بسم الله الرحمن الرحيم

Pool Management at MBL

The Premier Islamic Bank

Presentation Outline

- MBL Deposit Products Structure
- Concept of Pool
- Rules for Pool Management
- Pool Fund Utilization
- Weight ages Calculation
- Profit Calculation
- Premium on Accounts
- Pool Balancing

MBL Deposit Structure

Deposit Structure at MBL

The Structure is based on the principle of Mudarabah and is strictly in conformity with the rules of Islamic Shariah.

It has been approved by the Shariah Supervisory Board of Meezan Bank.

On agreeing to become an account holder, the customer enters into a relationship based on Mudarabah with Meezan Bank.

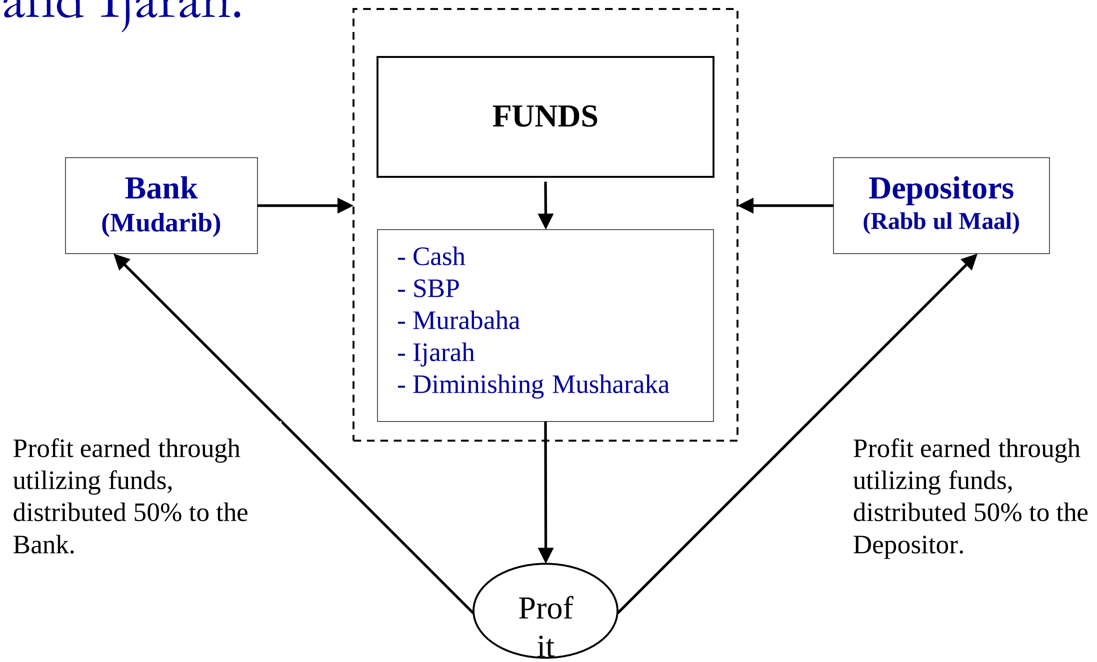
Deposit Structure at MBL

Under this relationship:

- The Bank is the Manager (Mudarib) of the funds deposited by the customers.
- The Customer is an Investor (Rab ul Mal), and

Deposit Structure at MBL

- The bank allocates the funds received from the customers to a deposit pool.
- These funds from the pool are utilized to provide financing to customers under Islamic modes that include, but are not restricted to, Murabaha and Ijarah.



Concept of Pools

Concept of Pools

Introduction

At Meezan bank, the financing assets of the bank are grouped in different Investment Pools with respect to the source of funds. At present the funds & financing assets are allocated to the following Investment Pools:

Types of Investment Pools

1. Deposit Pool (PKR & FCY)
2. Islamic Export Refinance Scheme (I.E.R.S.) Pool
3. Treasury / Financial Institutions (F.I.) Pool
4. Equity Pool
5. Specific Customers' Pools (for Special Musharakah Deposits)

Concept of Pools

Deposit Pools (PKR & FCY-Remunerative)

Deposit Pools are made up of funds received from customers in remunerative schemes such as Saving Account, Karobari Munafa Account, Monthly Musharakah Certificate (MMC), Certificate of Islamic Investment (COIIs), Meezan Providence & Dollar Saving Account etc.

Export Refinance Scheme (ERS) Pool

The IERS Pool is made up of funds provided by SBP under its Islamic Export Refinance Scheme, and funds provided by the Bank (either from its own resources or on behalf of its depositors) under a Musharakah arrangement.

Concept of Pools

Financial Institutions Pools

Funds from financial institution (FI) and SBP can be accepted in these pools under the mode of Musharakah or Mudarabah. At maturity, normally these F.I. Pools are dissolved and assets are transferred back to other investment pools.

Equity Pool

The Equity Pool consists of funds from the Bank's equity. The funds are primarily invested in permissible equities & other permissible Islamic modes. The equity pool may also utilize the funds received from non-remunerative deposits (both PKR & FX), as these funds are taken under Qarz given to the Bank by depositors.

Concept of Pools

Specific Customers' Pools (PKR & FCY)

Specific Customers' Pools are made up of funds received from customers under some special arrangement either on Musharakah basis or on Mudarabah basis. The funds from these pools are invested under Islamic modes of finance.

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Concept of Pools

Financial Institutions Pools

Funds from financial institution (FI) and SBP can be accepted in these pools under the mode of Musharakah or Mudarabah. At maturity, normally these F.I. Pools are dissolved and assets are transferred back to other investment pools.

The F.I. Pools are special purpose investment pools, comprising of financing assets (like Murabaha, Ijarah etc) created to meet the short-term liquidity requirements of the bank.

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Concept of Pools

Financial Institutions Pools

Musharakah based F.I. Pools

In Musharakah based F.I. Pools, the FI participates in a special F.I. Pool as a 'Sleeping Partner' with MBL as 'Working Partner'. The risk and reward of the pool is shared as per the rules of Musharakah.

Mudarabah based F.I. Pools

In Mudarabah based F.I. Pools, the FI participates as Rabb-ul-Maal or Investor with MBL as Mudarib or Fund Manager. The risk and reward of the pool is shared as per the rules of Mudarabah.

Rules for Pool Management

Rules for Pool Management

Pool Identification

The Pools are given a unique Pool Identification Number (PIN) at the time of pool creation

This PIN is used for asset allocation, deal confirmation and other related accounting purpose.

Pool Balancing

At any point, the sources of funds in the Pools and the allocation of those funds must be known, balanced, and verifiable.

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Rules for Pool Management

Asset Allocation

At the time of disbursement, each asset must be properly assigned to a specific pool at General Ledger or Sub-GL level. This can also be done with the help of an internal non-financial entry.

The proper allocation of financing assets implies that related risk and reward (Profit or Return) of the asset are clearly linked to a specific pool and at any point in time the asset's identification in terms of which pool it belongs to, is determinable

Rules for Pool Management

Funds Utilization

The funds from these Pools are to be invested using Islamic modes of financing like Murabaha, Ijarah, Istisna, and Diminishing Musharakah etc.

Pool Composition

A pool will composed of all financing assets booked by utilizing funds from the pool.

To make the periodic redemption of investment and profit payment to pool participants possible, at any stage the assets of the pool shall constitute at least 10% fixed assets (like Ijarah or fixed asset Musharakah etc).

Rules for Pool Management

Transfer and Return of Assets from the Pool

At the time of pool creation, if the Pool being created is composed of existing assets of ‘Other Investment or Deposit Pool’, proper transfer (sale/purchase) of assets will be recorded at General Ledger or Sub-GL level (via entry).

When an asset is transferred to the a Pool, it is recorded through an entry and a transfer voucher is generated.

An asset transfer implies that the risk and reward for the asset is being transferred to the F.I. Pool.

When an asset is transferred back to any other asset pool, the return and risk for the remaining period is borne by that pool. The asset’s return would also be recorded through voucher & entry.

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Rules for Pool Management

Income Calculation of the Pool

Income generated by the assets is assigned accordingly to its related Pool with respect to the number of days an asset is linked to that pool.

F.I. Pool.

When an asset is transferred back to any other asset pool, the return and risk for the remaining period is borne by that pool. The asset's return would also be recorded through voucher and entry.

Weightage or Profit Sharing Ratio

A proper Profit Sharing Ratio or weightages will be assigned to the participants of the Investment Pools

Rules for Pool Management

Loss Sharing Ratio

Losses, if any, are shared on pro-rata basis (in ratio of the investment shares of both the parties).

Profit Distribution

Profit is distributed at the time of maturity (or at agreed interval) of Pool as per the agreed upon profit sharing ratio.

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Pool Fund Utilization

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Pool Fund Utilization

The utilization of funds of each Pool created can be described as:

SOURCES			UTILIZATION	
Deposit General Pool :			Ijara	1500
	PKR	4000	Murabaha	2000
			Cash	500
	FX	300	Ijara	100
			Murabaha	200
F.I.	PKR	500	Ijara	300
			D.M.	200
SBP	PKR	1500	Ijara	300
			Murabaha/IERS	1200
Specific	PKR	700	Ijara	200
			Murabaha	500
Equity	PKR	1000	Ijara	200
			Murabaha	400
			Investment	400
TOTAL	**PKR**	**8000**	**TOTAL PKR**	**8000**

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Pool Fund Utilization

The deposit general pool can be better understood by looking at the below mentioned demonstration.

Deposit General Pool

Assets:		Depositors	
Housing Finance	Rs.500	Customers	Rs.900
Ijarah	Rs.300	MBL as Rabb ul Maal	Rs.100
Cash	Rs.200		
	Rs.1000		**Rs.1000**

At the start:

10 Customers (including MBL) invest Rs. 100 each. Total deposits stand at **Rs.1000.** Share of each customer in the General Pool is thus **10%**

Pool Fund Utilization

Scenario 1:

Now, suppose one customer withdraws his share from the deposit pool; following would be the resulting effects

- The total pool size decreases to Rs.900.
- The share of each of the remaining 09 depositors changes to 11.11%.
- Hence, each partner will now be entitled to a higher profit share.
- The change in the composition of the assets is illustrated below

Deposit General Pool

Assets:		Depositors	
Housing Finance	Rs.500	Customers	Rs.800
Ijarah	Rs.300	MBL as Rabb ul Maal	Rs.100
Cash	Rs.100		
	Rs.900		**Rs.900**

Pool Fund Utilization

Scenario 1:

Now, suppose two depositors want to withdraw their share from the pool. This means that Rs.100 needs to be given to each of the depositors. However, the General Pool only has Rs.100 Cash which can be paid. Although, the General Pool has sufficient assets; however, it is short of cash to fund the withdrawal as illustrated below

Deposit General Pool

Assets:		**Depositors**	
Housing Finance	Rs.500	Customers(800-200)	Rs.600
Ijarah	Rs.300	MBL as Rabb ul Maal	Rs.100
Cash (100-200)	Rs.(100)		
	Rs.700		**Rs.700**

Pool Fund Utilization

In this situation; possible options available for the General Pool for paying another Rs.100 are as follows:

Case # 1: Find new or existing depositors who can bring in that extra Rs.100 in cash

Case # 2: Sell its existing assets to generate Rs.100; this would also decrease the pool size. The bank can fund invite a Financial Institution (F.I) under the Interbank Musharakah/ Mudarabah arrangement to meet the liquidity needs.

Pool Fund Utilization

Alternatives

Case # 1: In this case, the bank is successfully able to attract a new or existing depositor to increase investment; the Deposit Pool would increase by Rs.100 as illustrated below

Deposit General Pool

Assets:		**Depositors**	
Housing Finance	Rs.500	Customers(800-200+100)	Rs.700
Ijarah	Rs.300	MBL as Rabb ul Maal	Rs.100
Cash (100-200+100)	Rs. 0		
	Rs.800		**Rs.800**

This new depositor can be an individual, a firm, a corporate entity or another Financial Institution (FI). Since the depositor is investing in the general pool; he will also be assigned a profit sharing weightage.

Pool Fund Utilization

Alternatives

Case # 2: However, in most cases, the bank is not able to quickly generate the needed deposit. Usually, deposit generation is an ongoing campaign and in the face of a high withdrawal, the Deposit Pool may not have sufficient liquid assets to fund the withdrawal which has to be paid to the outgoing depositor immediately. Hence, in most of these cases, MBL as an existing depositor has to increase its investment in the General Pool to fund the withdrawal.

Deposit General Pool

Assets:		Depositors	
Housing Finance	Rs.500	Customers(800-200+100)	Rs.700
Ijarah	Rs.300	MBL as Rabb ul Maal	Rs.100
Cash (100-200+100)	Rs. 0		
	Rs.800		**Rs.800**

Pool Fund Utilization

MBL's investment would also be given a profit sharing weightage, the profit from this investment every month will go to MBL's Equity based on the profit sharing weightage.

MBL can keep this investment in the General Pool till new deposits are generated with the passage of time. Upon generation of sufficient deposits, this amount can be withdrawn by MBL.

*** Some more relevant details will be discussed in the Treasury Products Session**

Profit Calculation

Profit Calculation

- The bank calculates the profit of the deposit pool every month.
- Gross Income (Return) of the pool will be calculated by taking all the assets booked up to the beginning of the month as well as assets booked/investments made during the month by utilizing the funds from the Investment Pool.
- The Gross Income of the pool will be announced on a monthly basis. The profit will be calculated by 5th of each subsequent month for the previous month.

Profit Calculation

Weightages:

If there are fewer depositors is not too big, then the calculation of profit distribution will be simple, but this is not a case here, heavy customers' traffic makes it difficult to calculate profit sharing ratio; that is why, weightages are being used for the distribution of profit among depositors.

The Profit Sharing Ratio varies with the depositor traffic:

Saving Account	Profit Sharing Ratio
Depositor A	25%
Depositor B	25%
Depositor C	25%
Depositor D	25%

Saving Account	Profit Sharing Ratio
Depositor A	20%
Depositor B	20%
Depositor C	20%
Depositor D	20%
Depositor E	20%

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Profit Calculation

The profit is distributed among the customers/account holders on the basis of predetermined weightages, announced at the beginning of the month, based on their respective category/tiers.

Weightages are assigned to various categories of account holders for profit calculation. These weightages are available on the website of the bank or can be obtained from the bank upon request. The Investment Pool will operate on Musharakah basis and different categories of depositors in the Investment Pools will be assigned different weightages based on:

- Investment tenure.
- Profit payment option.
- Amount tiers.
- Account Feature

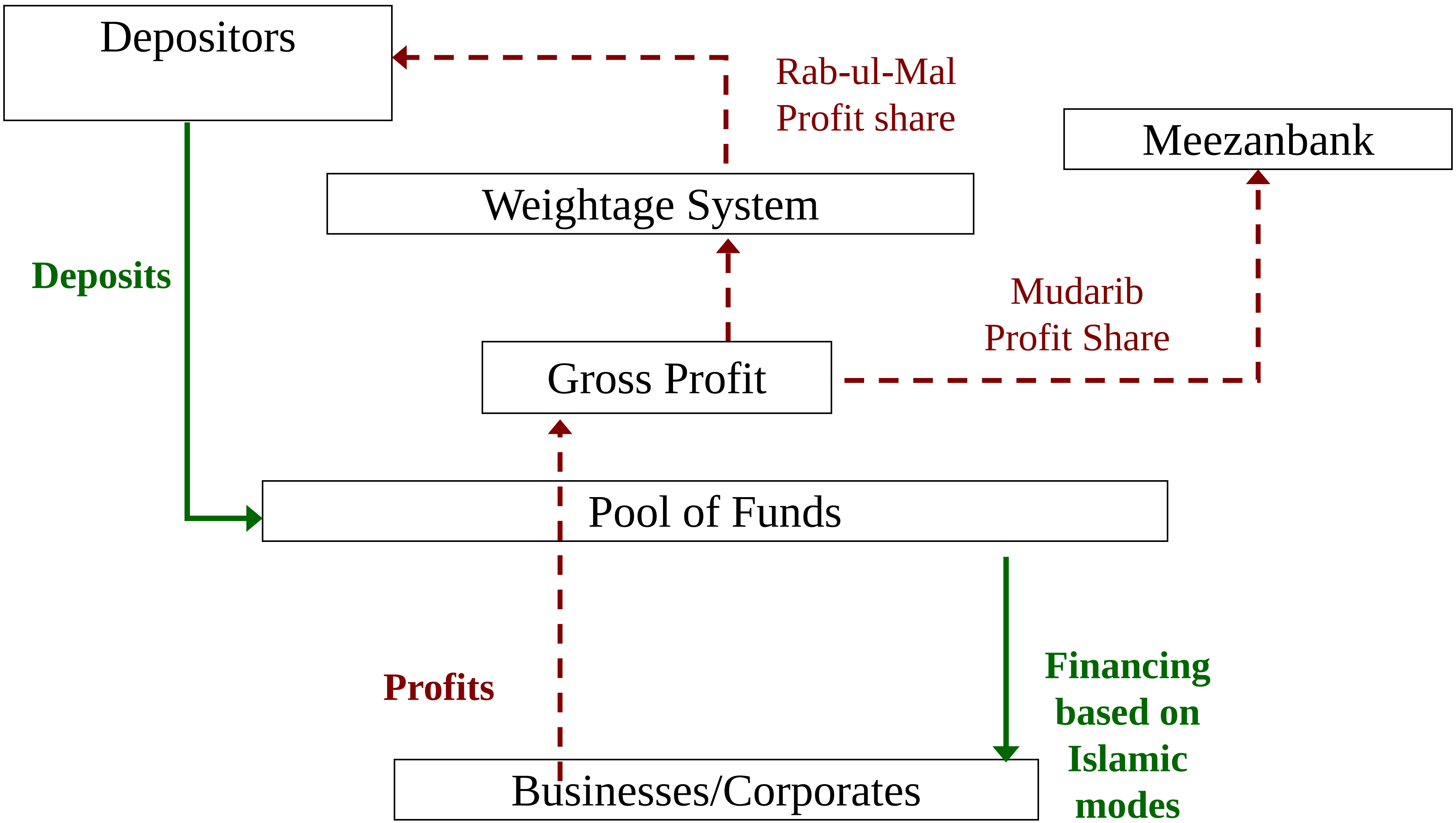
Profit Calculation

A simple illustration would show how the profit is calculated and distributed in practice. The bank also invests a part of its equity in the business

Category	Average Balance	Weight	Wt. Avg. Balance	Profit	Profit Rate
	A	B	C=A*B	E = (C/TC)*TP	E/A*100
Saving	1,000	1	1,000	20	24%
1 Month	1,000	2	2,000	40	48%
12 Month	1,000	3	3,000	60	72%
Bank	1,000	3	3,000	60	72%
Total	4,000		TC = 9,000	TP = 180	

$$\text{Profit for a Category} = \frac{Wt.Avg.Balance}{Total\,Wt.Avg.Balance} x Total\,Profit$$

Income Distribution



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Profit Calculation

There are three ways to determine the base for profit distribution.

1. Average daily balance
2. Minimum balance on any given day
3. Average balance based on daily product basis.

A simple illustration would illustrate the working and results for each method. Suppose, a customer deposits and withdraws amount throughout the month in the following manner:

	Debit	Credit	Account Balance
Day 1:		100,000	100,000
Day 10:	50,000		50,000
Day 20:	10,000		40,000
Day 28:		40,000	80,000

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Profit Calculation

<u>Average Daily Balance</u>

Under Average Daily Balance method, the average will be

$$\text{Average Balance} = \frac{100{,}000(9)+50{,}000(10)+40{,}000(8)+80{,}000(3)}{9+10+8+3} = 65{,}333.33$$

If Profit rate on deposit is given at 6%.

$$\text{Monthly Profit} = Average\_balance x \frac{\Pr ofit\_rate}{365} x30$$

$$\text{Monthly Profit} = 65{,}333.33 x \frac{6\%}{365} x30$$

$$\text{Monthly Profit} = 322.19$$

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Profit Calculation

Minimum Balance on any given day

Under this method, minimum amount on any given day invested in the account is taken for profit distribution. In Meezan Bachat Account, this method is used for profit distribution.

In our example, minimum balance is Rs.40,000.

$$\text{Monthly Profit} = Average\_balance x \frac{\Pr ofit\_rate}{365} x30$$

$$\text{Monthly Profit} = 40{,}000 x \frac{6\%}{365} x30$$

$$\text{Monthly Profit} = 197.26$$

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Profit Calculation

Average Balance based on Daily Product Basis:

In this method, tiers are defined and investments are classified in a way that they fall in one or more of these tiers. Each tier is assigned different weightages. Suppose there are following tiers each having different weightage and based on these weightage, the profit rate on each tier comes out to be as follows:

Tier	Amount tiers	Profit rates
1	Re 1- 24,999	5%
2	25,000-49,999	5.25%
3	50,000-74,999	5.50%
4	75,000-100,000	6.00%

Profit Calculation

Profit Calculation Using Daily Product Basis		
No. of Days Investment Held	Investment Amount	Profit
9 Days	100,000	147.95
3 Days	80,000	39.45
10 Days	50,000	75.34
8 Days	40,000	46.03
Monthly profit		308.77

Profit Calculation

For 9 days, Rs.100,000 remain invested falling in tier 4 and hence entitled to receive 6%. Profit for 9 days will be as follows:

$$\text{Profit} = \quad 100{,}000\, x \frac{6\%}{365} x 9 \quad = 147.95$$

For 3 days, Rs.80,000 remain invested falling in tier 4 and hence entitled to receive 6%. Profit for 3 days will be as follows:

$$\text{Profit} = \quad 80{,}000\, x \frac{6\%}{365} x 3 \quad = 39.45$$

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Profit Calculation

For 10 days, Rs.50,000 remain invested falling in tier 3 and hence entitled to receive 5.5%. Profit for 10 days will be as follows:

$$\text{Profit} = \quad 50{,}000\,x\,\frac{5.5\%}{365}\,x10 \qquad = 75.34$$

For 8 days, Rs.40,000 remain invested falling in tier 2 and hence entitled to receive 5.25%. Profit for 8 days will be as follows:

$$\text{Profit} = \quad 40{,}000\,x\,\frac{5.25\%}{365}\,x8 \qquad = 46.03$$

"If there were no tiers defined, the result with Average daily balance and daily product method would have been same."

Premium on Account

Premium Payments

Premiums are offered to stimulate higher deposit mobilization from high net-worth clients in addition to the normal share of profit.

Rationale for offering Premiums:

The administrative and operating costs associated with high value investments are lower; therefore bank passes on the advantage of these lower costs to high net worth investors to induce them to bank with MBL.

Premium Payments

- Premiums are declared by the bank from its share of income as a Mudarib voluntarily and will be paid only if overall pool has earned profit.
- Total premium paid cannot be more than 50% of the bank's share of profit as a Mudarib
- MBL has unilateral right to reduce/withdraw premium offer.
- Premium may be calculated as a percentage of investment.

Premium Payments

Premium consists of two parts:

Applicable Premium (Regular)

It is regular premium authorized by higher management and will increase as amount increases

Proposed Premium

If the customer requires higher profit rate and Bank realizes to entertain him; then, the Bank (Consumer Banking) will offer proposed rate on behalf of him.

Pool Balancing

Pool Balancing

At any point in time, the sources of funds in the Pool and the allocation of those funds must be known, balanced, and verifiable.

Pool: Utilization	Equity	Security Deposit	General Deposit	FCY	F.I	IERS
Source: Assets	**350**	**50**	**1,150**	**450**	**200**	**300**
Cash **400**	150		200	50		
Murabaha **600**	100		300	200		
Ijara **600**			300	100	100	100
D.M **200**			100		100	
Istisna **300**			100			200
Fixed Assets **100**	100					
SLR **300**		50	150	100		
Total	**350**	**50**	**1,150**	**450**	**200**	**300**

Pool Balancing

Following features are evident from this illustration:

- Equity pool is the balancing pool. It can fund the shortage experienced by any pool at any given point in time. Therefore, equity pool is given a higher weightage in profit distribution.

- Funds in Security Deposit Pool are used to meet statutory SLR requirements.

- IERF is allocated IERF - Murabaha, IERF-Istisna, Ijarah Corporate/SME, Dminishing Musharakah etc.

- F.I is allocated Ijara and Diminishing Musharaka as Assets. Strong assets are allocated to the F.I pool because financial institutions participate for a short period and want consistent and objective returns. No NPL or susceptible to become NPL assets are transferred to the F.I pool.

Pool Balancing

- FCY pool is allocated Dollar Murabaha and Ijara assets.
- In general deposit pool, most Islamic mode of financing assets are allocated.
- Fixed assets are allocated to the equity pool.

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THANK YOU