

Summary of the policy of regulating the relation between the Bank (the Mudarib) and the Investment Accounts Holders

Safwa Islamic Bank

First: Definition of the Investment Accounts:

Investment Accounts (Investment Deposits):

The amounts which the Bank receives from the investors on the basis of Mudaraba and their owners authorize the Bank to invest them on the basis of Mudaraba. The investment accounts are divided into investment accounts that are managed on the basis of unrestricted Mudaraba where the Mudarib is authorized to invest the money as it deems appropriate, and the investment accounts that are managed on the basis of restricted Mudaraba where the Mudarib is restricted by the type and method of certain investment determined by the owner of the money (Rub Al Mal). The relationship between the owners of these accounts and the Bank is a relation between the owner of the money and the Mudarib. In case the Mudarib is one and the owners of the money are more than one, the relation shall be subject to the Islamic Sharia controls on joint Mudaraba.

Joint Investment Accounts:

The amounts which the Bank receives from the investors where the owners of such amounts authorize the Bank to invest such amounts on the basis of unrestricted Mudaraba without linking with project or certain investment program. The accounts holders and the Bank share the profits, if any, according to the proportions defined for each of them either in the Mudaraba contract or in the account opening application submitted by the depositor and approved by the Bank. The accounts holders bear all losses pro rata to their shares in the capital, except the losses resulting from negligence, will full misconduct or breach of conditions where such losses shall be borne by the Bank (Mudarib).

Restricted Investment Accounts:

The amounts which their owners authorize the Bank to invest them on the basis of restricted Mudaraba in a certain project or particular investment program. The Bank and account holder share the profits, if any, according to the proportions defined for each of them either in the Mudaraba contract or in the account opening application submitted by the depositor and approved by the Bank. The owner of each account bears the loss pro rata to its shares in the capital, except the losses resulting default from negligence, will full misconduct or breach of conditions where such losses shall be borne by the Bank.

Second: Investment Priority / Equal Investment Opportunities:

The principle of equal investment opportunities is applied between the funds of the shareholders and the funds of the investment accounts holders in the joint Mudaraba. The Bank's own investments appear in separate accounts from the joint investment accounts.

Third: Elements / Basics of Profits Distribution:

- Allocating the Mudarib share of the joint common pool profits.
- Determination the points (assigning a weightages to the average balances).
- Determine the amounts of the shareholders invested in the joint common pool.
- Determine the amounts of the holders of the unrestricted / restricted investment accounts in the common pool.
- Calculate the net profits of the joint common pool.

Fourth: Zakat:

It is the responsibility of the shareholders and holders of the unrestricted/restricted investment accounts to pay Zakat. As there is no authorization to the Bank Management to pay it directly, and due to the absence of the law regulating this, and the fact that Bank's article of association and the decisions of the General Assembly did not mention it, and the absence of the authorization from the shareholders to do so, the shareholder and the unrestricted/restricted investment account holders has to pay zakat on his shares and funds upon the fulfilment of the sharia's legal conditions and controls of Zakat.

Fifth: Profit Equalization Reserve (PER):

This reserve is released with the aim of distributing appropriate and competitive rates of return to the holders of unrestricted / restricted investment accounts as well as to the shareholders in the event of exceptional circumstances and sharp fluctuations in the markets.

Sixth: Points (Allocating Weighting Weights to the rate of balances):

It is a means for the purposes of calculating the share of investors from the joint common pool profits, as it is agreed "upon implicitly" that the return on deposits and investment certificates of deposits is paid on the average balance of the deposit and the investment certificate of deposits, where the weight is allocated based on the size or the balance of the deposit (According to a pre-set schedule that specifies those weights and explains to the customers), the deposit and the investment certificates of deposit terms, the frequency of profits payment to the customers.

Seventh: Allocation of the Mudarib share in the joint common pool profits:

The value of the Mudarib share of profits is calculated by applying a predetermined agreed percentage on the net profits and with the approval of the Sharia Supervisory Board of the bank, that after calculating the profits share of each category of deposits and each investment certificates of deposit issuance and transfers from / to the credit loss provision for the financial period.

Eighth: Transfers to or from Profit Equalization Reserve (PER):

It is allowed for the Bank management, after obtaining the approval of the Sharia'a supervisory Board, to deduct a portion of the profits of the joint common pool before deducting the share of Mudareb and to transfer this portion to what is called "Profit Equalization Reserve (PER)". The purpose of this reserve is to keep or make the rate of return for the holders of the unrestricted / restricted investment accounts and for the Shareholders in a certain profit distribution period in-line with or equal to the market returns of the same period.

Ninth: The income tax of the unrestricted / restricted investment accounts holders "Withholding tax":

Income tax shall be deducted from all profits of unrestricted / restricted investment account holders based on the decision of the official concerned department (Jordan Income and Sales Tax Department) unless such deposits are exempted by law.

Tenth: Profits Realization:

The distributable profits is achieved if the following conditions are met:

- Capital safety, where the profits of the investment accounts is realized only and after the capital is being protected.
- The investment accounts profit is realized after liquidating the Mudaraba assets, whether it is actual by transferring all assets into cash and collecting all debts, or legally by evaluating the non-cash assets and evaluating the debt in terms of collectability and allocating provisions for the bad debts. Regarding the cash, it is fixed with its amounts.
- Covering the investment expenses.

Eleventh: Profit Entitlement:

- The Bank shall announce -to the customers- all types of accounts and investment certificate of deposits which are managed within the joint common pool portfolio as well as the approved distribution ratios of each of these accounts and investment certificate of deposits at a prominent clear place in all Bank's branches.
- "The unrestricted investment accounts holders shall be entitled to the profit upon distributing and sharing on a percentage basis and it's not permissible to set it as a lump sum". The Bank may determine ratios differ from ratios of different tranches of investment account holders, and the profit ratio may be unified between the Bank and all investment accounts holders. Also, the profits ratios among the investment accounts holders may be unified, or it may be different based on predetermined weights.

- It is permissible to agree on any method of distributing the profit, as it could be paid quarterly or at the maturity after the performance of each period.
- If the Bank mixes the Mudaraba funds with its own funds (idiomatically), then it becomes a partner and Mudarib -at the same time- with the funds of the others' and the realized profit will be distributed to both of the funds, the Bank shall take the profit of its work and efforts and on his invested funds. And, what applies on the other investment accounts holders shall be applied to the Bank's share of profit.

Twelfth: Disengagement / Discharge:

It is permissible for one of the account holders to withdraw all or some of his amount, and this represents as a reconciliation of his share in the Mudareb assets/investment pool, and not as a refund of the amount (which deposited in the account) all of it or part of it. And it is permissible to the bank to determine the withdrawal amount in which the account holder will not earn any profits or earn less than what he deserved if he remains, and not a deprivation of profit but it is a withdraw according to supply and demand. Based on that, the joint investment account holder discharges the remaining investors (investment account holders) from any profit that was not distributed and the remaining investment risk reserves and the Profit Equalization Reserve and the donation of the remaining funds for the Zakat Fund when the investment pool is liquidated, and the owners of the investment account discharge the withdrawal (the investors) of any loss (that did not appear) and the withdrawal (the investor) will bear the loss for the time that his invested amount remained in the investment account pool before withdraw it, and he does not bear the loss for the remain time of the year After he withdraw it.

Thirteenth: New products within the joint common pool:

If the Bank launches any new product/s (obligations) that falls within the framework of the joint investment deposits and has an impact on the profitability of the owners of the unrestricted investment accounts such as Investment certificates of deposit or others, this requires a prior approval of the bank's Sharia Supervisory Authority, which in result the new product will be launched within the parameters and conditions that approved by the Supervisory Authority Legitimacy of the bank.