

FREQUENTLY ASKED QUESTIONS

PROFIT DISTRIBUTION TO DEPOSITORS

1. How does Investment Risk Reserve impact on Depositor's profit payouts?

Depositors will be continued to receive profit payouts as per the agreed terms. However, in case of any future shortfall in the profit earned on assets for the depositors, IRR balance used for smoothening the profit pay-out at the expected rate provided to them.

2. What type of deposits are required for maintaining of Investment Risk Reserve (IRR) by CBD Al Islami?

CBD Al Islami is required to maintain Investment Risk Reserve for all those deposits which offered profit pay-out to customers against their deposit. The deposits are classified in below categories.

- (a) Investment Deposit (Mudaraba structure) - a kind of partnership where you "customer" provide the deposit as Rab-al-Mal (capital provider) to Bank as "Mudarib"(fund manager). Accordingly, your deposits are comingled in a common pool of funds which is used by the Bank for investing in a Sharia compliant financing and investment activities. The profit generated is shared between the Bank and Depositors in a predetermined ratio. Or
- (b) Wakala Investment Deposit (Wakala structure) – which is an agency contract where "the Bank" acts in the capacity as "Wakeel or Agent" to invest your funds on unrestricted basis in Shariah compliant investment and financing activities in order to generate return on your deposit to the extent of expected profit rate.

3. What is the use of accumulated funds in IRR other than smoothening of profit payouts?

The funds accumulated in Investment Risk Reserve will be re-invested in Common pool and profit derived from such investment will be further distributed to the depositors as per the common pool investment weightages.

4. What controls are in place to make sure that the deduction and maintenance of IRR is as per Sharia principles?

In accordance with the guidelines of the CBUAE, CBD Al Islami has to ensure that the internal policies, procedures and controls related to IRR are adequate and duly approved by the Internal Sharia Supervision Committee of the Bank.

It is important to note that the IRR provides benefit to depositors if they continue to hold the deposit with CBD Al Islami or it will benefit future Depositors. CBD Al Islami cannot appropriate the reserves for its shareholder's benefit.