

PROFIT DISTRIBUTION METHODOLOGY FOR MUDARABA DEPOSITS

Mudaraba Deposits represent a Sharia-compliant partnership between depositors (referred to as **Rab al-Mal or Investment Account Holders' ("IAHs') or Deposit Holders'**) and the bank (acting as the **Mudarib**). Under this arrangement, depositors provide funds for the bank to invest in Sharia-compliant activities and ventures. The profits earned from these investments are shared between the depositors and the bank. The bank, as the Mudarib, earns a Mudarib share of profit as compensation for its role in managing and investing these funds. This methodology ensures transparency, fairness, and alignment with Islamic principles.

1. Profit Calculation and Distribution Process

I. Common Pool Management

The funds deposited under Mudaraba arrangements are combined into a "**Common Pool**", which is used to finance investments in Sharia-compliant assets. At the end of each month, the total profit of the common pool is calculated, and the following steps are followed to determine distributable profits:

Net Profit Calculation	The gross profit earned from the pool is reduced by expected credit losses, write-offs, and corporate taxes. The resulting figure represents the net profit available for distribution.
Profit Allocation Based on Weightages	The depositors' funds in the Common Pool are combined (co-mingled) with the Bank's equity. The net profit or loss of the pool is then allocated between the depositors and the Bank in proportion to their respective shares in the Common Pool.
	Each depositor's share of the profit is determined by the pre-assigned weightages for their respective account type or tenure. These weightages are designed to reflect the level of investment risk and the duration for which funds are committed.

II. Adjustments Prior to Profit Allocation

- Profit Equalization Reserve (PER):**
 To hedge against **Displaced Commercial Risk (DCR)**, the Bank maintains a Profit Equalization Reserve. A portion of the profit, distributable to Deposit Holder's only, is allocated to this reserve. This ensures that if future returns fall below expectations, the PER can be used to maintain consistent payouts to depositors. The reserve is maintained and utilized under the supervision of the Profit Distribution Committee. This reserve ensures a stable profit distribution for depositors, even in times of fluctuating returns.
 - Utilization of PER:** The reserve may be used to meet expected returns if actual investment performance falls short.
 - Supervision and Liquidation:** The management, investment, and distribution of the PER are carried out under the guidance of the Profit Distribution Committee.

- **Mudarib Share of Profit:**
After adjusting for PER, the Bank deducts a **Mudarib Share of Profit**, which is capped at 20% of the distributable profit. This compensates the Bank for its expertise, efforts, and responsibilities in managing the investments.
- **Exclusion of Administrative Expenses:**
No administrative or operational expenses are charged to the depositors. The Bank bears all such costs, ensuring that the distributable profit reflects only investment performance.

III. Weightages for Mudaraba Accounts

The Bank applies weightages to Mudaraba accounts based on their type and tenure to ensure a fair profit distribution system. These weightages are reviewed and approved by the Bank's Profit Distribution Committee periodically:

Account Types	Weightages
Savings Accounts	10%
Savings Accounts – Digital Account (IBMB)	10%
Savings Accounts – Salaried Savings Account	10%
Savings Deposits – Savings Account (Student)	10%
Savings Deposits – Savings Account (Child)	10%
Al Watani Deposits – Call Account	5%
New Investment Account	10%
Return on 1-Month Deposits	30%
Return on 3-Month Deposits	45%
Return on 6-Month Deposits	55%
Return on 9-Month Deposits	60%
Return on 12-Month Deposits	70%

These weightages reflect the level of investment commitment and associated risk for each account type. They ensure a transparent and Sharia-compliant distribution of profits. The weightages are a variable factor and may change. Customers are informed through SIB website on a monthly basis if there are any changes to weightages for any category of Mudaraba deposit.

2. Investment Objectives and Strategy

The Bank's investment strategy for Mudaraba Deposits focuses on achieving a balance between generating steady returns for depositors and maintaining the safety and liquidity of their funds. The investment approach is guided by the following principles:

I. Steady Income with Flexibility:

The Bank aims to provide a combination of steady and recurring income to depositors while allowing them to deposit and withdraw funds conveniently through counters, cheques, and digital channels such as internet banking.



II. **Asset Allocation for Stability and Returns:**

The Common Pool is diversified across a range of Sharia-compliant investments, including:

- Placements with other banks.
- Islamic financing to customers.
- Investments in Sukuk (Islamic bonds).
- Operating lease properties.

These assets are carefully selected to ensure the preservation of capital and stable returns, while aligning with the Bank's liquidity and asset strategy.

III. **Protection of Investment Principal:**

The Bank manages the portfolio to safeguard depositors' funds, ensuring investments remain consistent with the risk profile and objectives of the Common Pool.

3. **Transparency and Sharia Compliance**

The entire profit distribution process adheres to the Bank's approved **Profit Distribution Policy**. This policy is reviewed and monitored by the Internal Sharia Supervisory Committee to ensure compliance with Islamic principles. The Committee also approves the mechanism for profit-sharing arrangements, ensuring fairness and transparency in all dealings with depositors.

By maintaining a disciplined approach to portfolio management, adhering to Sharia principles, and prioritizing customer interests, the Bank ensures that Mudaraba Deposits remain a reliable and ethical investment choice for its depositors.

The Bank's comprehensive approach ensures that customers enjoy the benefits of ethical investments while protecting their interests and fostering financial stability.