

Understand BankIslami Better

How deposit
accounts work
at BankIslami!



BankIslami

بنك إسلامي



Serving you, the Right way

Deposit Accounts

We at BankIslami take a lot of pride in our authenticity and transparency. Of course, it is your right to know how it works and what it is when we call ourselves an Islamic Bank with stringent Shariah criteria.

'Understand BankIslami Better' is a series of brochures that helps you know more about us. If you still have any questions, you are welcome to talk to any of our Customer Relationship Officers to address to any specific queries.

You may also speak with our Shariah Advisor by scheduling a meeting with him after writing to him at shariah@bankislami.com.pk.

Shariah Structure

Deposit Products of BankIslami are structured under the Mudarabah concept where the depositors as providers of funds are the 'Rabb-ul-maal' and the Bank is 'Mudarib' i.e. the fund manager.

Mudarabah

-Mudarabah- in Islamic Fiqh or jurisprudence is a unique form of partnership where the investors provide funds to an entrepreneur for a commercial enterprise. Therefore the investor or depositor is the partner on one side being the "Rabb-ul-mal", and BankIslami as the fund manager is the 'Mudarib'.

How deposit products operate at BankIslami?

Deposit products operate on the concept of professional investment of customers deposits to earn maximum returns while keeping the risk at a manageable level. Depositors' funds are deposited into a joint investment pool and every depositor by way of quality and quantum is allotted a weight on a range of weightages done transparently at the beginning of each month. On the basis of accruals, the income for the month from investments are distributed fair and square to the depositors. Thus BankIslami and its depositors as partners share in the accruing profits. In the unlikely event of a loss, the Pool bears the loss and the Bank gets nothing. All the costs incurred by the Bank goes un-rewarded thereby resulting a loss to the Bank. The Banker-Customer (depositors) relationship is what we call at BankIslami -Mudarabah Mutlaqa- ...

For ease of understanding we will explain further through a step-by-step approach. The following example explains the process:

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A) Creation of Investment Pool

1. First of all an investment pool is created.
2. The Pool is invested in different products and businesses which are in compliance with Shariah

In the illustrations explained below, suppose there are three categories in tenures namely:

- i. Three Months
- ii. Six Months
- iii. One Year

Based on the above investment tenures, the Pool will have three categories.

3. Now lets suppose customer deposits funds in each of the three tenures:

Three Months	4,000
Six Months	3,500
One Year	2,500

4. Each category becomes the basis for determination of specific weightage. Suppose following weightages are assigned to each investment category:

Three Months	0.60
Six Months	0.70
One Year	1.00

All the investors in the Investment Pool are partners in the Pool with the above mentioned profit sharing weightages.

5. The Pool, maybe referred as Pool 'A' from now on.

Tenure	Deposit Rs.	Weightage
Three Months	4,000	0.60
Six Months	3,500	0.70
One Year	2,500	1.00
Total	10,000	



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B) Pool's relationship with the Bank

6. BankIslami enters into -Mudarabah Mutlaqa Agreement- with Pool 'A'.
7. Under the agreement, Pool 'A' is the 'Rabb-ul-maal' and BankIslami is the 'Mudarib'. BankIslami invests the funds in Murabahah and Ijarah assets. The Bank and the Pool shares profit equally.

C) Profit Sharing between the Bank and the Pool

8. The profit earned in the business, conducted by the BankIslami with the Pool funds, will be distributed amongst the depositors as per the agreed ratio which is on 50/50 basis. We assume that BankIslami deploys Rs. 10,000/- for a period of one year and earns a profit of Rs.1,000 at the end of the year, the profit would be shared as follows:

Bank	Rs. 500
Pool	Rs. 500

D) Profit Sharing amongst the Depositors

9. Rs. 500 earned by the Pool would be distributed as per the weightage assigned at the beginning of the month, as mentioned in point no. 4.

Tenures	Deposit (Rs.)	Weightage	Weighted Average	Profit*	Rate
	a	b	$a \times b = c$		**
Three Months	4,000	0.6	2,400	163	4.08%
Six Months	3,500	0.7	2,450	167	4.76%
One Year	2,500	1.0	2,500	170	6.80%
Total	10,000		7,350	500	

- $2,400/7,350 \times 500 = 163$ and likewise
- ** $163/4000 \times 100 = 4.08\%$ and likewise

E) Loss sharing between the Bank and the Pool

10. According to the rules of Mudarabah, all financial losses are borne by the Pool as 'Rabb-ul-maal'. However, in such cases, BankIslami earns nothing and makes a loss due to non-recovery of expenses incurred in the business.

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F) Sharing of Loss amongst the Depositors

Loss attributable to the Pool would be distributed amongst the pool members according to their investment ratio.

Concept of Weightage

Weightage is a ratio for distribution of profits. According to the Mudarabah principles, each partner gets profit according to a pre-agreed ratio. Suppose Ahmed and Ali invest Rs. 5,000/- each (total: Rs. 10,000) and set up a small shop. They agree to share profits equally. Profit of Rs. 1,000 is shared equally, which means Ahmed and Ali both get Rs. 500 each.

In an Islamic Bank, management of partnership is challenging due to the following reasons:

1. Large number of partners (Account holders) make deposits for varying amounts, tenures, and profit payment frequencies.
2. Account holders continually join and leave the Investment Pool.
3. Investment of Account holders also fluctuates, in some cases almost daily.

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Simple profit sharing mechanism with these kind of variables is tricky. For this reason, a weightage system is used to distribute profits amongst the partners. In simple terms, weightage neutralizes the differences in the type of investment made by the partners so as to make a just profit distribution amongst them.

This structure was approved by the Shariah Board of BankIslami in a meeting held on June 6, 2005. The Shariah Board of the Bank consists of Justice (R) Muhammad Taqi Usmani, Prof. Dr. Fazlur Rahman and Multi Irshad Ahmad Aijaz

*He guides whomsoever with his light
(Surah Noor 36)*

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