

DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)
Product Outline: Current Account - Qard

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

Approved by DAB Shariah Supervisory Board:	Date
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ISLAMIC REPUBLIC OF AFGHANISTAN

**DA AFGHANISTAN BANK, PRODUCT OUTLINE – CURRENT ACCOUNT -
QARD**

PART A: PREAMBLE

1 Background

- 1.1. This product outline for an Islamic Current 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 current 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 current 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 current account products.

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- 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 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 Wadi'ah;
 - 2.2.3. Shariah Review Manual;
 - 2.2.4. Shariah Compliance Manual;
 - 2.2.5. 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 CURRENT ACCOUNT

3 Product Outline Structure

- 3.1 The Current Account product, offered based on the contract of Qard, shall allow current account holders ready access to their money placed with the Bank. The money placed in the account by the customer is a loan (Qard) given by the customer to the Bank, and not a deposit. The Bank comes to own the amounts for use in the Bank's business activities and at the same time a liability to repay the amount is established against the funds received.
- 3.2 A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms.
- 3.3 The Bank will accept funds from the current account holder under an agreement based on the concept of "Qard" in Shariah (the agreement being part of the Account Opening Form).
- 3.4 In case of current accounts under Qard arrangement, the Bank guarantees the amount to the account holders and agrees to return this amount on demand. The customer does not share any risk with the Bank.
- 3.5 The balance standing to the credit of the current account is neither entitled to any profit derived from any investment activities undertaken by the Bank utilizing the customers' fund nor does it bear any risk of loss.
- 3.6 For the purpose of this product, the account holder will authorize the Bank to use his/ her funds at the Bank's own risk, in any Shariah compliant investment or financing transaction, without expecting a share in the resulting profit. The Bank, on its part, will guarantee to the account holder that his/her funds will be available on demand and in full amount, irrespective of the results of the Bank's investing or financing activities.
- 3.7 The funds received from the current account holders shall be utilized by the Bank in providing financing to customers under Islamic modes or in other Shariah compliant investment transactions, subject to all regulatory and Shariah requirements.
- 3.8 The funds received in current accounts may be invested alongside the Shareholders' investment funds. However, the Bank alone will be entitled to the risks and rewards of investing these funds.

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3.9 No profit is payable on the credit balance held in the current accounts.

4 Product Features

4.1 The product is based on the Islamic concept of Qard which the repayment of the amount is guaranteed by the Bank.

4.2 The current account can be opened with a minimum balance to be determined by the Bank. Current account which is opened with less than the minimum balance required needs to be authorized by the designated person of the Bank.

4.3 No profit sharing or capital appreciation.

4.4 Cheque book facility is available to provide ease of withdrawal. No restrictions on withdrawals and deposit transactions, subject to DAB regulations and the Bank's internal policy.

4.5 Customer can 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 current account and fund transfer facility through any bank inside or outside Afghanistan.

4.6 Current account holders are entitled to ATM Card Facilities (daily ATM cash withdrawals and limit as per Bank's Risk Policies).

4.7 Transaction charges shall be applicable as per the Bank's approved Schedule of Charges.

4.8 Other Product Parameters

4.8.1 Closure of Accounts

4.8.1.1 Closure of Islamic current accounts shall be handled in line with the Bank's Operational Procedures.

4.8.1.2 All requests for closure of accounts must be made in writing and duly signed by the customer/authorized signatory.

4.8.1.3 A confirmation shall be obtained before authorization closure of the account to make sure that the necessary action can be taken by the concerned sections/units e.g. cancel standing instructions, recover outstanding receivables etc.

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4.8.1.4 The Bank shall collect the ATM card and Cheque book from the customer before closure of the account.

4.8.2 Customer Instructions

4.8.2.1 All instructions issued by a customer shall be carefully recorded and meticulously complied with at all times. They may include standing instructions, changes in customer's particulars, internal transfer of funds etc.

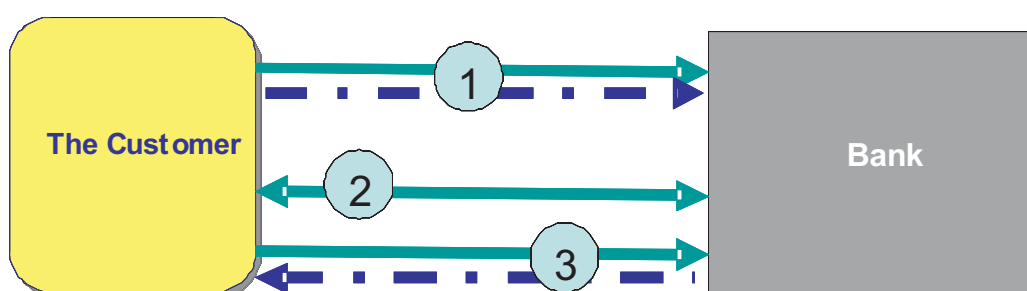
4.8.2.2 All such customer instructions shall require the instructions to be in line with the requirements of the Bank's Operational Procedures Manual and shall be executed accordingly.

4.8.3 Returned Cheque

4.8.3.1 The Bank shall have specific forms and formats designed for offering the Islamic current account to its customers.

5 Process flow

A step by step process is as follow:-



Step 1

An individual / company will request to open a current account with the Bank and provide relevant documents as required by the Bank. The customer is required to place the minimum amount required by the Bank or more. The Bank may or may not invest the received funds but it will not transfer any of the gains (or losses) from the investment activities to the customer (current account holder).

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Fund flow: The Customer will place funds with the Bank in the current account and withdraw the same at any time.

Step 2

The Customer can avail various services that are being offered for the account such as issuing / depositing cheques, purchases / deposits through the various available channels – ATM, phone banking.

Fund flow: The customer will deposit and / or withdraw funds into the current account.

Step 3

If the customer requests to close the current account, the Bank will ensure that there are no outstanding payments (cheques that have to be cleared). The customer will sign the account closing form and the Bank closes the account.

Fund flow: The customer will withdraw all funds placed in the current account.

6 Target Market

6.1 Target Market and Eligibility

6.1.1 The Product will serve the following customer segments:

6.1.1.1 Individuals – Salaried, Unemployed, Retired and Illiterate;

- a) Employed in Government / Public Sector, medium and large private sector;
- b) Unemployed customers with cash that requires depositing the cash securely with a bank.

6.1.1.2 Individuals - Self Employed Professionals and Businessmen

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

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- b) Owners of medium and large business houses in Afghanistan;
- c) High net worth Individuals seeking for Islamic banking services.

7 Suggested 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:
 - 7.1.1 Account Opening Application Form / 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.
 - 7.1.3 Account Services Form duly approved by the Bank's Shariah Board.

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8 Suggested Accounting Entries

Initial / Subsequent Deposit in the Account at Teller

For Cash Deposit

DR	Cash – Teller Account
CR	Customer's Current Account

Withdrawal from the Account at Teller

For Cash Withdrawal

DR	Customer's Current Account
CR	Cash – Teller Account

For Inter – Branch/ Online Transactions

For Cash withdrawals – using ATM / Debit Card

CR	Cash – ATM Account
DR	Customer's current account

On Issuance of Pay order / DD/TT/MT

DR	Customer's current account
CR	Pay Order Issued / DD / TT / MT suspense a/c
CR	Commission / charges income a/c

For POS Purchase

For Purchase with ATM Debit Card

DR	Customer's Current Account
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CR Card Scheme Settlement Account

Periodical Fee/ Service Charges

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

DR Customer's current account

CR Respective fee/ charges/ income a/c

Periodical Fee/ Service Charges

DR Customer's current account

CR Cash in Hand / Pay Order a/c

CR Account Close fee/charges due (if any)

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9 Risks associated with the Product

General Risks

Risk Category & Nature of Risk	Mitigating Factors
Documentation Risks	
i) 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	
i) Customer Identification	Original identification documents to be personally checked by Customer Services Officer KYC formalities to be completed Returned mails should be properly reviewed
ii) 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
iii) Loss of Computerized Data	Daily back up by IT department Ensure contingency planning

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iv) 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
Liquidity Risk This risk arises due to insufficient liquidity for normal operating requirements reducing the Bank's ability to meet its liabilities when it falls due e.g. high volume of withdrawals.	Bank may carry out diversification of assets

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 current account product as a Qard-based product which prohibits any increase of amount in cash or in kind.
- 10.4 Renewal of Qard current 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 current account based on Qard.
- 10.6 Tendency of the Bank to provide overdraft facility should there be insufficient balance in the account to cover any cheques issued and Bank charges some payment/profit for this overdraft facility. In such a situation, the correct action to take is to decline payment for the cheque or to extend a Qard/overdraft facility to cover the shortfall.
- 10.7 Advertisement of any expected return or the giving of any gifts for the said current account as this amounts to an increase or gain to the customer.

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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 current accounts.

12 Effective Date of the Document

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