.

5 Process flow

A step by step process is as follow:-



Step 1

The customer opens a savings account by signing the account opening form (Mudaraba Agreement included) and providing the other required documentation

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and deposit amount to the Bank. The PSR will be agreed and documented. Neither the capital nor the profit will be guaranteed by the Bank.

Step 2

The Bank invests the funds in Shariah compliant financing and investments.

Step 3

The investment may make profits / incur losses.

Step 4

- a. In case of profit, the total profit from the investment pool is split between the Bank and the account holders, in proportion to their respective shares in the joint investment pool. The Bank then deducts its share as Mudarib from the profit share of the account holders. The remaining profit of the account holders is then shared between different categories of accounts based on their respective weighted average balances.
- b. In case of loss, the total loss from the investment pool is split between the Bank and the account holders, in proportion to their respective shares in the joint investment pool. The Bank will not get any profit as Mudarib, and the loss of account holders will be shared between different categories of accounts based on their respective weighted average balances.
- c. The Bank may opt to pay some profit to the account holders as Hiba (profit) out of the shareholders equity, if decided by the shareholders, to retain the deposit holders with the bank.
- d. Where the loss is suffered due to gross negligence of, or misconduct by, the Bank, the loss will not be borne by the account holders, and the Bank will have to bear this loss.

6 Target Market

6.1 Target Market and Eligibility

- 6.1.1 The Product will serve the following customer segments:

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- a) Individuals – Salaried, unemployed, retired and illiterate
- b) Individuals – Self Employed Professionals and businessmen
- c) Other individual customers (if any)

6.1.1.1 Individuals – Salaried, Unemployed, Retired and Illiterate;

6.1.1.2 Employed in Government / Public Sector, medium and large private sector;

6.1.1.3 Unemployed customers with cash that requires depositing the cash securely with a bank.

6.1.2 Individuals - Self Employed Professionals and Businessmen

6.1.2.1 Self-employed professionals i.e. doctors, engineers, accountants, lawyers, consultants;

6.1.2.2 Owners of medium and large business houses in Afghanistan;

6.1.2.3 High Net Worth Individuals seeking for Islamic banking services.

7 Required Documentation

The legal documentation for the Product will depend on the actual structure to be adopted by the Bank and the Bank's internal policies and procedures as advised by the respective Bank's legal counsel:-

7.1 The following are the documentation required to deliver the Product Outline deliverable:

7.1.1 Account Opening Application / Request through Internet Banking – duly approved by the Bank's Shariah Board.

7.1.2 Payment amount through fund transfer instruction /cheque / transfer from existing Islamic / conventional account of the customer. This section should define the key elements of standard legal documentation for the product and should specify briefly who is responsible for origination of the documentation.

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7.1.3 Investment withdrawal form duly approved by the Bank Shariah Board.

7.1.4 Account Services Form duly approved by the Bank Shariah Board.

7.1.5 Investment Receipt.

8 Suggested Accounting Entries

Opening Mudaraba Saving Account

DR Cash in Hand (B/S – Asset)
CR Customer's Savings Account (B/S – Liability)

Recording of Mudarib Share of Profit

Dr Mudaraba Expense Account (Mudarib Share) (P&L)
Cr Mudarib Income (P&L)

Accrual of Mudaraba Profit Payable

DR Accrued Profit on Mudaraba Deposit Account (B/S – Asset)
CR Profit Payable on Mudaraba Deposit Account (B/S – Liability)

Profit Distribution

DR Profit Distribution Account (B/S – Liability)
CR Accrued Profit on Mudaraba Deposit Account (B/S – Asset)
CR Profit Equalization Reserve (B/S – Liability)
CR Investment Risk Reserve (B/S – Liability)

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Profit Payment

DR Profit Payable on Mudaraba Savings Account (B/S – Liability)
CR Customer's Savings Account (B/S – Liability)

Cash Withdrawals or Purchase from Account

For Cash Withdrawals

DR Customer's Savings Account (B/S – Liability)
CR Cash in Hand (B/S – Asset)

For Purchases

DR Customer's Savings Account
CR Card Schemes Settlement Account

For Inter – Branch/ Online Transactions

For Cash withdrawals – using ATM / Debit Card

DR Transit Account (Suspense Account)
CR Cash – at ATM (B/S – Asset)
DR Customer's Savings Account (B/S – Liability)
CR Transit Account (Suspense Account)

On Issuance of Pay order / DD/TT/MT

DR Customer's Savings Account (B/S – Liability)
CR Pay Order Issued / DD / TT / MT Suspense Account

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CR Commission / Charges Income Account (P&L)

Periodical Fee/ Service charges (if any)

Transactions should be mapped only for those charges approved by the Bank's Shariah Board. Based on the given criteria, system shall pass the following entry:

DR Customer's Savings Account (B/S – Liability)

CR Respective Fee/ Charges/ Income Account (P&L)

Closure of Savings Account:

DR Customer's Savings Account (B/S – Liability)

CR Account Close Fee/Charges Due (if any)

CR Cash in Hand/ Pay Order Account (B/S – Asset/ Liability)

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9 Risks associated with the Product

General Risks

Risk Category & Nature of Risk	Mitigating Factors
Documentation Risks	
Incomplete Documentation	Obtain all the common and business related documents stated in the manual and ensure completeness in all respect before opening of account
Quality Related Risks	
Customer Identification	Original identification documents to be personally checked by Customer Services Officer KYC formalities to be completed Returned mails should be properly reviewed
Employee Fraud	Establish a set of internal controls to prevent and detect fraud.
	Tools of segregation of duties shall be employed to mitigate the risk
Loss of Computerized Data	Daily back up by IT department
	Ensure contingency planning
Lower profit distributions	Build effective risk management framework and ensure its implementation Keep Profit Equalization reserves

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	and pay account holders out of such reserves if needed, in order to maintain a certain level of returns to the account holders.
Fiduciary Risk	Build effective risk management framework and ensure its implementation
Operational Risks	
i) Shariah Compliance	Terms and conditions for opening of account shall be reviewed and approved by the Shariah Board
ii) IT system implementation	The IT system will be modified to meet the requirements of the new product and properly checked before implementation
iii) Sequence of documentation is not correct	Implementation of internal Shariah Audit and Shariah compliance mechanism to ensure correct sequence of documentation and Proper training of staff
Business Risks	
i) Rate of return	The Bank will gather market information about similar products and ensure that the pricing of the product is competitive

Note: These risks and mitigants are not exclusive and are for illustrative purposes only.

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Specific Risks

Risk Category	Mitigating Factors
<p>Displaced Commercial Risk</p> <p>Bank may confront commercial pressure to pay returns that exceed the rate that has been earned on its assets financed by account holders.</p>	<p>Bank may forgo part or its entire share of profits in order to retain its account holders and dissuade them from withdrawing their funds.</p>
<p>Equity investment risk</p> <p>Risk arising from entering into partnership for the purpose of undertaking or participating in a particular financing or investment activity and in which the capital provider shares in the business risk.</p>	<p>Prudent selection of investment activities and robust selection criteria for financing candidates.</p>
<p>Rate of return risk</p> <p>Potential impact on returns caused by unexpected change in rate of returns.</p>	<p>Effective asset and liability management policy.</p>

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10 Common mistakes

- 10.1 Failure to ensure that Fatwa issued by the Bank's Shariah Board for the Product before offering to clients. Shariah secretariat to confirm with Business Units that the product may be offered to customers.
- 10.2 Inadequate or non-existent documentation – this may render the transaction void *ab initio*.
- 10.3 Failure to properly treat the savings account product as an investment-based product with no guarantee of return instead of a fixed income product with a guaranteed return.
- 10.4 Renewal of Mudaraba savings account without a properly placed procedure distinct to the nature of the product.
- 10.5 Failure to properly represent to clients as to the nature and features of the savings account based on Mudaraba.

11 Custodian of the Product Outline

- 11.1 This Product Outline shall be under the safe custody of the Islamic Banking Division ("IBD") of DAB. Any changes to this Product Outline shall be made by the IBD with prior consultation with the SSB, as reviewed by the DAB Executive Board and upon approval by DAB Supreme Council. A copy of the amended Product Outline shall be made available to all stakeholders and SSB members for reference and implementation.
- 11.2 Banks may further refine the Product Outline to suit their particular structure and policies. Such amendments shall be approved by the Bank's Shariah Board. The Bank's Shariah Department/Islamic Banking Department/Unit will have custody over the Bank's Product Outline for savings accounts.

12 Effective Date of the Document

The Effective date of this Product Outline is the _____ day of _____ 20____.