



APPLICATION OF
SHARIAH CONTRACTS
IN ISLAMIC BANKING PRODUCTS AND SERVICES

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

and greetings to all.

Dear Readers,

On 1 July 1983, Bank Islam Malaysia Berhad (Bank Islam) made history by unveiling a system of banking that completely conforms to Shariah rules and principles. As the pioneer of Islamic banking in Malaysia and Asian region, Bank Islam is always committed to sharing with public its knowledge and experience in Islamic banking products and services. This sincere intention is articulated in our Vision Statement, in which Bank Islam aims to be 'a Global Leader in Islamic banking'. We define 'Global Leader' as the ultimate guidance and source of reference for innovative Shariah-based products and services.

As part of our efforts in turning this vision into reality, we aspire to develop Bank Islam as a 'Knowledge Centre' for Islamic finance which is characterised, among others, by establishing our Shariah Centre of Excellence as well as leveraging on our capability to provide Shariah advisory and consultancy to share with our valued readers how relevant Shariah contracts are applied in our products and services. We sincerely hope that the publication of this booklet, which contains diagrammatic descriptions of our selected products will help readers to have a better understanding and gain an insight into the dynamism of Islamic banking transactions and Muamalat terminologies.

One of our Missions is to continuously develop and innovate universally accepted financial solutions in line with Shariah principles. In doing so, we have established a dedicated Product Development team which focuses on spearheading the development and innovation of products and services in collaboration with other business units within the Bank. Supported by Shariah Division, the team is also guided by our Shariah Supervisory Council which consist of renowned scholars both local and international.

Recognising the diversity and intricacies of Islamic finance, its vast potential and the increasing rate of acceptance globally, we will further explore and develop new products which are universally accepted, leveraging on our Islamic banking IT infrastructure, robust risk management framework and well-developed Shariah capability. Last but not least, we always welcome fresh ideas and comments which are vital in our quest to continuously develop new innovative products and enhance existing products to meet customer's needs and expectations.

Thank you.

وَبِاللَّهِ التَّوْفِيقَ وَالْهُدَايَةَ وَالسَّلَامَ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

DATO' SRI ZUKRI SAMAT
Managing Director

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30
YEARS
ADVANCING FOR
THE GOOD OF ALL

CORPORATE OVERVIEW

Corporate Info

Bank Islam's relentless drive to pioneer change is rooted in its status as Malaysia's maiden Shariah-based bank. Since its inception in July 1983, Bank Islam has not only become the symbol of Islamic banking in Malaysia, it has also played an integral role in setting the stage for a robust growth of the country's Islamic financial services industry.

Bank Islam has grown from strength to strength over the years. From the seed capital of only RM80 million initially, Bank Islam's shareholder funds swelled to more than RM3 billion, a testament to its successful long-run growth plan and sustainable profit.

Today, Bank Islam parades a wide-ranging list of more than 70 innovative and sophisticated Islamic financial products and services as well as a fast growing network of 127 branches (as of December 2012) and more than 1100 Self Service Terminals (SSTs) nationwide. We have a total of 4 Ar-Rahnu outlets located in the Eastern region and 11 Consumer Business Centers (CBC) nationwide, while 5 of our Bureau De Change (BDC) are available in the country's major airports as well in places frequent by tourists, providing greater services to our customers.

True to its pioneering and innovative heritage, Bank Islam is committed to its role as a leading institution in transforming Malaysia into a global Islamic financial hub. To realize this, we plan to open another 6 branches for the year 2013 and furthered our horizon by having invested in Amana Bank Limited, the first Islamic Bank in Sri Lanka in 2011. Our Ar -Rahnu Islamic

pawn broking services too has experienced exponential growth during the past years due to increasing demand for micro financing within the country.

Overall, Bank Islam continuously develops and introduces trend-setting financial solutions, some of which are the first-of-its-kind in the world or in the region, widening the breadth of its innovative end-to-end Shariah-based financial products and services, comparable to that offered by its conventional counterparts.

In terms of advisory and consultancy, Bank Islam through BIMB Institute of Research and Training (BIRT) now known as Islamic Banking and Finance Institute Malaysia Sdn. Bhd. (IBFIM) had played a vital role in the establishment of Islamic banking windows in conventional banks since 1993. Leveraging on its vast experience, Bank Islam now offers Shariah Advisory Services to various organizations aiming to achieve Shariah compliant status.

In recognition of its prominence in the industry, Bank Islam was awarded the Reader's Digest Platinum Award for being the Most Trusted Brand for Islamic Financial Services for four consecutive years, namely in 2009, 2010, 2011 and 2012, and voted as the Best Islamic Bank in Malaysia by Islamic Finance News Awards for two years running, 2011 and 2012 – a significant milestone in its journey towards becoming “a global leader in Islamic banking”.

Awards and Recognitions

2007

Launch of the new corporate identity of Bank Islam by Y.B. Dato' Dr. Abdullah Md Zin, Minister at the Prime Minister's Department.

Signing of collaboration deal with European Islamic Investment Bank plc (EIIB), a gateway to make inroads into European markets.

2008

Celebrated our 25th Anniversary while recording our highest profit of RM308.27 Million in 25 years

Launched our first Islamic structured product and capital protected funds, An Najah NID-i, the first Shariah based structured product with health care as the investment theme.

2009

Awarded Reader's Digest "Platinum Trusted Brand Award 2009 for Islamic Financial Services"

Awarded " Best Mixed Asset MYR Balanced Islamic Fund" for period ending December 2008 in conjunction with The Edge – Lipper Malaysia Fund

Awards 2009 for Bank Islam's ASBI Dana Al-Munsif managed by our subsidiary, BIMB Investment Management Berhad.

Launched Al-Awfar, a first of its kind Savings-i and Investment-i account which offers cash prizes among others.

Sole Islamic bank and the only commercial bank that the Securities Commission approved under its list of Principle Advisers for specific corporate proposals in Malaysia.

2010

Awarded Reader's Digest "Platinum Trusted Brand Award 2010 for Islamic Financial Services" for two consecutive years.

RAM Ratings assigned A1/P1 financial institutions ratings to Bank Islam on 29th October.

Launched the Islamic Ar-Rahnu which was officiated by Prime Minister Y.A.B Dato' Sri Mohd Najib Tun Hj. Abdul Razak, Prime Minister of Malaysia.

Winner of BrandLaureate Awards (2009 - 2010) for best brands in Corporate Branding – Best Brands in Banking - Islamic Bank, the award is in recognition

of the Bank's successful corporate rebranding exercise.

2011

Rated by The Asian Banker as the 4th strongest bank in Malaysia and 53rd strongest bank in Asia Pacific. Globally, Bank Islam was ranked 24th among the Largest Islamic Financial Institutions and 34th among Global Islamic Strongest Banks.

Voted as the Best Islamic Bank in Malaysia by Islamic Finance News Awards 2011.

Awarded the Malaysia Service to Care Awards 2011 for Islamic bank category by MarkPlus, Inc.

Winner of Platinum Trusted Brand Award for Islamic Financial Services for three consecutive years in the annual Reader's Digest Trusted Brands Award 2011.

Winner of the BrandLaureate Awards 2010 - 2011 for best brands in Corporate Branding – Best Brands in Banking – Islamic Bank by The Asia Pacific Brands Foundation ("APBF").

Awards and Recognitions

2011

Completed share subscription exercise which gives Bank Islam a strategic 20% stake in Amana Bank Limited (“Amana Bank”) in Sri Lanka. Amana Bank is poised to become Sri Lanka’s first Islamic commercial bank.

Awarded New Project Finance Benchmark Deal, BluePrint Award, RAM's Awards of Distinction 2011

Announced a record Profit Before Tax and Zakat (“PBTZ”) of RM 470.1 million for the financial year ended 31 December 2011.

2012

Awarded the Malaysia Service to Care Awards 2012, for Islamic bank category by MarkPlus, Inc.

Winner of the Brand Laureate Awards 2011 – 2012, for the best brand in Corporate Branding – Best Brands in Banking – Islamic Bank by The Asia Pacific Brands Foundation (“APFB”).

Winner of Platinum Trusted Brand Award for Islamic Financial Services for four consecutive years in the annual Reader’s Digest Trusted Brands Award 2012.

Assigned improved Financial Strength rating of BBB and Foreign Currency long-term rating of BBB+ by Capital Intelligence, an international credit rating agency.

Received the Gold Award for Best Annual Report in Bahasa Malaysia 2011, by National Annual Corporate Report Awards (NACRA).

Received the National Zakat Award 2012, for public limited company category by Department of Awqaf, Zakat and Hajj (JAWHAR), Prime Minister’s Department.

Announced a record Profit Before Tax and Zakat (“PBTZ”) of RM 600.3 million for the financial year ended 31 December 2012. PBTZ rose RM107.3 million or 21.8% against the corresponding period ended December 2011.

Voted as the Best Islamic Bank in Malaysia by Islamic Finance News Awards 2012.

A Universal License



BANK ISLAM

Fulfilling Your Needs Is What We Do Best.

If you are looking for a bank that's forward looking, innovative and all set to serve you, then Bank Islam, Malaysia's pioneer Islamic bank is the answer. Recognised globally as a true-blue Islamic financial services provider as well as a key player in developing Malaysia into an international centre for Islamic finance, Bank Islam provides a wide spectrum of wholesome Shariah-based financial products and services to help you reach your goals.

At Bank Islam, we strive to lead with an impressively diversified offering of innovative financial solutions, customised to fit your needs, with the support from our highly esteemed Shariah Supervisory Council members and all stakeholders.

Now, if you are looking for the right business partner, Bank Islam is the perfect choice to help you find success.
Find out more at www.bankislam.com.my

Corporate Structure



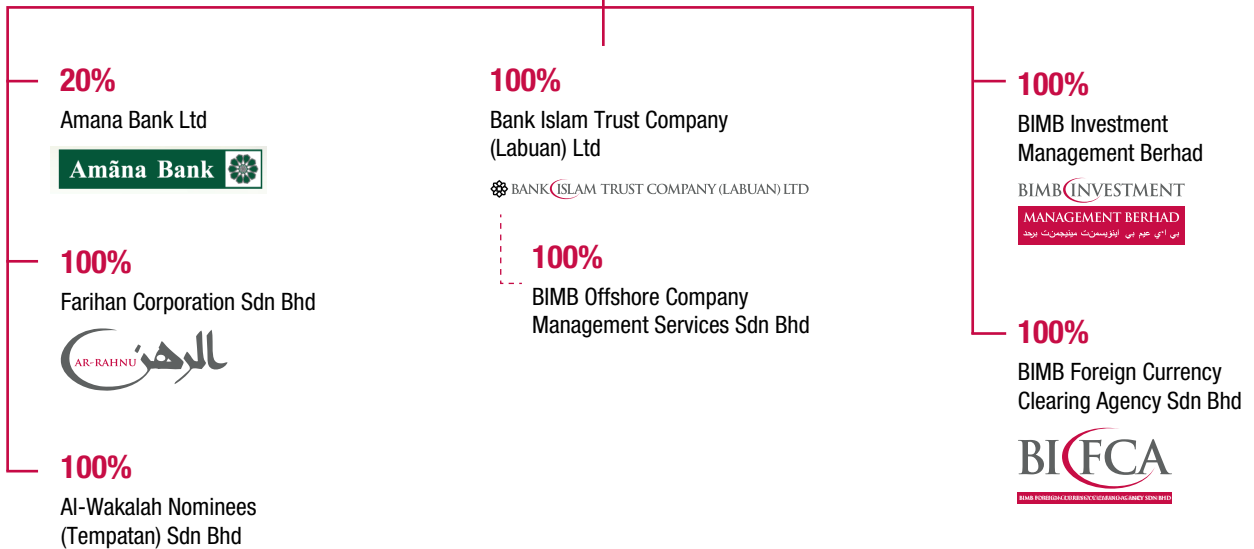
30.5%

51%

18.5%

BANK ISLAM

Pioneering Change



Vision Statement

“To be a Global Leader in Islamic Banking”

“Global Leader” is defined as being the ultimate guidance and source of reference for innovative Shariah-based products & services



Mission Statement

- To continually develop and innovate universally accepted financial solutions in line with Shariah principles
- To provide a reasonable and sustainable return to shareholders
- To provide a conducive working environment and to become an Employer of Choice for top talents in the market
- To deliver comprehensive financial solutions of global standards using state-of-the-art technology
- To be a responsible and prudent corporate citizen

In carrying out this corporate mission, Bank Islam shall be guided by its corporate brand values of being: A Leader, Dynamic, Professional, Caring and Trustworthy

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا
يُقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ
ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا
وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

(البقرة: 275)

Those who devour usury will not stand except as stand one whom the Evil one by his touch has driven to madness. That is because they say: "Trade is like usury". Whereas Allah has permitted trading and forbidden usury.

Surah Al-Baqarah (275)

Corporate Values

Leader

Our Islamic products are the benchmark. Reputed as the pioneer in Islamic banking. Built the Islamic banking industry in Malaysia

Dynamic

Progressive and innovative - constantly moving ahead, technologically advanced, with new products & services

Professional

Fast, efficient and responsive service. Knowledgeable and equipped staff to handle global business challenges

Caring

A supportive partner who is approachable, ever ready to provide solutions to your financial problems

Trustworthy

100% Shariah-based products, services and principles

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

عَنْ جَابِرِ بْنِ عَبْدِ اللَّهِ رَضِيَ اللَّهُ عَنْهُ قَالَ:
لَعَنَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ آكِلَ الرِّبَا
وَمُؤَكَّلَهُ وَكَاتِبَهُ وَشَاهِدَيْهِ، وَقَالَ: " هُمْ سَوَاءٌ ".
رَوَاهُ مُسْلِمٌ

*It was narrated from Jabir ibn Abdullah r.a that he said:
The Messenger of Allah s.a.w cursed the one who
consumes usury, the one who pays it, the one who
writes it down and the two who become witnesses of
the transaction, and He (The Messenger of Allah) said:
"They are all the same (in guilt and sin)".*

Hadith Sahih, Riwayat Imam Muslim

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**ISLAMIC BANKING INDUSTRY:
AN OVERVIEW**

Global Islamic banking landscape

France

Passed rules/regulations to support Islamic finance activities

Established Islamic Finance Commission

Key players in France such as BNP Paribas, Societe Generale and Union de Banques Arabes et Francaises have been involved in Islamic financial transactions over the last ten years.

UK

Government sets an objective to 'entrench London as a global gateway for Islamic Finance

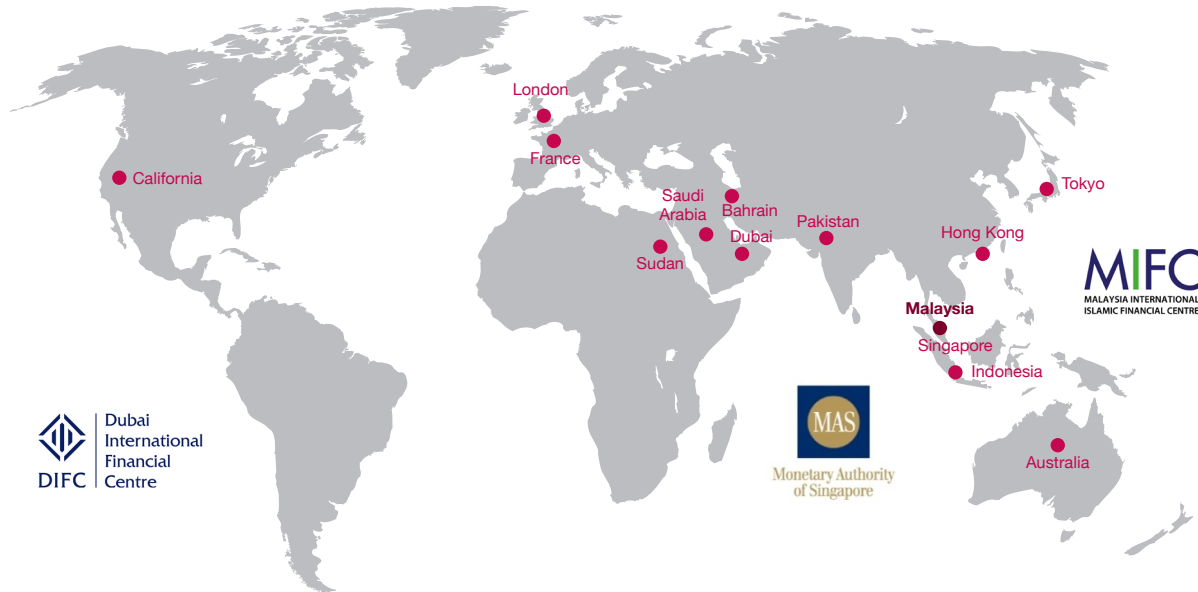
Financial Services Authority-approved 5 Islamic banks and 2 Takaful operators

Hong Kong

Aims to become an Islamic finance hub

Launched Hang Seng Islamic China Index Fund in 2007

Shariah Advisory Council formed



Dubai, UAE

Fast emerging financial centre through DIFC's aggressive promotion efforts

Singapore

Introduced tax neutrality for Islamic finance

Aspiring to be centre for Islamic finance

Issued SGD200 mil sukuk in 2009 and launched Shariah-compliant Sabana REIT

Australia

Islamic co-operative finance & mortgage established

Australian Islamic wealth manager Crescent Wealth and HSBC1 have launched Australia's first Islamic cash management fund – June 12

... rapid expansion is reflected in more than 600 Islamic financial institutions operating in more than 75 countries in centers that are beyond Muslim jurisdiction. Total assets > USD1trillion

Malaysia: Islamic Finance Industry as at December 2012

Assets

- 23.8% of total banking system
- Total Islamic banking asset : RM494.6 billion

...expected to grow and to account for 40% by 2020



Financing

- Market share – 25.8%
- Total financing: RM315 billion

Liabilities /Deposits

- Market share – 25.6%
- Total deposits : RM386.2 billion

Malaysia : Islamic Banking Players

Stand-Alone	Subsidiaries Of Conventional Banks	Islamic Windows & DFIs	International Islamic Banks
    	          	          	   

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**ISLAMIC BANKING INDUSTRY:
MALAYSIA'S POSITION**

Malaysia: A Regional Islamic Financial Centre

Centre of Talent Development

- Fund management and equity, Sukuk & money markets



SOUTH CHINA SEA

MIFC
MALAYSIA INTERNATIONAL
ISLAMIC FINANCIAL CENTRE



Diversity of Players

- Domestic players with extensive global linkages
- International players

Centre of Ancillary Services

- Legal, Shariah advisory, accounting & processing services / outsourcing services

Centre of International Currency Business

Centre of Shariah Reference

Centre of Product Innovation

Centre of Talent Development

Centre of Fund Flows

... Malaysia has the competitive advantages to be a global Islamic financial hub

Malaysia: Key Success Factors

Well
Developed
Market

Diversity of
Players

Liberal Foreign
Exchange
Administration
Rules

Facilitative
Business
Environment

Strategic
Location

Adopt Global
Legal &
Regulatory Best
Practices

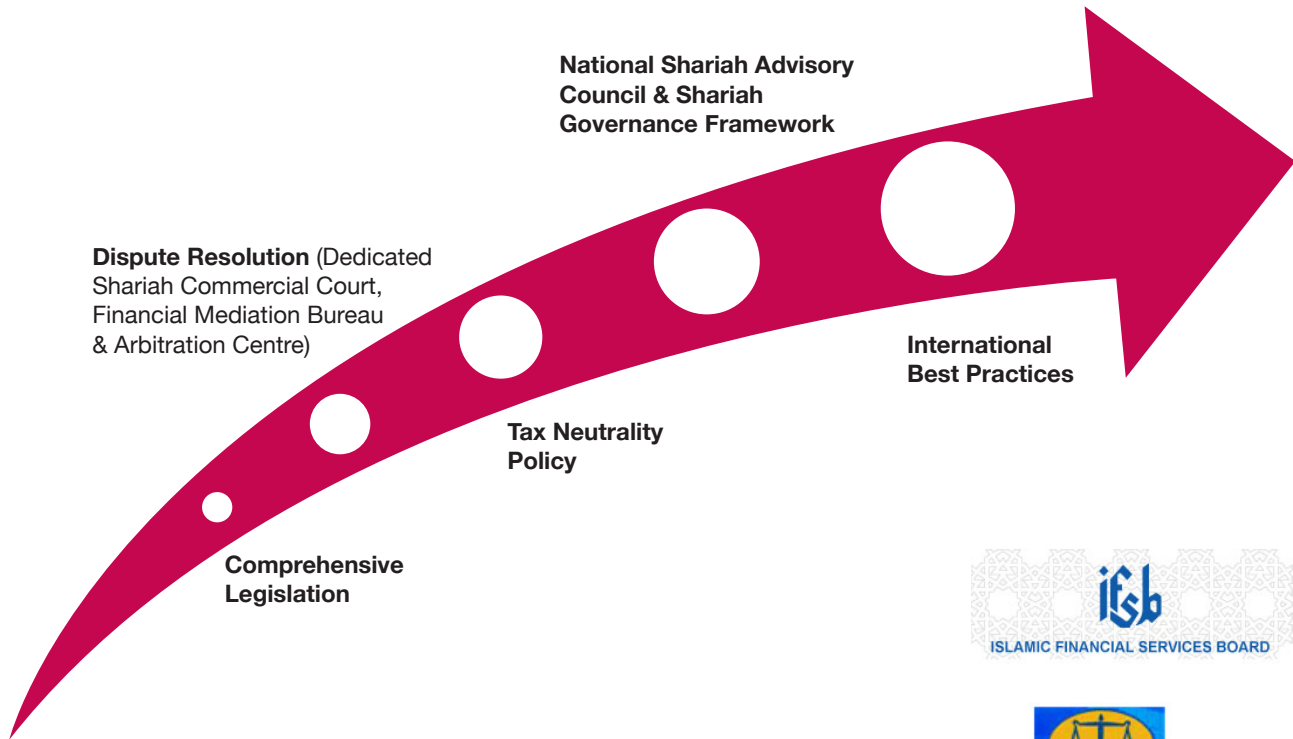
Well Developed
Shariah
Governance
Framework

Wide-range
of Islamic
Investment
Products

Tax
Neutrality

Comprehensive
Human Capital
Development

Malaysia: Conducive Regulatory Framework

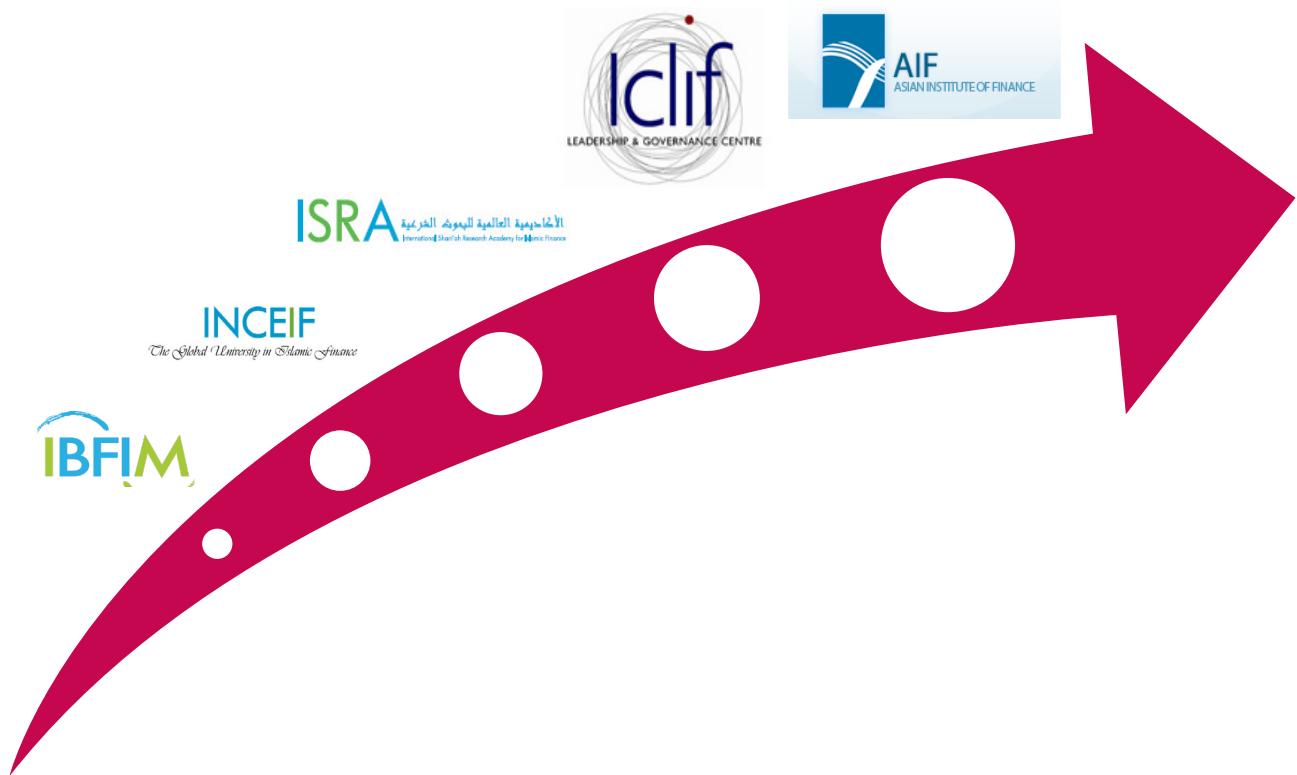


Accounting and Auditing Organizations for
Islamic Financial Institutions

... **essentials to stimulate product
development & innovation**



Malaysia: Centre of Talent Development



... **Malaysia has put in place a comprehensive talent development infrastructure**

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**ISLAMIC BANKING INDUSTRY:
ISLAMIC JURISDICTION ACROSS-BORDERS**

Similarities Among Jurisdictions

Deposit taking activities, more or less, are similar e.g. based on Mudarabah (BNM), Wadi'ah/ Qard, Wakalah and Commodity Murabahah

Shariah scholars influence the framework and set-up (banking concept) applied by Islamic banks

Product structures agreed and adopted by all jurisdictions – Murabahah, Musawamah, Musharakah, Mudarabah, Wakalah and Ijarah/ Ijarah Muntahiah Bit Tamleek

Despite issues in Tawarruq, all jurisdictions accept the structure to be used as a liquidity management instrument

Following the AAOIFI decree in 2008, most of the sukuk issued are Sukuk Ijarah, Trust Sukuk and Wakalah Sukuk

Key Differences

Differences contributed by school of thoughts (mazahib) adopted by Muslims in different jurisdictions and interpretation by influential Shariah scholars:

Jurisdictions	Iran	Sudan & Saudi Arabia	South Asia (Pakistan, Sri Lanka & Maldives)	Gulf Countries (UAE, Bahrain & Qatar) & European Countries	South East Asia (Malaysia, Indonesia, Singapore, Thailand & Brunei)
Mazhab	Shiah	Sunni: Maliki (Sudan) Hanbali (Saudi)	Sunni: Hanafi (Pakistan) Shafi'i (Sri Lanka) Hanafi (Maldives)	Sunni: Hanbali (GCC)	Sunni: Shafi'i
Banking System	Single banking system	Single banking system (Sudan) Dual banking system (Saudi)	Dual banking system	Dual banking system (Qatar – Only full-fledged Islamic banks by 2013)	Dual banking system
Shariah Governance	Centralised (Central Bank's Shariah Board is the highest authority).	Centralised (Sudan) and self governed (Saudi)	Hybrid (combination of centralised & self governed)	Self governed except UAE (hybrid)	Centralised (Malaysia & Indonesia) and self governed (Singapore & Thailand)

Key Differences

Jurisdictions	Iran	Sudan & Saudi Arabia	South Asia (Pakistan, Sri Lanka & Maldives)	Gulf Countries (UAE, Bahrain & Qatar) & European Countries	South East Asia (Malaysia, Indonesia, Singapore, Thailand & Brunei)
Influential Shariah Scholars	Ayatollah Ali Khatamei	<p>Sudan: Sheikh Sa'id al-Darir</p> <p>Sheikh Ali Ahmed Abdalla</p> <p>Saudi Arabia: Sheikh Sulaiman al-Manei</p>	<p>Darul Ulum Karachi based scholars:</p> <p>Maulana M. Taqi Usmani</p> <p>Maulana Dr M. Imran Usmani</p> <p>Maulana Dr Zubair Usmani</p>	<p>Sheikh Abdul Sattar Abu Ghuddah</p> <p>Sheikh Nizam Yaquby</p> <p>Sheikh Mohamed Ali Elgari</p>	<p>SAC of BNM and SC Majlis Ulama Indonesia* etc.</p> <p>* There is a tendency to adopt opinions of GCC scholars (towards convergence)</p>
Issues on Shariah Contracts (Tawarruq, Bai` Inah and Bai` Dayn)		Tawarruq restricted for liquidity instruments	<p>Tawarruq restricted for liquidity instruments</p> <p>Salam on currency (forward) according to Hanafi</p>	<p>Ijarah (property) for asset financing</p> <p>Tawarruq widely applied (except for banks supervised by Sheikh Husain Hamed Hassan – replaced by Salam)</p>	Bai` Inah, Bai` Dayn and Tawarruq are widely applied

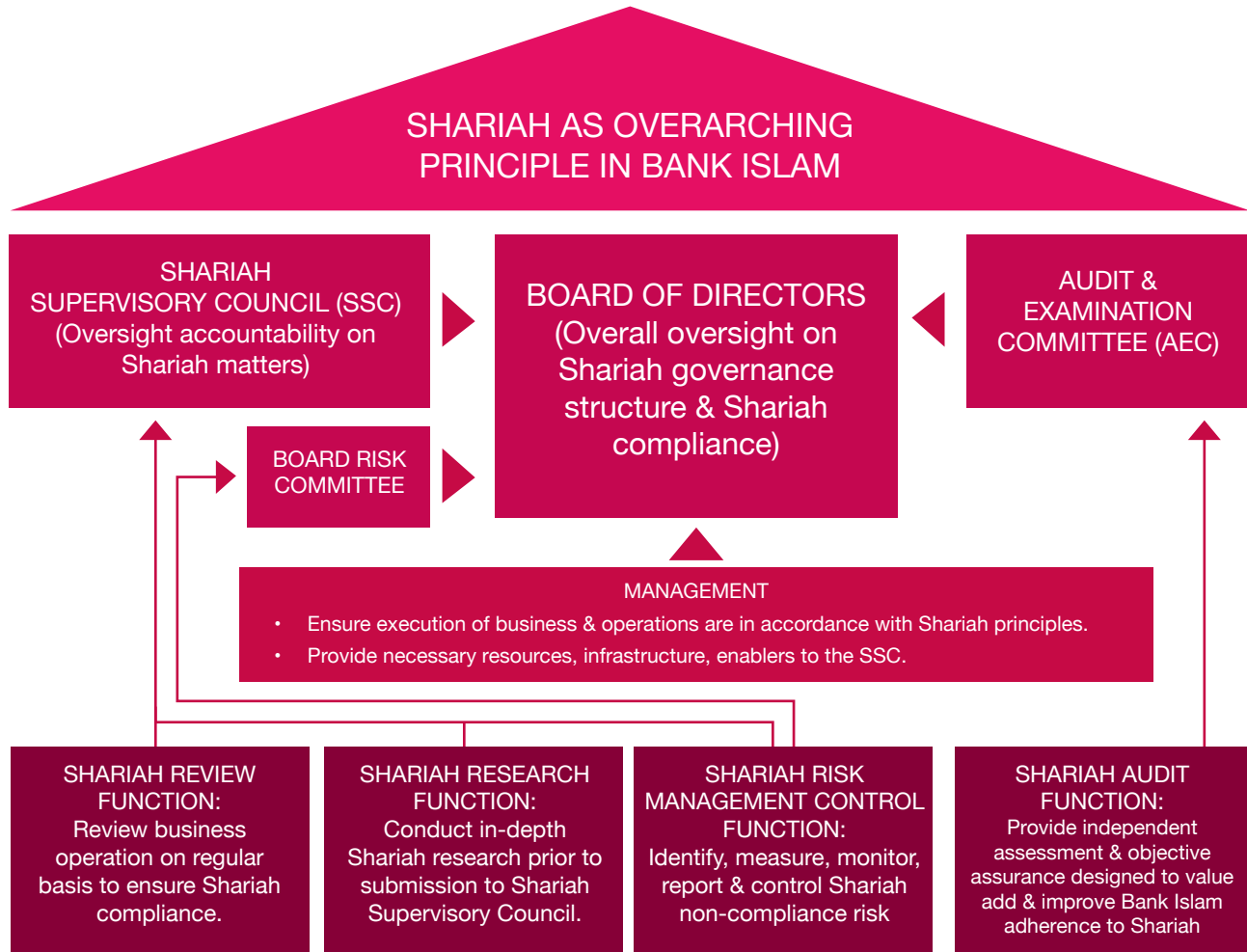
Key Differences

Jurisdictions	Iran	Sudan & Saudi Arabia	South Asia (Pakistan, Sri Lanka & Maldives)	Gulf Countries (UAE, Bahrain & Qatar) & European Countries	South East Asia (Malaysia, Indonesia, Singapore, Thailand & Brunei)
Financing	More on equity and lease based.	Equity and Salam especially on agriculture Lease on property financing No personal “cash” financing facilities No “revolving credit card”, only charge card	Musharakah Mutanaqisah (property and Ijarah (vehicle) No personal “cash” financing facilities No “revolving credit card”, only charge card (except Standard Chartered Saadiq) Apply running Musharakah for working capital	Large Ijarah property financing portfolio Small equity portfolio	Debt and lease based financing Small equity portfolio
Derivatives	Not acceptable	Not acceptable	Acceptable (for hedging, not trading) based on Wa’ad (FX forward) or Salam.	Acceptable (for hedging, not trading) based on Wa’ad, Wakalah and Commodity Murabahah e.g. IPRS, Ijarah Rental SWAP.	Acceptable (for hedging, not trading) based on Wa’ad, Wakalah and Commodity Murabahah e.g. IPRS, Ijarah Rental SWAP.

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**SHARIAH GOVERNANCE
FRAMEWORK**

Shariah Governance Framework (SGF)



Notes:

- Chairman of Board Risk Committee and Chairman of Audit & Examination Committee are permanent invitees to SSC
- Chairman of SSC and a member of SSC are permanent invitees to Board Risk Committee
- Head of Shariah is a member of Management Committee, Management Risk Control Committee, Asset and Liability Committee, Operational Risk Control Committee, Underwriting and Investment Committee, Financing Committee A & B and Product Development Committee.

Shariah Supervisory Council Members



Sheikh Dr. Ahmad Shahbari @ Sobri Salamon was first appointed as a member of the Shariah Supervisory Council in 1984. He is currently the Executive Chairman of Pusrawi Corporation Sdn. Bhd., a position he holds since 1996. He is also a member of the Shariah Advisory Body of Syarikat Takaful Malaysia Berhad, PT Takaful Indonesia, ASEAN RE Takaful International (L) Ltd, BIMB Investment Management Sdn. Bhd. and Labuan Financial Services Authority. He is an Individual Shariah Advisor approved by the Securities Commission of Malaysia. Prior to these, he served as a Lecturer in Universiti Kebangsaan Malaysia (“UKM”) with the Shariah department in 1985. From 1983 to 1984, he was seconded to IIUM’s Kuliyyah of Economics. He was also the Programme Coordinator for diploma and certificate courses of UKM’s Islamic studies until 1983. Ustaz Dr. Ahmad Shahbari was awarded with the ‘Tokoh Ma’al Hijrah Selangor’ in 2001 and the ‘Tokoh Ulama Bestari Negeri Selangor’ in 2000.



Sheikh Mohd Bakir Haji Mansor was first appointed as a member of Bank Islam’s Shariah Supervisory Council (“SSC”) in 2001. He is currently the Designated Person for Shariah Advisory on Shariah-based Unit Trust Funds, Chairman of IBFIM Shariah Committee and Chairman of BIMB Securities Sdn. Bhd. Shariah Advisory Committee. Apart from that he is also a member of the Shariah Advisory Body of Syarikat Takaful Malaysia Berhad, member of the Shariah Panel Committee of Amanah Ikhtiar Malaysia “AIM” and a Shariah Advisor for the Employees Provident Fund “EPF”. Prior to his appointment as a member of the SSC, Ustaz Mohd Bakir served as the Shariah Coordinator for Bank Islam cum Secretary of the SSC, a post he held since 1984. Previously, he was one of the Chief Assistant Directors at the Islamic Research Centre in the Prime Minister’s Department for four years from 1980. He also served at the National Council for Islamic Religious Affairs in the Prime Minister’s Department for 10 years from 1971.



Assistant Professor Dr. Uzaimah Ibrahim was first appointed as a member of the Shariah Supervisory Council in 2009. She is currently an Assistant Professor in Department of Islamic Law, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University of Malaysia “IIUM”. She is also serving as a Shariah Advisor at Hong Leong Tokio Marine Takaful Berhad since 2006. Prior to that she was a Shariah Advisor for Hong Leong Islamic Bank Berhad and Hong Leong Bank Berhad. She also served as the Deputy Director of the Islamic Banking and Finance Institute, IIUM. Her research focus is primarily on Islamic commercial law, Islamic jurisprudence, Islamic banking law, derivatives and securitisation. She has given various presentations in seminars and workshops and contributed a chapter to the Halsbury’s Laws of Malaysia published by the Malaysian Law Journal.

Shariah Supervisory Council Members



Sheikh Dr Muhammad Syafii Antonio was first appointed as a member of the Shariah Supervisory Council in 2011. He is currently the Chairman of Tazkia University College of Islamic Economics (STEI TAZKIA). At the moment he also serves as a member of Board of Commissioner and Shariah Advisor in several Islamic financial institutions which include being the Deputy Chairman of Fatwa and Shariah Supervisory Board, Dar al-Takaful, Dubai, UAE since 2008, member of Indonesian Central Bank's Expert Committee on Islamic Banking and National Shariah Council, member of Indonesia National Economic Council, Chairman of Shariah Board, Bank Export Indonesia, Securities Commission Malaysia and Acting Chairman of Shariah Supervisory Board, Takaful Insurance Company. He was also a member of the Shariah Advisory Council, Bank Negara Malaysia from 2006 to 2010. In June 2010 He was appointed by the President of Indonesia as a member of the National Economic Council of Indonesia. Dr. Antonio was awarded the "Syariah Award" by the Indonesian Central Bank for his contributions towards development of Islamic banking and finance in Indonesia. He has published twenty one books on Islamic banking, economics, zakat and leadership.



Professor Dr Ahmad Hidayat Buang was first appointed as a member of the Shariah Supervisory Council in 2011. He is currently a Professor at the Department of Shariah and Law, Academy of Islamic Studies, University of Malaya. He was the director of the academy from October 2006 until January 2011. Dr. Ahmad Hidayat Buang has also been serving as a member of the Shariah Committee for Syarikat Takaful Ikhlas Sdn. Bhd. since 2003. Prior to that, he served as a Shariah Advisor in numerous financial institutions including CIMB Bank Berhad (2005-2006), OCBC Bank (2004-2005), Commerce Tijari Bank (2004-2005), Amanah Raya Unit Trust Management Sdn. Bhd. (2006-2007) and ASM MARA Unit Trust Management Berhad (2004-2006) among others. He has also conducted a number of researches on Islamic commercial laws, Islamic banking laws and has given various presentations in seminars and workshops both local and abroad. His contribution to the industry among many includes several of his writings that were published in accredited academic journals. Dr Ahmad Hidayat's career began back in 1987 where he served as a temporary tutor with the Department of Shariah and Law, Academy of Islamic Studies, University of Malaya.



Ustaz Mohd Nazri Chik was first appointed as secretary of Shariah Supervisory Council in 2011. He holds a bachelor of Shariah (Islamic Jurisprudence) Master of Shariah from the University of Malaya and currently pursuing his Doctor of Business Administration at Northern University of Malaysia. He initially joined Bank Islam in June 2004 and served the Bank for five years in various designations including Senior Manager – Head of Shariah Division. He left Bank Islam in 2009 to join Noor Investment Group, Dubai UAE as its Shariah Audit Manager for a brief period. At Noor Investment Group he was responsible for strengthening the Shariah governance framework of Noor Investment Group, Noor Islamic Bank ("NIB") and Noor Takaful ("NT"). During this time, he has been appointed as a member of the Shariah Supervisory Council until he rejoined Bank Islam in January 2011. Prior to his banking career, Mohd Nazri lectured at the Ibnu Sina Institute for Islamic and Science & Technology Studies and Academy of Islamic Studies, University of Malaya. He is also an Accredited Trainer for Islamic Banking and Finance Institute of Malaysia and a member of the Shariah Supervisory Council of Amana Bank Limited, Sri Lanka.

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**MILESTONES OF SHARIAH
PRODUCT OFFERING**

Milestones of Shariah Product Offering



1983-1990

1991-2000

2001-2005

2006-2008

2009-2010

2011-2012

Wadiah:

- Current Account
- Savings Account

Mudarabah:

- Financing
- Investment Account

Ijarah Financing

BBA Financing

Murabahah:

- Letter of Credit (LC)
- Working Capital

Musharakah LC

Wakalah LC

Bai' Dayn Trade Financing

Sarf Forex

Mudarabah:

- Interbank Investment

Musharakah Financing

Bai' Inah Credit Card

Bai' Dayn

Musharakah

Mudarabah ICDO

Bai' Inah:

- Overdraft
- Commercial Credit Card
- Personal Financing
- Negotiable Instrument of Deposit (NID)

Commodity

Murabahah:

- Profit Rate Swap
- Forward Rate Agreement
- Floating Rate

Ijarah

- Rental Swaps-i
- Floating Rate

BBA Floating Rate

Istisna Floating Rate

Mudarabah:

- Capital Protected
- Structured Investment
- Savings Multiplier Deposit

Bai' Inah Floating Rate NID

Tawarruq Commodity Undertaking

Tawarruq:

- Business Financing
- Personal Financing
- Credit Card
- Cash Line-i

Istisna' convertible to Ijarah

Bai' and Ijarah - (Sale and Lease Back)

Musharakah Mutanaqisah

Istisna' - with Parallel Istisna'

Wakalah:

- Dual Currency Investment-i
- General Investment Account-i
- Specific Wakalah Investment Account-i

Foreign Currency Option-i

Tawarruq:

- Revolving Credit-i
- Al-Waqf Home Financing-i

Ar-Rahnu:

- Islamic pawn broking

Note - The listing is not exhaustive and some products despite have been developed and/or approved may have not been implemented at the time of publication of this document.

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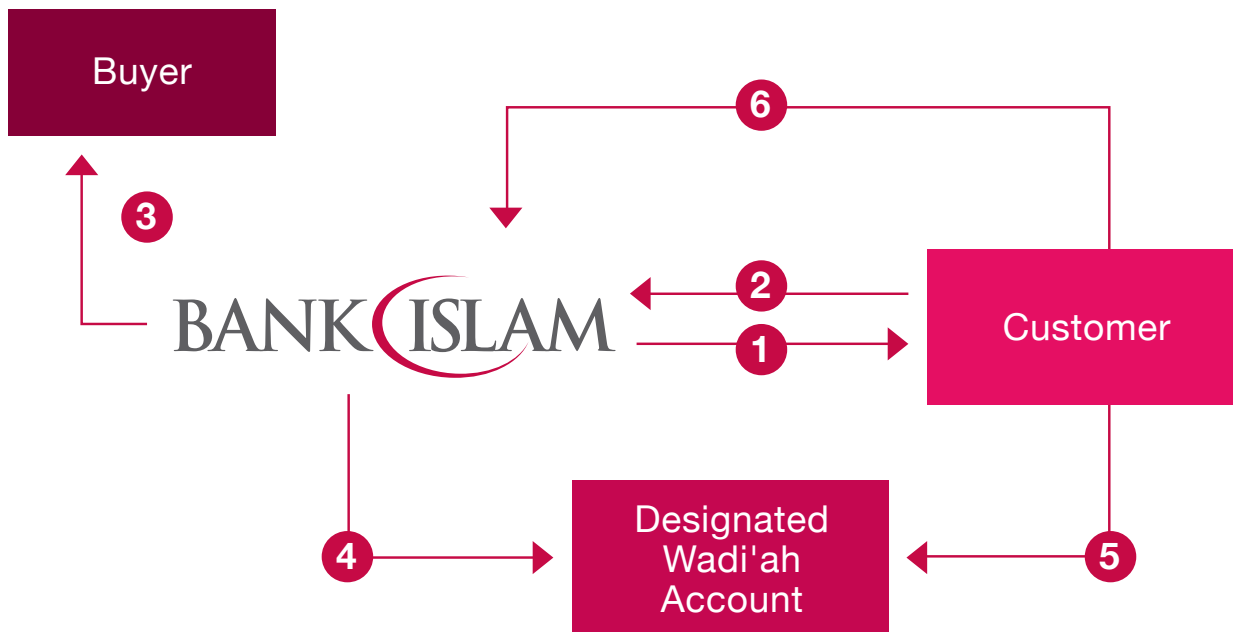
Tawarruq based Credit Card-i (Bank Islam Card-i)

Under the concept of Tawarruq, a card issuer/bank will purchase an identified commodity from a commodity broker on cash and sell the commodity at a mark-up price (plus profit) on deferred basis to a customer and this profit is the ceiling profit of the card.

The customer will then sell the commodity to another commodity broker on cash price (which is normally equivalent to the earlier cost price paid by the bank). Alternatively, the customer may appoint the bank to act on his behalf to sell the commodity to a commodity broker for cash. The cash received will be deposited with the bank to be utilised by the customer and will constitute as his financing limit. The issuer will charge actual profit to the customer depending on the utilisation of the financing limit and shall grant *ibra'* (rebate) to the customer on the profit of the unutilised portion.

Bank's profit takes into account cost of funding and cost of undertaking the business.

Bank Islam Card-i (Tawarruq)



Murabahah Price : $x + y$
Financing Limit (Principal) : x
Bank's Profit : y
Financing Period : Up to 5 years*

* Terms and conditions apply

Process Flow

1. The Bank sells commodity to the customer at the Bank's sale price e.g. $RM\ x + y = \text{principal} + \text{profit}$ on deferred payment term (Murabahah).
2. The customer requests the Bank to sell the commodity to the market.
3. The Bank acting on behalf of the customer, sells the commodity to a buyer at cost i.e. $RM\ x$ (principal) on cash basis.
4. The Bank then credits the customer's Designated Wadi'ah Account with the Wariq (proceeds) from the sale of the commodity i.e. $RM\ x$ and the amount becomes the card's limit.
5. The customer utilises the facility placed in the Designated Wadi'ah Account as and when the customer requires funds.
6. The customer settles the amount due to the Bank (principal + profit) by way of agreed payment method. The Bank will charge actual profit to the customer based on the utilisation of the financing limit and shall grant ibra' (rebate) to the customer on the profit of the unutilised portion.

Financing Limit	: Wariq (proceeds) from sale of commodity
Maximum amount payable	: Principal + profit
Rebate	: Profit of unutilised portion

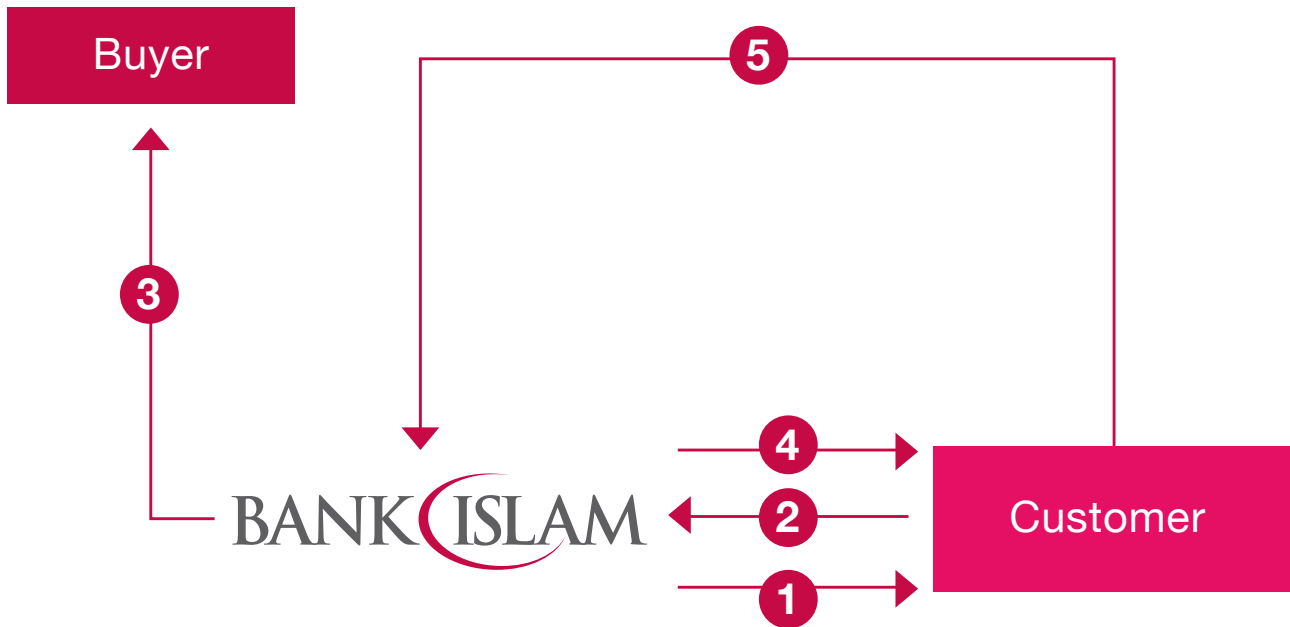
Salient Features

1. The product's objective is to provide customer with a `Financing Limit` to be used for personal consumption.
2. The `Financing Limit` available for utilisation by the customer is not in the form of a loan but instead is derived from the Wariq (proceeds) of the commodity sale credited into a Designated Wadi`ah Account.
3. The card does not involve the element of compounding profit charges.
4. Customer may also enjoy 20 days profit rate-free from the transaction date.
5. Bank Islam Card-i (BIC-i) is tailored to facilitate customer in transacting Shariah compliant purchases.
6. Merchant code mechanism; Shariah Non Compliant (SNC) transaction will be blocked upon detection through the Merchant Category Code (MCC).

Types of Bank Islam Card:

1. World MasterCard Card-i
2. Platinum MasterCard Card-i
3. Bank Islam - Alumni UiTM Platinum MasterCard Card-i
4. Gold & Classic Card-i (Visa & MasterCard)

Personal Financing-i (Tawarruq)



Murabahah Price : $x + y$
Financing Amount (Principal) : x
Bank's Profit : y
Financing Period : **Up to 15 years**

Process Flow

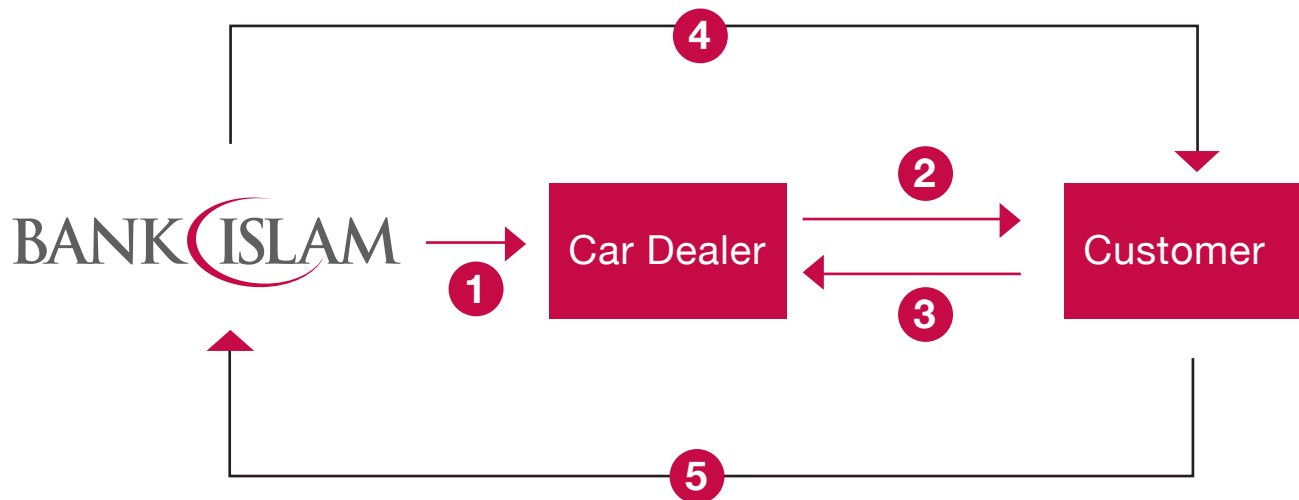
- 1) The Bank sells commodity to the customer at the Bank's sale price e.g.
 $RM\ x + y = \text{principal} + \text{profit on deferred payment term (Murabahah)}$.
- 2) The customer requests the Bank to sell the commodity to the market.
- 3) The Bank acting on behalf of the customer, sells the commodity to a buyer at cost
i.e. $RM\ x$ (principal) on cash basis.
- 4) The Bank then credits the customer's account with the Wariq (proceeds)
i.e. $RM\ x$ from the sale of commodity.
- 5) The customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.

Salient Features

1. The product's objective is to provide individual customers with cash for personal consumption.
2. Minimum financing amount of RM10,000* and maximum financing amount of RM200,000*.
3. Available in both floating and fixed rates.
4. Flexible financing tenure (maximum of 15 years [180 months] or up to the retirement age, whichever is earlier).
5. No hidden charges.
6. No processing fee.
7. No deposit.
8. No guarantor is required.
9. Takaful Coverage (Personal Financing Takaful Plan).

*Terms and conditions apply

Vehicle Financing-i (Murabahah to Purchase Orderer)



Murabahah Price : $x + y$
Financing Amount (Principal) : x
Bank's Profit : y
Financing Period : **Up to 9 years***

* Terms and conditions apply

Process Flow

1. Bank appoints dealer as agent.
2. Dealer appoints customer as Bank's purchasing agent.
3. Customer purchases vehicle on behalf of the Bank.
4. Bank sells vehicle to customer and the customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.
5. Customer pledges the vehicle as collateral to the Bank.

Salient Features

Objective

To facilitate customer intending to purchase a vehicle for personal use.

The financing is available for:

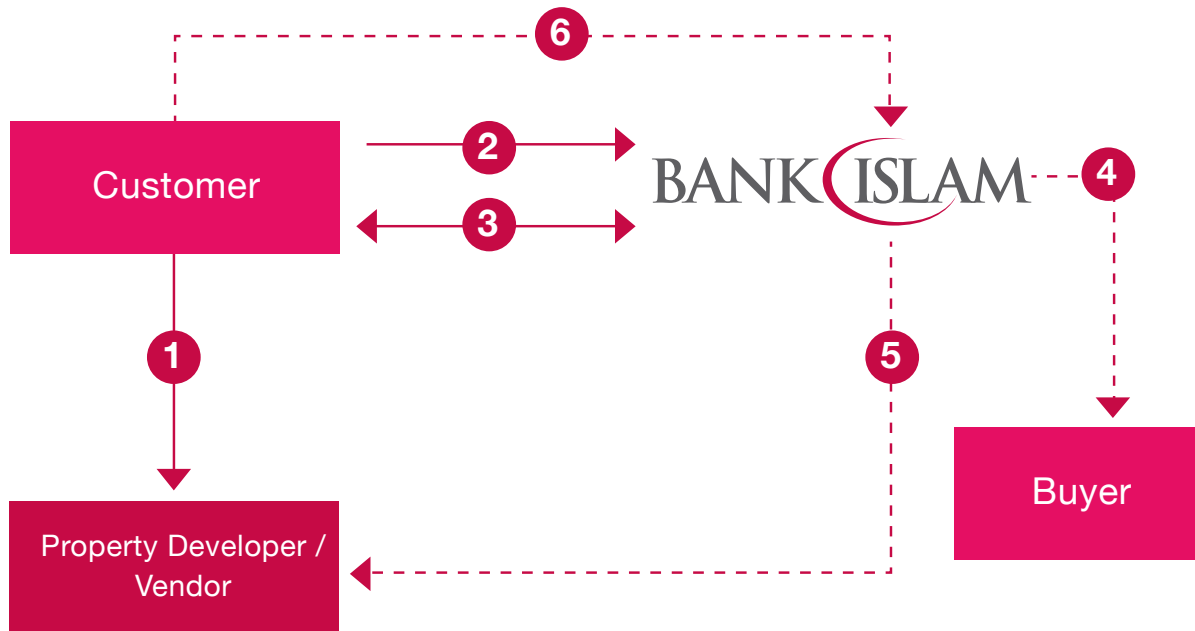
- new national vehicle
- new non national vehicle
- unregistered reconditioned car

Maximum margin of financing is up to 90% for standard cases and up to 100% for special packages i.e. Gradhitz.

Shariah Contract

1. The Shariah contract applied is Murabahah to the Purchase Orderer (MPO).
2. The Bank, before entering into a Murabahah contract with the customer, purchases the vehicle from a third party e.g. car dealer.
3. The purchase by the Bank arises from the order or request made by the customer.

Property Financing-i (Tawarruq)



Murabahah Price : $x + y$
Financing Amount (Principal) : x
Bank's Profit : y
Financing Period : **Up to 40 years or age 65
whichever is earlier**

Process Flow

1. Customer purchases a property from developer/ vendor by executing a Sale and Purchase Agreement (SPA) and paying the down payment i.e. Urbun. In the event SPA is not available, Letter of Intent may be used as a preliminary document.
2. Customer approaches the Bank for financing of the purchased property from the developer.
3. The Bank then sells commodity to the customer at the Bank's sale price e.g. $RM\ x + y = \text{principal} + \text{profit on deferred payment term (Murabahah)}$.
4. The customer requests the Bank to sell the commodity to the market subsequently.
5. The Bank acting on behalf of the customer, sells the commodity to a buyer at cost i.e. $RM\ x$ (principal) on cash basis. The Bank then credits the Wariq (proceeds) directly to the developer or via the customer, subject to agreement of both parties*.
6. Customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.

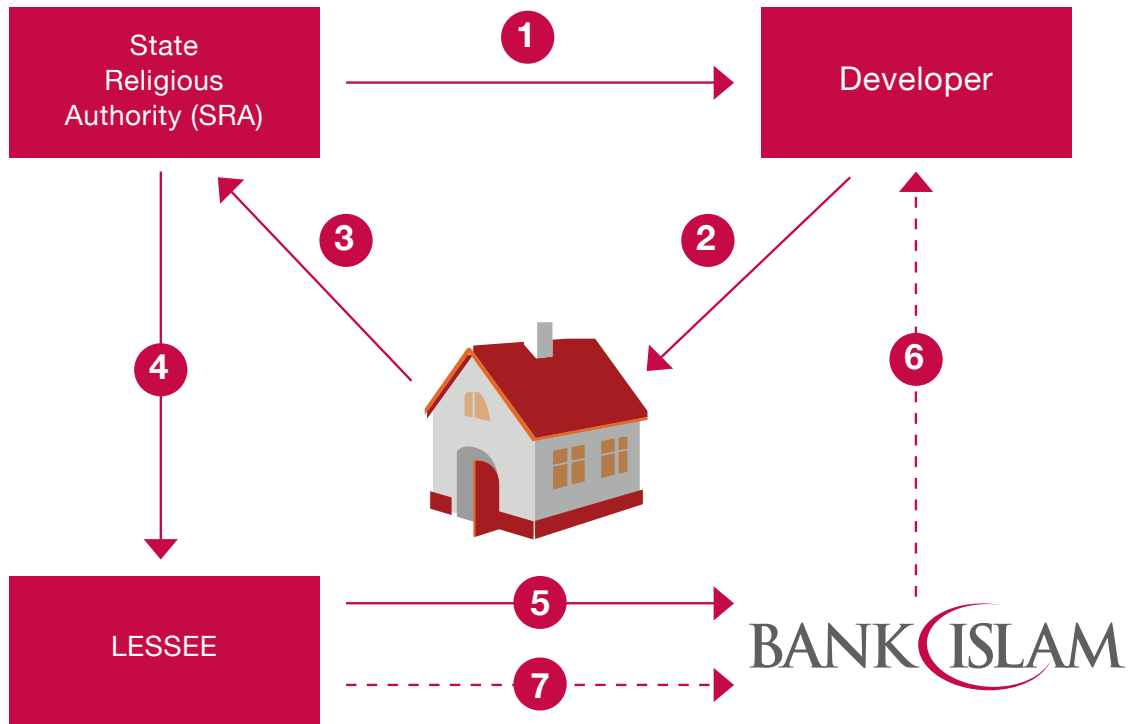
*The property will be charged to the Bank as collateral.

Salient Features

1. Property Financing-i (Tawarruq) is designed to cater for financing / refinancing customer's acquisition of properties such as House, Land, Business Premise, Shop Office and other fixed assets as may be determined in the future by business owner.
2. Among the key features are;
 - Customers are eligible for 'payment holiday' for the months of November and December every year, an added value proposition to customers whereby they would have extra cash during the 'payment holiday' months.
 - 20% discount on Stamp Duty for perfecting the Bank's security documentation*.
 - Non Payment During Construction (NPDC) up to a maximum of two years for selected residential projects.
 - Available in both fixed and floating rates.

* Terms and conditions apply

Al-Waqf Home Financing-i (Tawarruq)



Murabahah Price : $x + y$

Financing Amount (Principal) : x

Bank's Profit : y

Financing Period : **Up to 40 years or age 65 whichever is earlier***

* Subject to customer's creditworthiness

Process Flow

1. State Religious Authority (SRA) appoints a developer or enters into a joint venture with a developer to develop the Waqaf land.
2. Developer constructs properties on the Waqaf land.
3. Upon completion, the developer shall hand over the properties to SRA.
4. SRA then leases* the property to the customer (lessee).
5. The customer obtains financing** (Tawarruq) from the Bank to pay the total amount of the lease (total rental).
6. The Bank then credits the Wariq (proceeds) to the developer's account (or SRA/administers' account) as the customer's total rental payment.
7. The customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.

Note:

* The Lease Agreement is registered via Form 15A under National Land Code (NLC) 1965 (Lease)

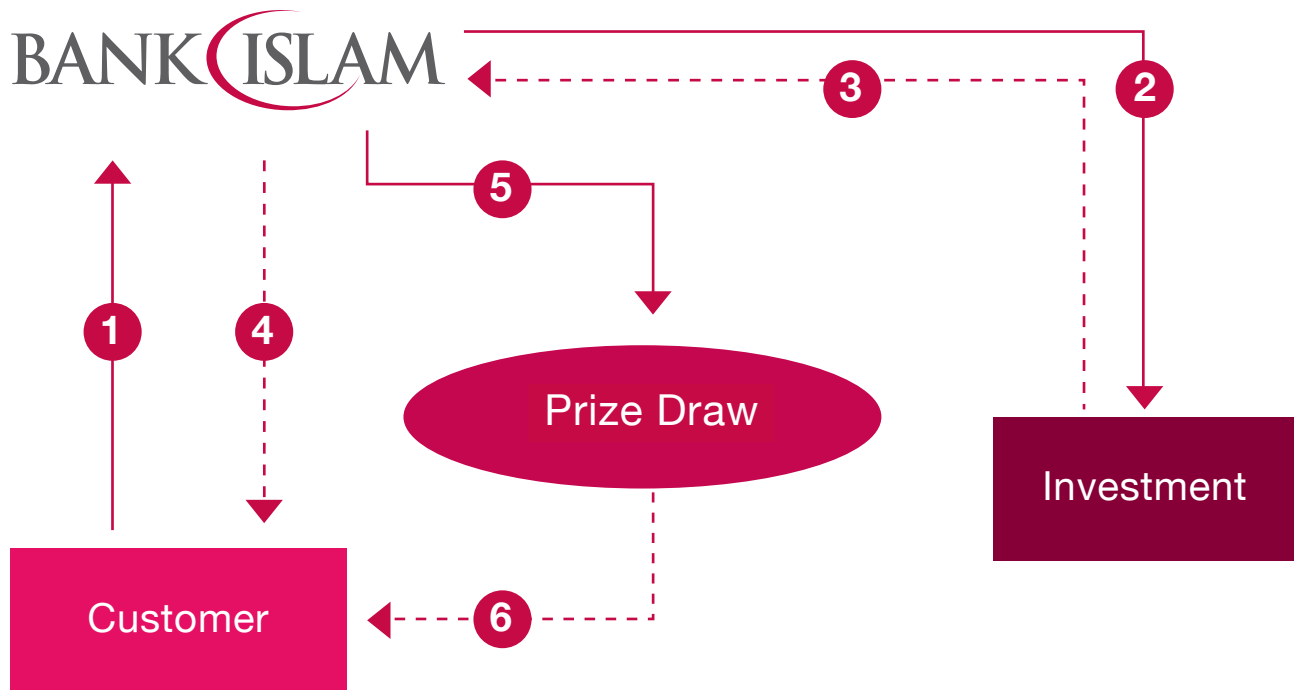
** The right to lease the property is charged to the Bank to secure the financing facility. The charge is registered via Form 16A NLC 1965 (Charge)

Salient Features

Waqaf is defined as holding an asset and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness philanthropy. It is by this reason that the sale and purchase of a Waqaf land along with its property structure are prohibited as the objective of Waqaf will cease to exist. In Malaysia, the right to administer (trustee) Waqaf properties belongs to State Religious Authorities (SRA).

1. A financing product well-suited for house/ property developed on Waqaf land.
2. A financing solution for property developed on Waqaf land that is acceptable to State Religious Authorities (SRA).
3. The right to lease the property is charged to the Bank as collateral.

Al-Awfar Savings-i and Investment-i



Process Flow

1. The customer places deposits with the Bank under the contract of Mudarabah.
2. The Bank invests the funds in activities permitted by Shariah.
3. The Bank receives return on the investment.
4. The Bank pays profit to the customer on a monthly basis as per the agreed ratio.
5. The Bank conducts a prize draw periodically (monthly).
6. The cash prizes* will be credited into customers' accounts upon announcement. The winners are determined through a computerised draw observed by independent parties.

Note:

*Prizes given are solely from the Bank's allocated fund and not from customers' deposits.

Salient Features

1. It is a deposit, saving or investment based on Mudarabah contract (profit sharing basis). Besides being able to enjoy monthly profits on their deposits, customers will also have the possibility of winning prizes.
2. On a pre determined basis, a draw will be done and cash prizes will be paid to the winners. The draw concept has been approved by the Bank's Shariah Supervisory Council (SSC). To ensure the fairness and transparency in the draw, independent parties i.e. Jabatan Kemajuan Islam Malaysia, Persatuan Pengguna Islam Malaysia, Operational Risk Management Department and Shariah Division are invited to witness the draw process.
3. Draws are conducted on a monthly and quarterly basis with cash prizes as follows:

Monthly

1st prize – RM100,000
2nd prize – RM10,000
3rd prize – RM1,000

Quarterly

1st prize – RM200,000
2nd prize – RM20,000
3rd prize – RM1,000
4th prize – RM500

4. To be eligible, a minimum deposit is required as the following;
Savings-i RM100
Investment-i RM1,000 (1 month) and RM500 (3 months – 60 months)
5. Bank Islam also offers Al Awfar Junior with two types of account;
 - i. A trust account will be opened for minor account holder (Below 13 years old)
 - ii. An individual account will be opened for youth account holder (Between 13 to below 18 years old)
6. To be eligible, a minimum deposit of RM10.00 is required. Prizes for Al Awfar Junior account are as follows: 1st prize RM5,000, 2nd prize RM3,000 and 3rd prize RM1,000 worth of electrical appliances.

Shariah View on Prize Draw

Resolution International Islamic Fiqh Academy (IIFA)

IIFA in its 14th conference in Doha, Qatar on the 11th - 16th January 2003 issued its 127th resolution in discussing on the status of contest cards among others are as follows:

1. All games and contests which prizes are taken from the cumulative amount of money (fees) gathered from contestants is prohibited as it contain elements of gambling.
2. Contest prizes are only allowed in the case where it is provided by a third party not involved in the contest or the prizes were taken from fees of a segment of participants and not overall.
3. Contests offering prizes are permissible if:
 - Purpose and application methods are allowed by Shariah
 - Prizes do not originate from fees taken from all participants
 - Contest should not lead to neglect matters that are obligatory nor indulgence in prohibited activities

Gambling Free

1. The Al-Awfar product is based on a Mudarabah contract between the Bank and its depositors as executed in the product documents. If there is any profit from the invested capital obtained from depositors, it will be distributed between the Bank and the depositors as per the pre agreed profit sharing ratio.
2. Cash prize draw serves as an additional incentive to encourage depositors to save or invest with Bank Islam. Prizes will be given to depositors from funds provided by the Bank and depositors who did not win would not lose their deposits / investments, in fact the depositors will receive their share of the Mudarabah profits. Therefore this product does not fall under the category of al-maisir nor al-qimar which are prohibited in Islam.

Draw/ Qur`ah

1. Dar Ifta' al-Misriyyah which is the authority in issuing fatwas in Egypt and consist of the country's prominent scholars from University of Azhar issued a resolution registered under 19752 which explains clearly on the legality of the draw from a Shariah point of view.
2. In summary draw is permissible according to Shariah, as it is a method to determine not to prohibit (what is halal) nor to allow (what is haram) and it has been a known practice since ages before.

Benefits of Islamic Consumer Products

- No element of compounding finance charges.
- Cost benefit to client (no commitment fee and fixed finance cost).
- Available in both floating** and fixed rates.
- Capping exposure of rates fluctuation via Selling Price and Profit Margin as per the floating rate based financing mechanism.

Special Features for Home Financing-i

- 20% discount on Stamp Duty for perfecting the Bank's security documentation*.
- Conversion (refinance) of conventional loan to Islamic facility is stamp duty exempted.
- Non Payment During Construction (NPDC) up to a maximum of two years for selected residential projects*.
- Payment holiday - customer may skip monthly installments for the month of November and December throughout the financing tenure*.

Special Features for Credit Card-i

- Bank Islam Card-i (BIC-i) is tailored to facilitate customer in transacting Shariah compliant purchases. Shariah Non Compliant (SNC) transaction will be blocked upon detection through the merchant category code.

Note:

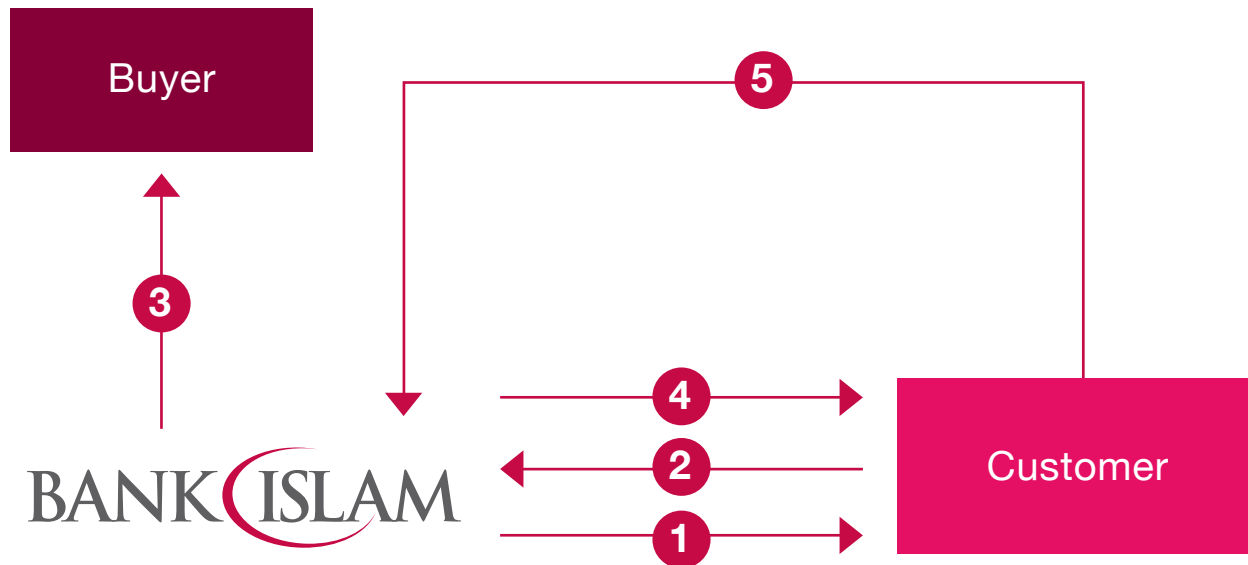
* Terms and conditions apply

** Please refer to page 120 for further explanation on Islamic Floating Rate Mechanism.

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Business Financing–i (Tawarruq)



Murabahah Price : $x + y$
Financing Amount (Principal) : x
Bank's Profit : y
Financing Period : **Up to 10 years***

* Subject to customer's creditworthiness

Process Flow

1. The Bank sells commodity to the customer at the Bank's sale price e.g.
 $RM\ x + y = \text{principal} + \text{profit on deferred payment term (Murabahah)}$.
2. The customer requests the Bank to sell the commodity to the market.
3. The Bank acting on behalf of the customer, sells the commodity to a buyer at cost i.e.
 $RM\ x$ (principal) on cash basis.
4. The Bank then credits the customer's account with the Wariq (proceeds) i.e. $RM\ x$ from the sale of commodity.
5. The customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.

Salient Features

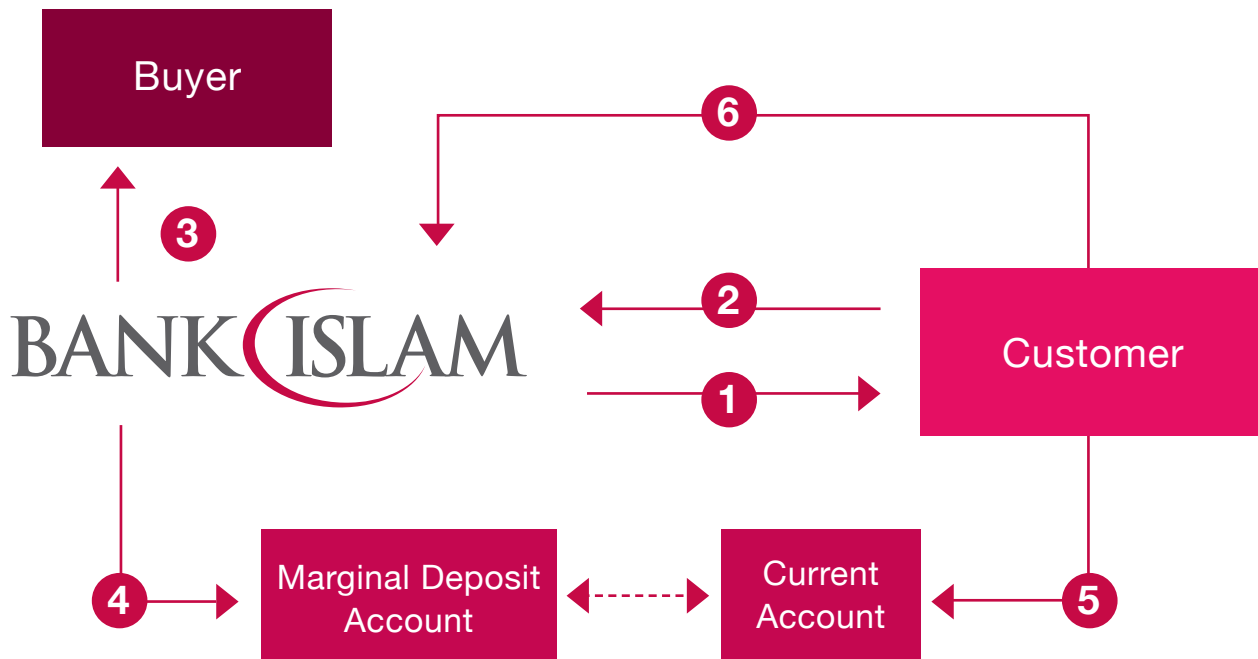
1. Designed for business segment of customers to cater requirements for working capital and capital expenditure.
2. 20% discount on Stamp Duty for perfecting the Bank's security documentation*.
3. Available in both floating** and fixed rates.

Note:

* Terms and conditions apply

** Please refer to page 120 for further explanation on Islamic Floating Rate Mechanism

Business Cash Line-i (Tawarruq)



Murabahah Price : $x + y$
Facility Limit (Principal) : x
Bank's Profit : y
Financing Period : **1 year***

* Subject to annual review

Process Flow

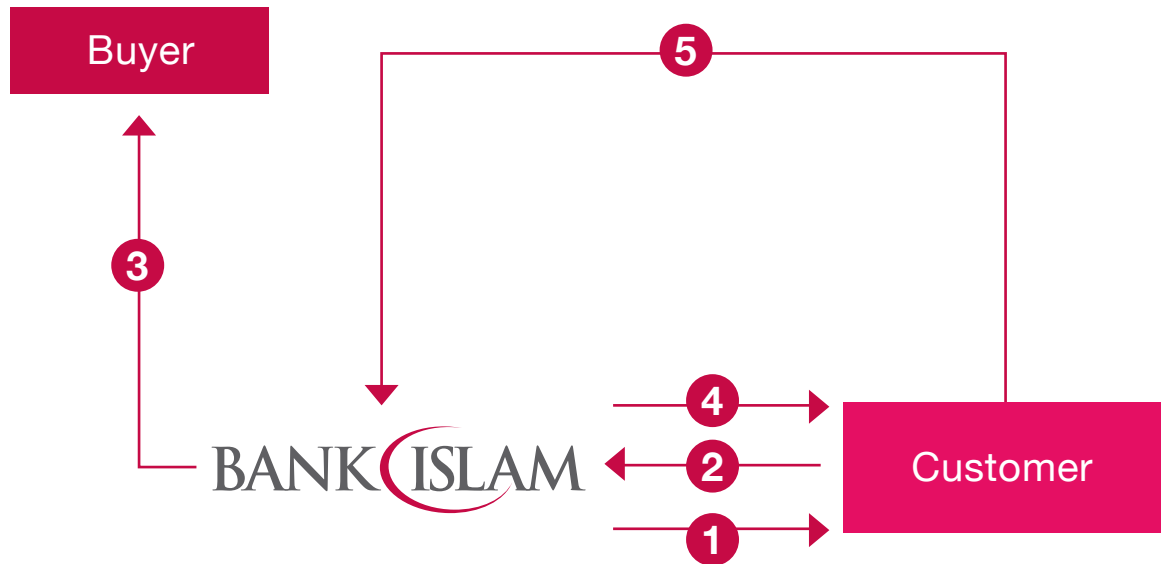
1. The Bank sells commodity to the customer at the Bank's sale price e.g. $RM\ x + y = \text{principal} + \text{profit}$ on deferred payment term (Murabahah).
2. The customer requests the Bank to sell the commodity to the market.
3. The Bank acting on behalf of the customer, sells the commodity to a buyer at cost i.e. $RM\ x$ (principal) on cash basis.
4. The Bank then credits the customer's Marginal Deposit Account (Wadi'ah Yad Dhamanah) with the Wariq (proceeds) from the sale of commodity i.e. $RM\ x$ and the amount becomes the facility's limit.
5. The customer utilises the facility placed in the Marginal Deposit Account (Wadiyah Yad Dhamanah) as and when the customer requires funds via the designated Current Account-i.
6. The customer settles the amount due to the Bank (principle + profit) by way of agreed payment method. The Bank will charge actual profit to the customer depending on the utilisation of the facility's limit and shall grant ibra' (rebate) to the customer on the profit of the unutilised portion.

Salient Features

1. Cash Line-i is an Islamic over draft facility based on the concept of *Tawarruq*.
2. A product to cater the customers' requirements for Shariah compliant business working capital.
3. No commitment fee over unutilised amount of the line limit as it contravenes with Shariah rules and principles.
4. 20% discount on Stamp Duty for perfecting the Bank's security documentation*.

* Terms and conditions apply.

Revolving Credit– i



Murabahah Price : $x + y$
Facility Limit (Principal) : x
Bank's Profit : y
Financing Period : **Based on creditworthiness**

Process Flow

1. The Bank sells commodity to the customer at the Bank's Sale Price (principal + profit) on deferred payment term (Murabahah).
2. The customer requests the Bank to sell the commodity to the market.
3. The Bank acting on behalf of the customer at cost i.e RM x (principal) on cash basis sells the commodity to a buyer.
4. The Bank then credits customer's account with the Wariq (proceeds) from the sale of commodity.
5. The customer settles the amount due to the Bank (principle + profit) by way of agreed payment method.

Note:

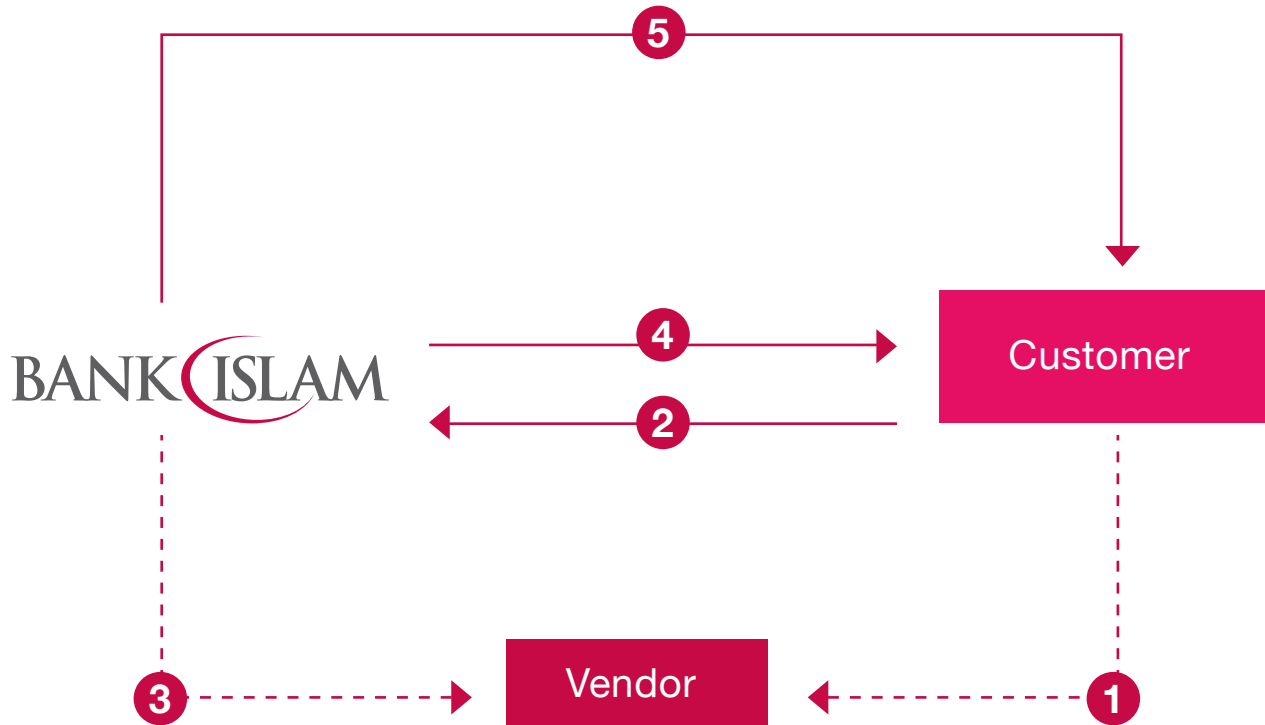
The above process will take place every time customer requests for utilisation of the facility

Salient Features

1. A product developed to finance customer's requirements for specific purposes.
2. May be extended to cater bridging financing, project financing and structured financing.
3. No commitment fee over unutilised amount of the line limit.
4. 20% discount on Stamp Duty for perfecting the Bank's security documentation*.
5. The facility is available in multiple disbursements (revolving in nature).

* Terms and conditions apply

Ijarah Muntahiyah Bit Tamlik-i (IMBT)



Process Flow

1. The customer purchases the asset from vendor by paying down payment*.
2. The customer approaches the Bank for Ijarah financing. Upon approval, the Bank purchases the asset from the customer.
3. The Bank then pays the remaining purchase price of the asset to the vendor pursuant to the purchase from the customer**.
4. The Bank leases the asset to the customer by executing an Ijarah Muntahiyah Bit Tamlik (IMBT) agreement and the customer pays throughout the lease period.
5. The Bank will sell the asset to the customer at nominal value upon maturity.

Note:

* Asset is owned by the customer based on down payment/ part payment to vendor.

** Bank's purchase price is based on remaining balance of vendor's sale price to the customer (margin of financing)

Salient Features

1. A financing facility to lease equipment/commercial vehicles from the Bank on rental for the usage of equipment during the lease period.
2. Margin financing up to 100%*.
3. Lease period** ranging from;
Min: 2 years
Max: 7 years
4. 20% discount on Stamp Duty for perfecting the Bank's security documentation***.
5. Competitive rates with both fixed and floating rental payments.

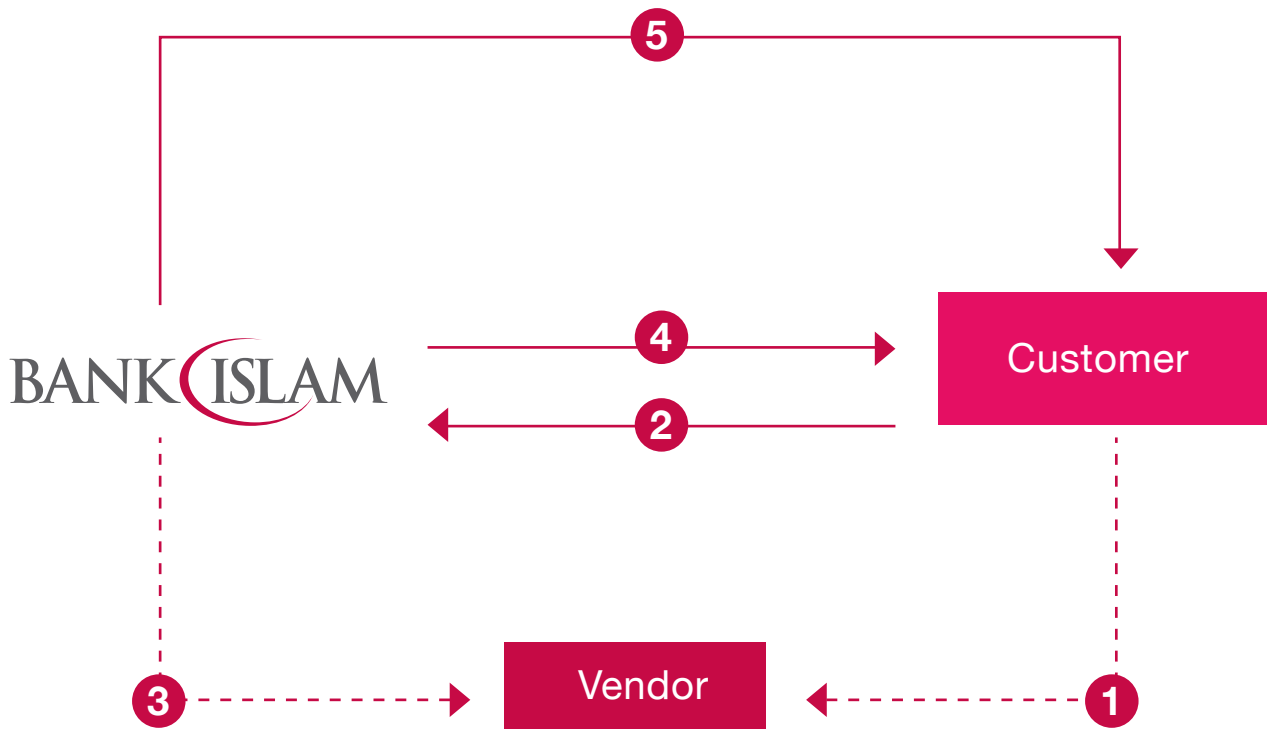
Note:

* Based on customer's merit and subject to financing committee's approval on case to case basis

** The lease period is subject to the economical life span of the equipment

*** Terms and conditions apply

Ijarah Thumma Bai'-i (AITAB)



Process Flow

1. The customer purchases the asset from vendor by paying down payment*.
2. The customer approaches the Bank for Ijarah financing. Upon approval, the Bank agrees to purchase the asset from the customer.
3. The Bank then pays the remaining purchase price of the asset to the vendor pursuant to the purchase from the customer**.
4. The Bank, enters into a Hire Purchase Agreement (HP) with the customer and leases the asset back at an agreed rental amount to be paid by the customer throughout the hire purchase.
5. The Bank will sell the asset to the customer at nominal value upon maturity.

Note:

- * Asset is owned by the customer based on down payment/ part payment to vendor
- ** Bank's purchase price is based on remaining balance of vendor's sale price to the customer (margin of financing)

Salient Features

1. A financing facility that allows customers to hire and subsequently purchase assets from the Bank. It is a form of rental for usage of equipment at an agreed amount during the financing tenure.
2. Margin financing up to 100%*.
3. Lease period** ranging from;
Min: 2 years
Max: 7 years
4. Nominal stamping cost.

Note:

- * Based on customer's merit and subject to financing committee's approval on case to case basis
- ** The lease period is subject to the economical life span of the equipment

Benefits of Islamic Business Products

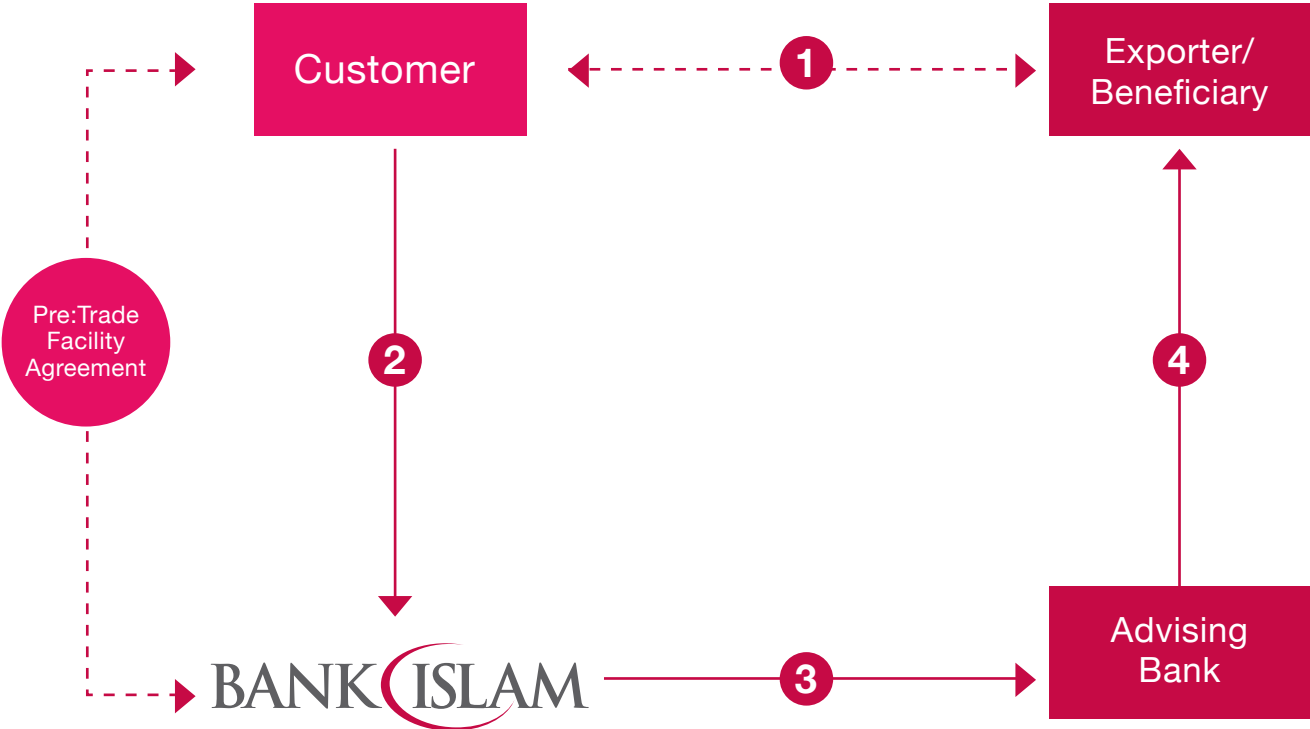
- No commitment fee over unutilised amount of the business line limit (Cash Line-i and Revolving Credit-i).
- Nominal stamping cost (Ijarah Thumma Bai`-i).
- 20% discount on Stamp Duty for perfecting the Bank's security documentation*.
- Conversion (refinance) of conventional loan to Islamic facility is stamp duty exempted.
- No element of compounding finance charges.
- Capping exposure of rates fluctuation via Selling Price and Profit Margin.
- Added value to attract global Islamic investors.

* Terms and conditions apply

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Letter of Credit-i (Issuance)



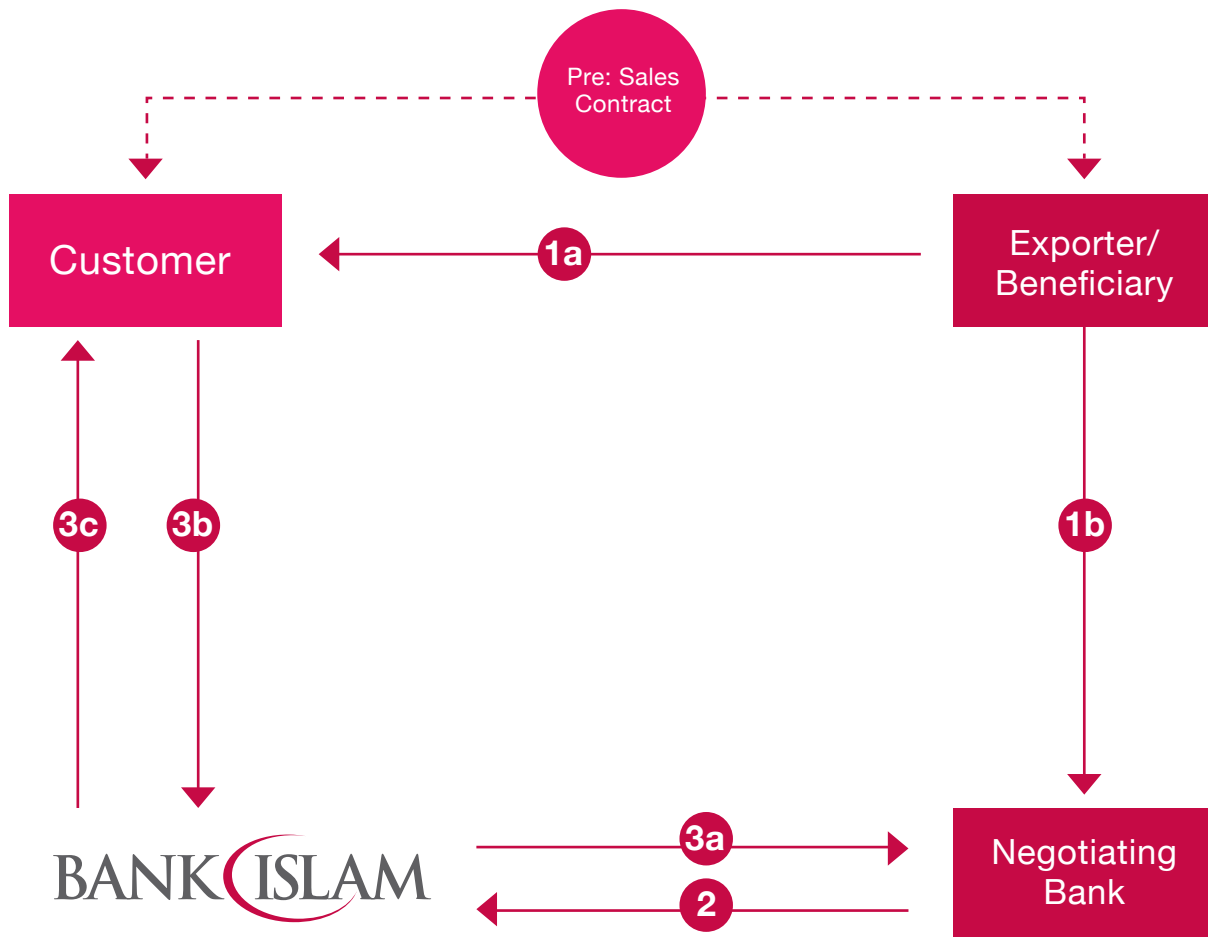


Process Flow

Prior to the issuance of letter of credit : The customer will agree on Trade Facility Agreement (TFA) with the Bank.

1. The customer enters into a sales contract or receive a pro-forma invoice from the exporter.
2. The customer approaches the Bank for letter of credit.
3. The Bank upon approval, issues a letter of credit to the advising bank.
4. The advising bank then advises the exporter on the issued letter of credit.

Letter of Credit-i (Settlement)



Process Flow

Prior to the settlement of letter of credit : The customer has entered into a sales contract with the exporter.

1a. The exporter ships the goods to the customer.

1b. The exporter subsequently sends the documents to the negotiating bank.

2. The negotiating bank upon receiving the documents sends it to the Bank.

3a. The Bank upon receiving the documents and verification, remits fund to the negotiating bank*.

3b. The customer then either pays/ finances the goods through the Bank.

3c. The Bank then releases the documents to the customer.

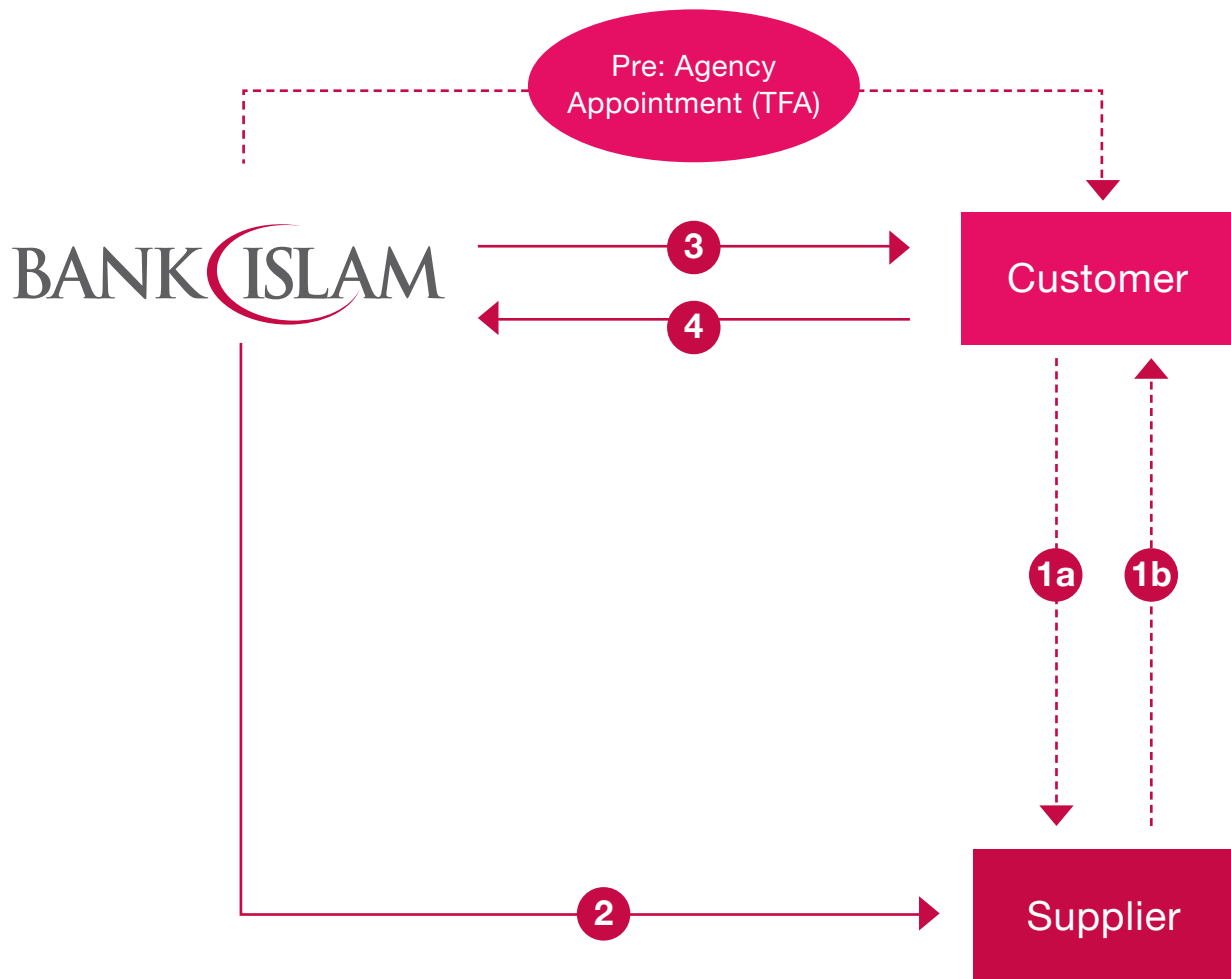
* Subject to all terms and conditions of the letter of credit have been complied with



Salient Features

1. No "transit interest" charges as payment to seller/beneficiary is only upon acceptance of documents.
2. No hidden costs.
3. Provides platform for both parties to agree trade terms and efficient payment arrangement.
4. Customer may also request us to purchase the necessary marine cargo takaful on your behalf.

Trade Working Capital Financing-i (Purchase)

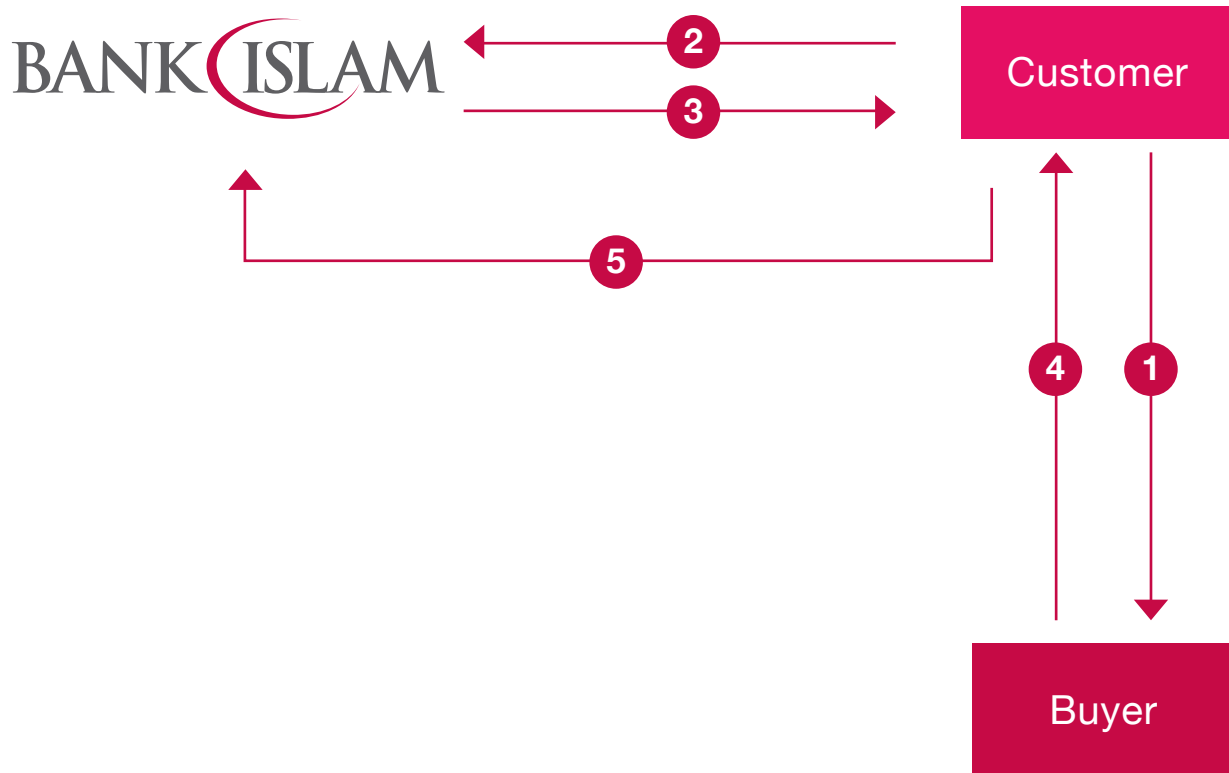


Process Flow

Prior to the Murabahah transaction: The Bank will appoint the customer as a purchasing agent.

- 1a. Customer buys goods on behalf of the Bank.
- 1b. Supplier consequently supplies the goods to the customer.
2. The Bank pays the sale price of goods to the supplier on cash basis.
3. The Bank then sells the goods to the customer on deferred payment at (principal + profit).
4. Customer settles the amount due to the Bank (principal + profit) by way of agreed payment method.

Trade Working Capital Financing-i (Sales)



Process Flow

1. The customer sells goods to a buyer on credit terms.
2. The customer, consequently sells the debt to the Bank.
3. The Bank upon purchasing the debt, credits the discounted debt amount into the customer's account.
4. The buyer of goods then pays the customer upon maturity.
5. The customer then transfers the amount paid to the Bank.

Salient Features

TWCF-i (Purchase)

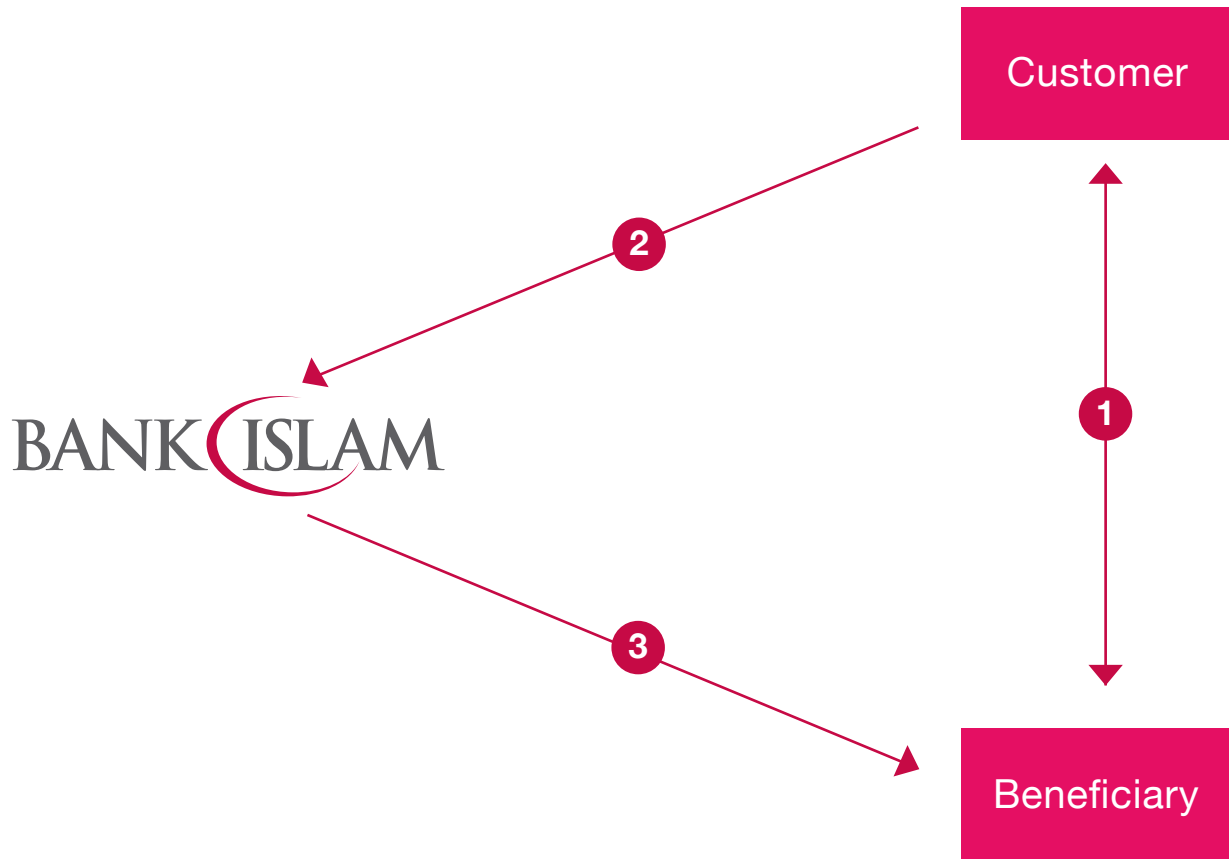
A financing facility to finance domestic and international trade against Inward Bills for Collection-i or on Open Account Basis.

TWCF-i (Sales)

A financing facility to finance sales/export transaction under domestic or international trade against Outward Bills for Collection-i or on Open Account Basis.

1. Enables customer to settle payment obligation to the seller or get immediate cash for customer's credit terms sales.
2. Facilitates convenient cash flow management of a business by having a fixed rate financing nature.
3. As a prudent and reliable basis for the preparation of the business projection since the payment amount will not be affected by fluctuation in the Base Financing Rate.
4. Provide up to 100% financing of invoice value.
5. To benefit unexpected incoming fund, prepayment is allowed.

Bank Guarantee-i



Process Flow

1. The customer and a beneficiary (third party) enter into a bilateral contract.
2. The customer approaches the Bank for issuance of a Bank Guarantee.
3. The Bank upon approval, issues a Bank Guarantee to the beneficiary.

Note:

Only to guarantee Shariah compliant transactions. Bank Guarantee is not permissible under the following:

- Acquisition of Shariah non-compliant assets
- Acquisition of an asset to be used in Shariah non-compliant activities
- Performance of Shariah non-compliant activities
- Conclusion of Shariah non-compliant transaction



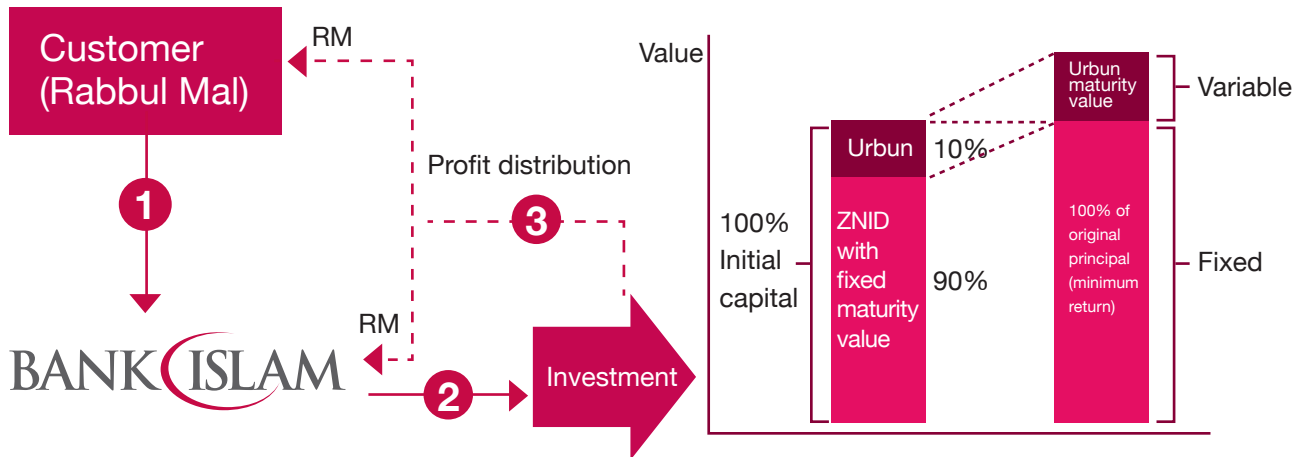
Salient Features

1. Our Bank Guarantee-i is widely accepted and can be leveraged to enhance customer's reputation.
2. Unlock customer's capital from required deposits or payment in advance.

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TREASURY
PRODUCTS

An-Najah Structured Investment



Process Flow

1. The customer and the Bank enter into a Mudarabah Muqayyadah (restricted investment) contract whereby the customer agrees to provide capital and the Bank as the Mudarib (entrepreneur) will invest the funds.
2. The Bank invests 90% of the capital provided in Islamic Negotiable Instruments (INIs). The remainder 10% is used to purchase an equity index using the urbun* mechanism.
3. Profits are distributed based on the agreed profit sharing ratio.

Note:

The Bai` Urbun and Wakalah contract under An-Najah involves an agreement between the Bank and Societe Generale Asset Management (SGAM)

Salient Features

A structured investment comprising Islamic Negotiable Instrument of Deposits (NID) with a floating rate of return based on the Mudarabah contract.

Mudarabah Muqayyadah

- A customer and the Bank enter into a Mudarabah contract whereby the customer becomes Rabbul Mal and the Bank becomes Mudarib.
- It is a restricted Mudarabah because funds provided by the customer will be invested in specific securities namely Islamic Negotiable Instruments (INIs) for capital protection and a basket of stocks for yield enhancement.
- Profit from the investment is distributable between the Bank and the customer based on an agreed profit sharing ratio.

Capital Protection

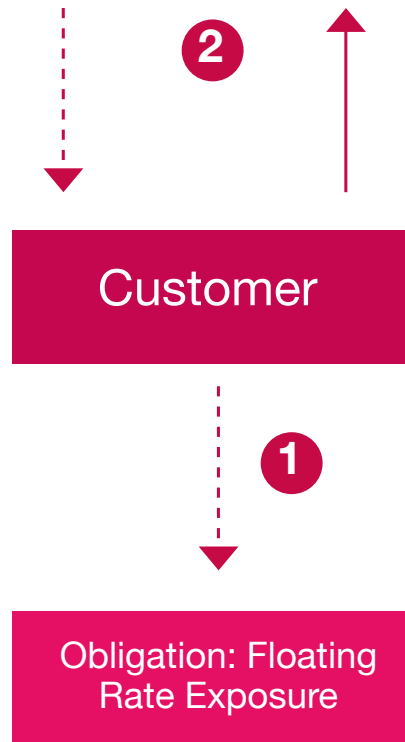
- Part (90%) of the capital provided by the customer is invested in INIs that provide fixed maturity value equivalent to the full capital amount.
- On maturity of investment, customer will get at minimum, an amount that is equivalent to the original capital (100%).
- The capital protection is only applicable if the investment is kept until maturity.

Yield Enhancement

- The remaining 10% of the capital is invested in an equity index (Al-Baraka Islamic Population Index) using the Urbun mechanism.
- The Urbun represents initial payment amount for the purchase price of the index (index option).
- On maturity, if the Bank decides to complete the purchase, the Bank has to pay the remainder of the price. The Bank will subsequently sell the index in the market and the profit derived from the sale will be shared accordingly with the customer.
- If the Bank revokes the purchase, the initial payment amount (Urbun) will be forfeited.

Wiqā` Profit Rate Swap (WPRS)

BANK ISLAM



--- Flow of fund
— Flow of commodity/ asset

Salient Features

Definition

An Islamic Profit Rate Swap (IPRS) typically involves an agreement to exchange a floating profit rate for a fixed rate or vice versa, implemented through the execution of a series of underlying “Commodity Murabahah” contracts.

Example

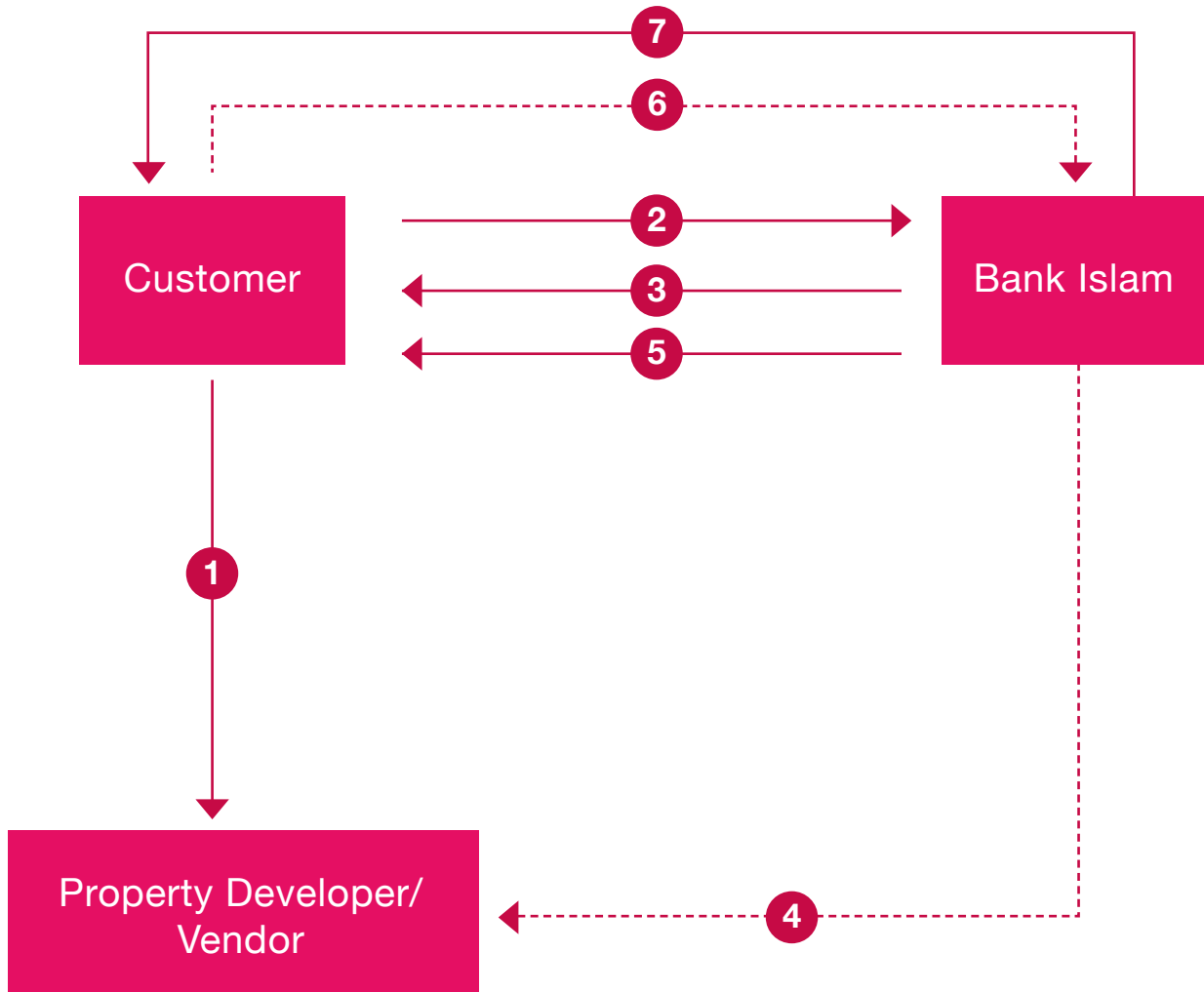
A customer has a floating rate financing obligation and wants to hedge this exposure by fixing the profit rate. By entering into a WPRS, the customer can swap its existing obligation (floating rate) for its desired obligation (fixed rate).

1. A customer has a floating rate exposure.
2. By entering into a WPRS with Bank Islam, the customer swaps the floating rate financing cash flow for a fixed rate obligation by receiving floating rate from and paying fixed rate to Bank Islam respectively.

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**UPCOMING
PRODUCTS**

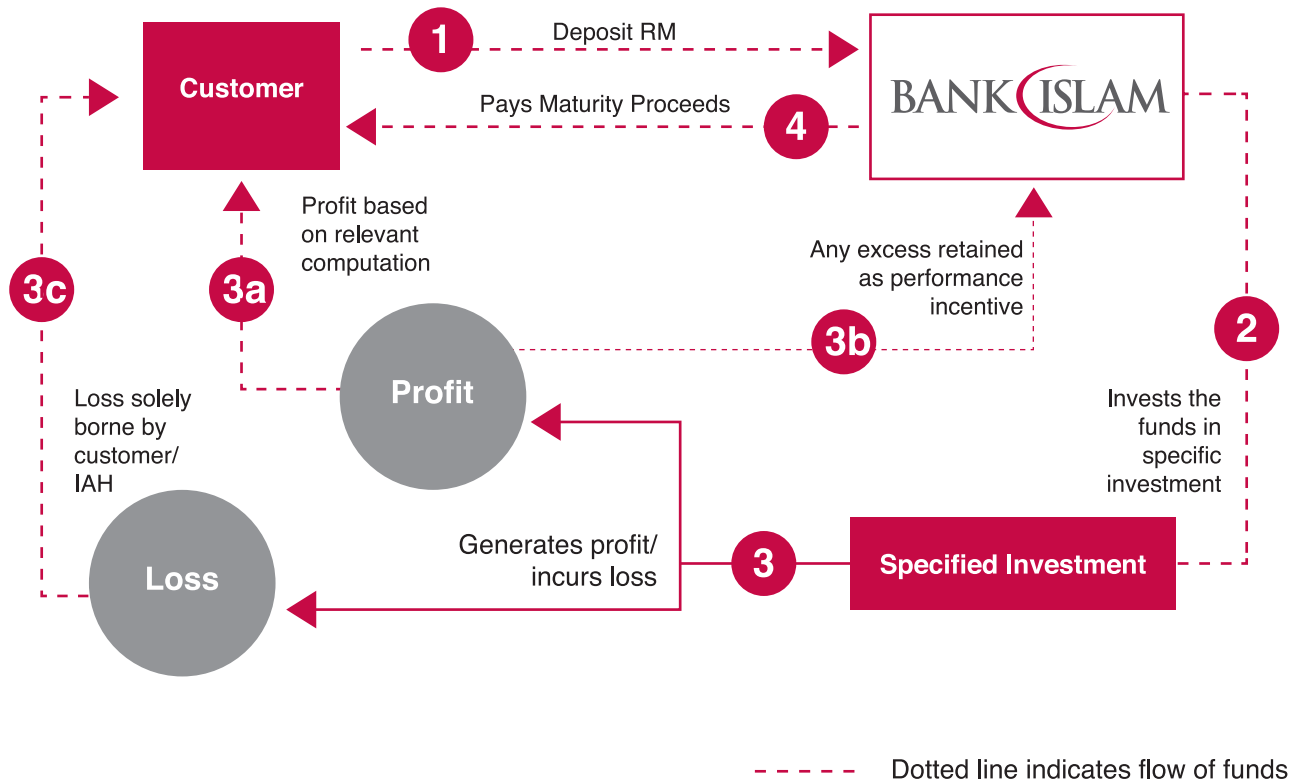
Property Financing (Ijarah Muntahiyah Bit Tamlik [IMBT])



Process Flow

1. Customer executes Sale & Purchase Agreement (SPA) with Property Developer / Vendor and becomes the owner of a property.
2. Customer applies for financing with the Bank.
3. The Bank purchases the property from customer.
4. The Bank pays the purchase price of the property to Property Developer / Vendor.
5. The Bank leases the property purchased to customer at an agreed rental and tenure.
6. Customer pays the rental to the Bank by way of an agreed payment term.
7. The Bank sells the property leased to customer at nominal value at the end of the leasing period.

Specific Wakalah Investment Account-i (SWIA-i)



Process Flow

Agency Appointment & Depositing Funds

1. The customer appoints the Bank as its agent to manage an investment by which the Bank (as Agent) will layout the investment details with an expected investment rate of return ('Expected Profit' rate) via Transaction Offer. Customer (as Principal) will deposit relevant Investment Amount by the investment date.

Investing Funds

2. The Bank invests the funds in a specified investment portfolio.

Return on Investment

3. The return on investment will be paid to the customer with the following conditions:
 - If the Actual Profit rate is above (or equal to) the Expected Profit rate; (3.a) the Bank will pay the Expected Profit to the customer and (3.b) any excess will be retained by the Bank as a performance incentive.
 - If the Actual Profit rate is below the Expected Profit rate; (3.a) the Bank is obliged to pay only the Actual Profit to the customer.
 - Loss; (3.c) any losses will be solely borne by the customer while the Bank is only exposed to loss due to negligence risk.

Payment of Maturity Proceeds

4. Upon maturity, the Bank will pay the relevant Maturity Proceeds computed to the customer.

Salient Features

1. The product is structured under the Wakalah Muqayyadah (restricted agency) contract whereby funds deposited by the customer will be invested in specific business activities as agreed by the customer.
2. SWIA-i is designed with risk absorbent features. As a risk absorbent product where related credit and market risks are absorbed by the customer or Investment Account Holder (IAH), it shall improve the Bank's Risk Weighted Capital Ratio (RWCR) and Economic Value of Equity (EVE).
3. The return on the investment is distributable to the customer based on the Expected Profit rate indicated (or the Actual Profit rate if it is below the expected).

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MILESTONES OF SUKUK DEVELOPMENT & ISSUANCE

Milestones of Sukuk Issuance

1983-1990

BalDS*:

Shell MDS Sdn Bhd
RM125 million sukuk
- First tradable ringgit
sukuk - Bank Islam

1991-2000

Sukuk

Mudarabah:

Cagamas Berhad
RM30 million
sukuk –
First mudarabah
sukuk -
Bank Islam

2001-2005

Sukuk Ijarah:

Kumpulan Guthrie
Berhad USD150
million sukuk –
First corporate
sukuk

Government of
Malaysia USD600
million sukuk –
First sovereign
sukuk

Sukuk Istisna`:

SKS Power Sdn
Bhd RM5.6 billion
sukuk – First
tradable istisna`
sukuk

Sukuk

Musharakah:

Musharakah One
Capital Berhad
RM2.5 billion sukuk
– First musharakah
sukuk

2006-2008

Equity linked Exchangeable Sukuk:

Khazanah Nasional
USD850 million
sukuk – First
exchangeable
sukuk

Global Sukuk

Index :

Dow Jones
Citigroup Sukuk
Index – First global
sukuk index

Sukuk

Musharakah:

Binariang GSM
RM15.35 billion
sukuk - largest
sukuk issuance as
at 2007

Toyota Capital
Services RM1
billion sukuk - First
Japanese MNC
issuer

2009-2010

Emas Sukuk:

Petronas USD1.5
billion sukuk

Government of
Malaysia USD1.25
billion sukuk -
largest sovereign
sukuk as at 2010

Khazanah Nasional
SGD1.5 billion sukuk
- largest and longest
termed Singapore
dollar denominated
'Emas' sukuk

2011-2012

Emas Sukuk:

Khazanah Nasional
RMB500 million
sukuk - first China
renminbi denominated
'Emas' sukuk and first
offshore RMB sukuk

Sukuk Musharakah:

Plus Berhad RM30.6
billion sukuk - single
largest sukuk
issuance as at 2012

Equity linked Exchangeable

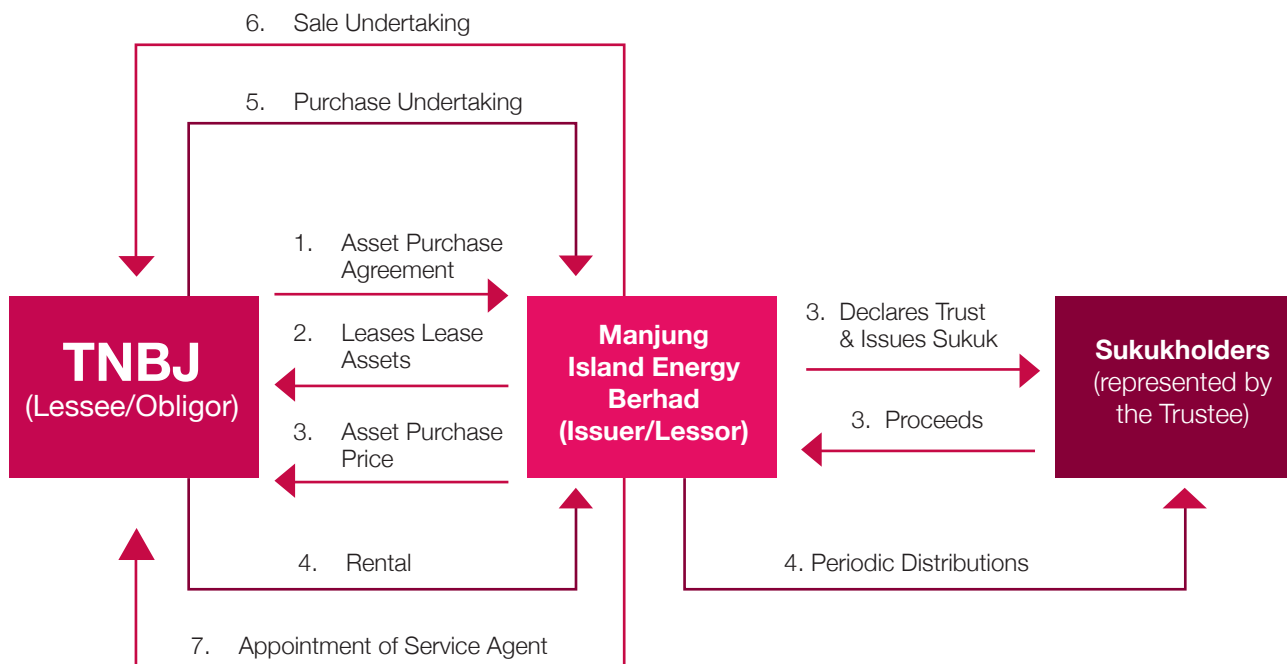
Sukuk:

Khazanah Nasional
USD357.8 million
sukuk - first to be
priced at negative
yield and first
Malaysian equity-
linked deal since 2010

Note - The listing is not exhaustive and some sukuk despite have been issued and/or approved may have not been added to the list at the time of publication of this document.

*BalDS : Bai` Bithaman Ajil Debt Securities

Sukuk Ijarah Structure: Manjung Island Energy Berhad**



** Ijarah Deal of the Year 2011 – Islamic Finance News

** Asia Pacific Bond Deal of the Year – Project Finance International

** RAM Blueprint Award 2011

Process Flow

1. The Issuer, on behalf of the investors (“Sukukholders”), shall from time to time purchase certain Shariah-compliant leasable assets (“Lease Assets”) from TNBJ (in such capacity, the “Seller”) by way of transfer of beneficial ownership, at the asset purchase price (“Asset Purchase Price”) pursuant to an asset purchase agreement (“Asset Purchase Agreement”).
2. The Issuer (on behalf of the Sukukholders) (in such capacity, the “Lessor”) shall then, from time to time, lease the Lease Assets to TNBJ (in such capacity, the “Lessee”) for a pre-determined rental amount (“Rental”) and tenure (“Ijarah Lease Term”) pursuant to an Ijarah agreement (“Ijarah Agreement”).
3. The Issuer shall declare a trust (“Trust”) over, amongst others, the relevant Lease Assets, the present and future rights and interest in the relevant Ijarah Agreement, the relevant Purchase Undertaking, the relevant Sale Undertaking, and the relevant proceeds of the foregoing and other transaction documents pertaining to the Islamic Securities Programme (collectively, the “Ijarah Trust Assets”) in favour of the relevant Sukukholders, and shall issue the Islamic Securities to the Sukukholders to represent the Sukukholders’ undivided beneficial ownership in the relevant Ijarah Trust Assets.

The Islamic Securities proceeds shall be utilised by the Issuer to pay the Asset Purchase Price under the relevant Asset Purchase Agreement.

4. Upon receipt by the Lessor from the Lessee of Rental on the relevant rental payment dates, the Issuer will use such amounts to make payments of the periodic distribution amounts due under the Islamic Securities to the Sukukholders.

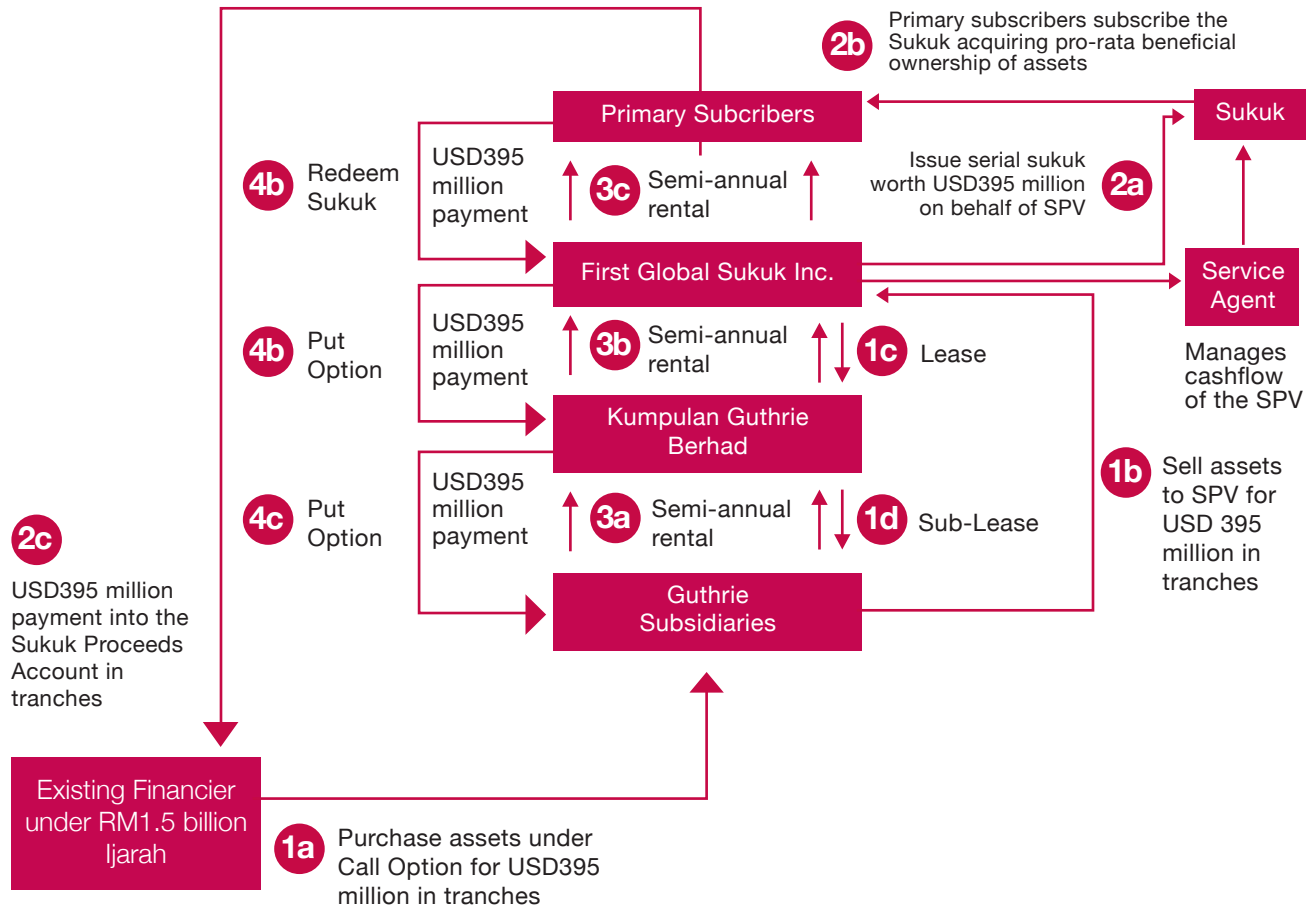
Process Flow

5. Pursuant to a purchase undertaking (“Purchase Undertaking”), TNBJ (in such capacity, the “Obligor”) shall purchase the relevant Lease Assets from the Issuer and enter into a Sale Agreement for such purchase.
6. Pursuant to a sale undertaking (“Sale Undertaking”), TNBJ shall have the right to require the Issuer to sell the relevant Lease Assets to TNBJ at certain dates prior to the Scheduled Dissolution Dates of the relevant Islamic Securities (“Early Redemption Date”) and accordingly the Issuer shall sell the relevant Lease Assets to TNBJ and enter into a Sale Agreement for such sale at the relevant Exercise Price on the Early Redemption Date.
7. Under the terms of a servicing agency agreement (“Servicing Agency Agreement”), TNBJ shall be appointed as the servicing agent (“Servicing Agent”) by the Issuer and will, amongst other things, be responsible, on behalf of the Lessor, for the performance and/or maintenance and/or structural repair of the Lease Assets and/or the related payment and/or ownership expenses in respect of the Lease Assets (“Ownership Expenses”), which are to be reimbursed by the Issuer to TNBJ upon the expiry of the relevant Ijarah Agreement.

Salient Features

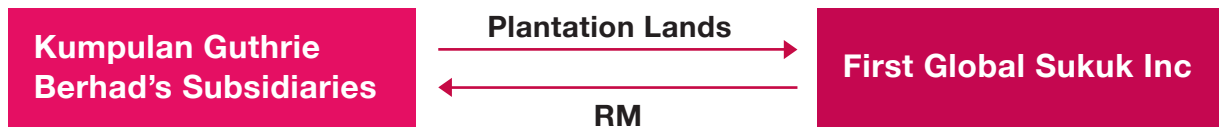
1. The Sukuk represent the undivided ownership in the trust assets created pursuant to the Ijarah Sukuk issuance.
2. It involves the transfer and lease of the beneficial rights of the assets.
3. The Sukuk's underlying asset is held on trust by the Special Vehicle Purpose.
4. The Sukuk are tradable in the secondary market.
5. On the maturity date of the Sukuk, the beneficial rights of the trust assets are transferred back to the Issuer. Subsequently, the same shall be transferred to TNBJ via the Purchase Undertaking.

Sukuk Ijarah Structure: First Global Sukuk Inc.



Sukuk Ijarah Structure: First Global Sukuk Inc.

1) Asset Purchase:



2) Sukuk Issuance:



3) Periodic Distribution Date:



4) Maturity Date:



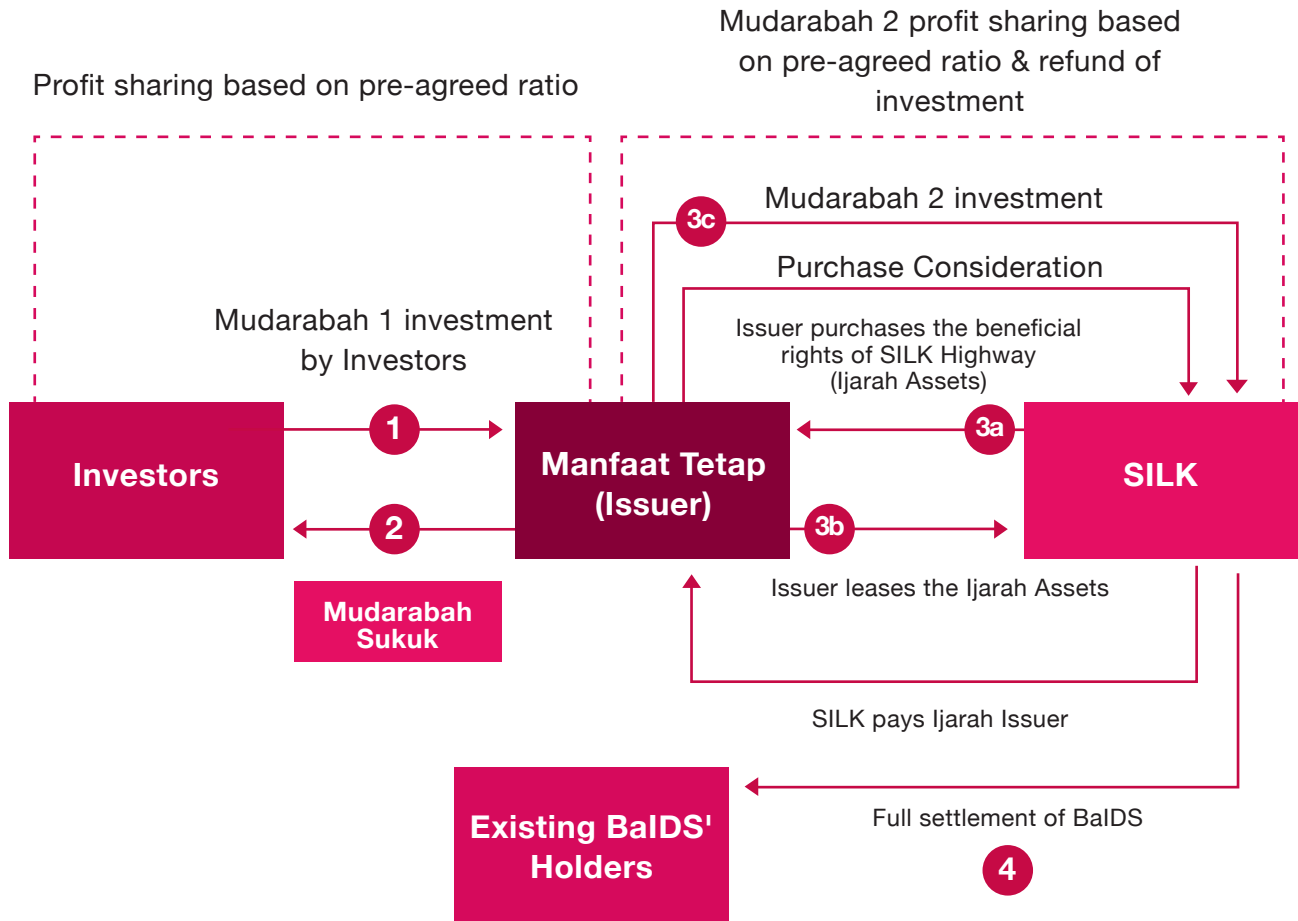
Process Flow

1. First Global Sukuk Inc, the Special Vehicle Purpose (SPV) purchases plantation lands from Kumpulan Guthrie Berhad's subsidiaries.
2. First Global Sukuk Inc issues sukuk to the investors to finance the purchase of the plantation lands. Each sukuk represents a fraction of undivided ownership of the plantation lands. First Global Sukuk Inc enters into lease arrangement with Kumpulan Guthrie Berhad.
3. First Global Sukuk Inc shall pass the periodic rental proceeds received from Kumpulan Guthrie Berhad to the Investors.
4. First Global Sukuk Inc redeems the sukuk and then sell the plantation lands to Kumpulan Guthrie Berhad. The proceeds from the lands disposal shall be utilised to pay for the redemption of the sukuk.

Salient Features

1. The Sukuk / Trust Certificates represent the undivided ownership in the trust assets created pursuant to the Ijarah Sukuk issuance.
2. It involves the transfer and lease of the beneficial rights of the trust assets.
3. Investors hold the Sukuk under a Trust.
4. The Sukuk are tradable on the secondary market.
5. On maturity, the beneficial rights are transferred back to the Issuer and subsequently to Kumpulan Guthrie Berhad via purchase undertakings.

Sukuk Mudarabah Structure: Manfaat Tetap Sdn Bhd



Process Flow

1. Under the Mudarabah structure, the Investors and the Issuer shall enter into a Mudarabah venture i.e. Mudarabah 1 where the Investors will contribute an amount equivalent to the capital investment of RM752,236,660 to the Issuer.
2. The Issuer then in return shall issue Sukuk Mudarabah to the Investors as an evidence of the Investors' investment of RM752,236,660.
- 3a. Upon the Issuer receiving the capital contribution from the Investors under the Sukuk Mudarabah, the Issuer shall enter into an Asset Purchase Agreement with SILK to buy the Ijarah Assets at an agreed purchase price.
- 3b. The Issuer shall thereafter enter into an Ijarah Agreement to lease the Ijarah Assets to SILK in return for Periodic Ijarah Rental Payments.
- 3c. Parallel to the Ijarah Agreement, the Issuer shall utilise part of the proceeds from the Sukuk Mudarabah to enter into Mudarabah 2 agreement with SILK, where in, the Issuer shall provide capital contribution for the business of SILK. The profits derived from the business i.e. toll collection, shall be shared between the Issuer (as the Rabbul Mal 2) and SILK (as the Mudarib 2) based on the Distribution Scheme.
4. Proceeds received by SILK pursuant to the sale of Ijarah Assets and the capital contribution under the Mudarabah 2 agreement shall be utilised as the full and final settlement to the existing BalDS holders.

Salient Features

1. The Issuer, Manfaat Tetap Sdn Bhd (Manfaat Tetap), is a Special Vehicle Purpose (SPV) owned by System Lingkaran Lebuh raya Kajang Sdn Bhd (SILK).
2. Manfaat Tetap acts as Mudarib 1 (for Mudarabah 1) and Rabbul Mal 2 (for Mudarabah 2) and Lessor (for Ijarah contract) under the Mudarabah Sukuk.
3. The Mudarabah Sukuk issued under Mudarabah1 is not transferrable nor tradable.
4. Manfaat Tetap uses the capital from Rabbul Mal (under Mudarabah 1) to purchase Ijarah assets from SILK and to invest in SILK under Mudarabah 2.
5. The Ijarah Agreement is executed between Manfaat Tetap and SILK.
6. Under Mudarabah 2, the profits shall be shared between Manfaat Tetap and the Investors based on an agreed profit sharing ratio. Under the Ijarah Agreement, SILK will pay a fixed rental amount to Manfaat Tetap semi-annually. Subsequently, Manfaat Tetap shall distribute the rental to the Investors.

Sukuk

USD150.0 million
Sukuk Al Ijarah



KUMPULAN GUTHRIE BERHAD

First Global Sukuk Inc
Sole Lead Arranger

RM1.0 billion
Istisna'



PUTRA

Projek Usahasama
Transit Aliran Ringan
Joint Arranger & Shariah
Advisor

RM1.5 billion
Al-Ijarah Muntahiyah
Bit-Tamlik



Kumpulan Guthrie
Berhad
Structuring & Shariah
Advisor

USD600.0 million
Sukuk Al Ijarah



Malaysia Global Sukuk
Inc
Co-Arranger

RM2.2 billion
BaIDS



KL International Airport
Berhad
Sole Lead Arranger

RM1.28 billion
BaIDS



SAJ Holdings
Sdn Bhd

SAJ Holdings Sdn Bhd
Joint Lead Arranger/ Lead
Manager & Shariah Advisor

RM752.2 million
Mudarahab Sukuk



Manfaat Tetap Sdn Bhd
Shariah Advisor

RM200.0 million BBA CPs
RM3.0 billion BBA MTNs
Sukuk Al Ijarah



SYARIKAT BEKALAN AIR SELANGOR
SDN. BHD.

Syarikat Bekalan Air Selangor
Sdn Bhd
Joint Lead Arranger &
Shariah Advisor

RM1.5 billion
Islamic Medium Term
Notes Programme



Malaysia Debt
Ventures Berhad
Joint Lead Manager

RM200.0 million
Bai' Murabahah Medium
Term Notes Programme



TH Plantations Berhad
Joint Lead Arranger &
Shariah Advisor

RM4.0 billion
Ijarah Medium Term
Notes Programme



Syarikat Prasarana Negara
Berhad Co-Manager

RM4.0 billion Sukuk
Musyarakah



Plus SPV Berhad
Joint Book Runner

Sukuk and Syndication

RM500.0 million
Bank Guaranteed
Sukuk Ijarah



Aras Sejagat Sdn Bhd
Joint Lead Arranger &
Joint Lead Manager

RM667.5 million
Syndicated Project
Financing Facilities



Ranhill

Ranhill Powertron II
Sdn Bhd
Senior Manager

RM10.0 billion
Islamic Medium Term
Notes Programme



Aman Sukuk Berhad
Joint Lead Manager &
Shariah Adviser

RM5.0 billion**
Islamic Securities
Programme



TENAGA NASIONAL

Manjung Island Energy
Berhad Joint Principal Adviser/
Lead Arranger/ Lead
Manager/ Shariah Adviser

RM327.0 million
Syndicated Islamic
Financing Facility



Prolintas Expressway
Sdn Bhd
Lead Arranger

USD150.0 million*
Syndicated Islamic
Financing Facility



Qatar Airways Q.C.S.C
Arranger

RM330.0 million
Syndicated Islamic
Financing Facility



Kedah Sato Sdn Bhd
Lead Arranger

RM800.0 million
Syndicated Islamic
Financing Facilities



Aura Bayu Sdn Bhd
Senior Manager

* Ijarah Deal of the Year 2009 - Islamic Finance
News

* Qatar Deal of the Year 2009 - Islamic Finance
News

* Best Islamic Structured Financing - The Asset Triple
A Islamic Finance Awards 2010

** Ijarah Deal of the Year 2011 – Islamic Finance
News

** Asia Pacific Bond Deal of the Year – Project Finance
International

** RAM Blueprint Award 2011

Corporate Finance



Focus Lumber Berhad
Listing of Focus Lumber Berhad on the Main Market of Bursa Malaysia Securities Berhad
Main Adviser



Listing of APFT Berhad on the Main Market of Bursa Malaysia Securities Berhad
Main Adviser



Listing of PESTECH International Berhad on the Main Market of Bursa Malaysia Securities Berhad
Main Adviser

Akarmas Sdn Bhd

Conditional Mandatory Take-over Offer by Akarmas Sdn Bhd to acquire all the remaining ordinary shares of RM1.00 each in PK Resources Berhad for a cash consideration of RM0.60 per share
Main Adviser

Lembaga Tabung Haji



Exemption from the obligation to undertake Mandatory Take-over Offer arising from the acquisition of Syarikat Sabaco Sdn Bhd from TH Ladang (Sabah & Sarawak) Sdn Bhd



Acquisition of the entire equity interest in Asian Corporation Limited for a total cash consideration of RM11 million
Main Adviser

TH Plantations Berhad

Acquisitions of Syarikat Sabaco Sdn Bhd and Ladang Bukit Belian Sdn Bhd from TH Ladang (Sabah & Sarawak) Sdn Bhd for a total purchase RM199 million

- Bonus Issue
 - Employees' Scheme consideration of Share Option Scheme
- Main Adviser



Y.S.P. Southeast Asia Holding Berhad

Renounceable Two-Call Rights Issue of 27.7 million ordinary shares of RM1.00 each in YSPSAH at an issue price of RM1.00 per rights share
Main Adviser



ES Ceramics Technology Berhad

Exemption from the obligation to undertake mandatory take-over offer arising from a rights issue

Independent Adviser



Astral Asia Berhad

Joint venture between related parties to jointly develop a piece of leasehold land into mixed property development

Independent Adviser

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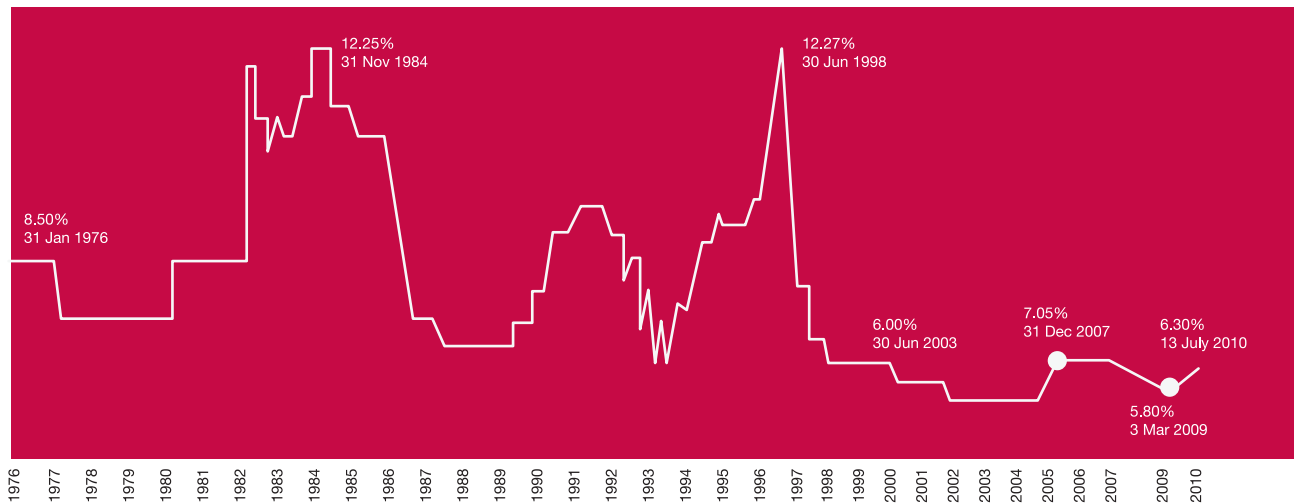
PRICING & ISLAMIC BANK FLOATING RATE MECHANISM

Pricing and “Time Value of Money”

1. There is no specific limitation by Islam on the pricing.
2. Islam upholds the principle of mutual consent
ان البيع عن تراض "Indeed sale is based on mutual consent".
3. Imposing higher price for a deferred payment sale is allowed
للزمن حظ في الثمن "Time has a share in price".
4. Accusation that Islamic banking is expensive is mere “perception” and is not based on fair computation according to scenarios faced by Islamic and conventional banks:
 - i. Prompt payment by the customers
 - ii. Default in paying instalment by the customers
 - iii. Base lending rate (BLR) in conventional banking industry and its impacts on the interest imposed on the customers

Pricing and “Time Value of Money”

The movement of Base Lending Rate (BLR) between 1976 - 2010



Source: Malaysia BLR Website

- In 1983 – 1987, 1992-1993, 1997-1998 – there was negative impacts on conventional banks’ customers who had to pay higher installment due to high BLR.
- Islamic banks’ customers are required to pay the contracted selling price in case of Bai Bithaman Ajil

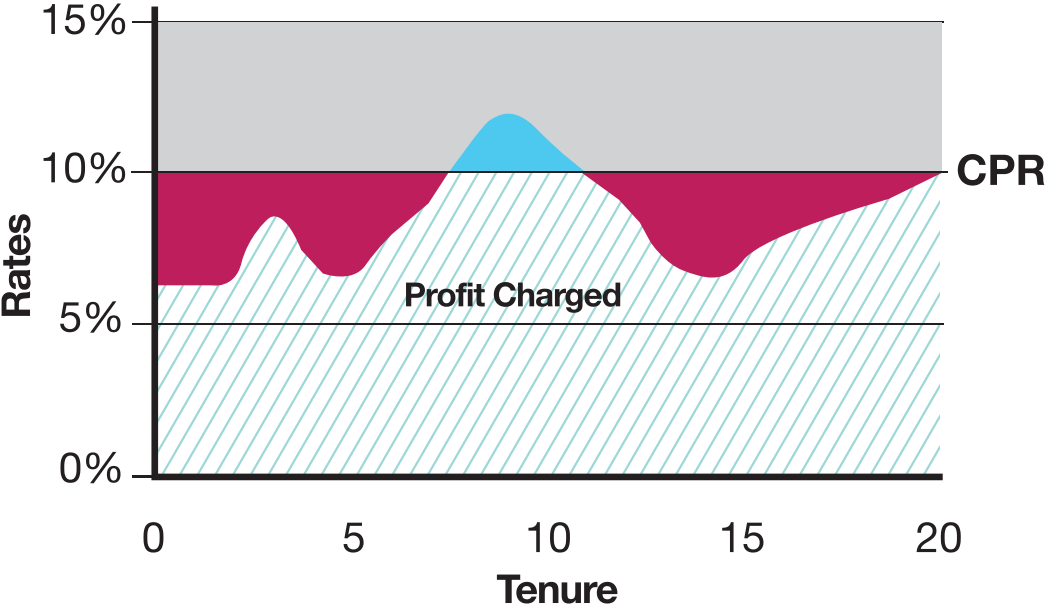
Islamic Bank Floating Rate Mechanism - Innovation to overcome the pricing issue




In 2003 a significant achievement was made in the area of risk management with the first variable rate financing product introduced in the Islamic banking industry.

Under the new floating financing method the selling price of the asset sold to the customer on deferred terms would be fixed at a profit rate known as the ceiling rate which is higher than the profit rate under the fixed rate financing where, in principle the contractual selling price and instalments would be higher.

However, rebate or *ibra'* (a waiver of right to claim unearned profit) is required to be granted at every instalment, for example on a monthly basis, in order to reduce the monthly instalments to match that of the current market level.

Floating Rate Financing – Response to Fluctuation in Base Lending Rate (BLR)



- CPR** Ceiling Profit Rate
-  Effective Profit Rate
-  Rebate
-  Profit rate exceeding CPR

Salient Features of Islamic Bank Floating Rate Mechanism

1. The monthly instalment throughout the financing period is based on Effective Profit Rate (EPR).
2. Sale price is determined based on Contracted/ Ceiling Profit Rate (CPR).
3. Bank undertakes to give rebate (Ibra') on the early settlement and the difference between EPR and CPR.
4. EPR is capped at the sale price CPR as agreed during inception of the contract.

Benefits to Islamic banks' customers:

- Rebate between EPR and CPR
- If EPR rises above CPR, the rate is capped (CPR)

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GLOSSARY OF ISLAMIC TRANSACTION TERMINOLOGIES

Glossary of Islamic Transaction Terminologies

Bai` Bithaman Ajil

Sale contract based on deferred payment at certain price

Bai` Inah

Sale contract followed by repurchase by the seller at a different price

Bai` Istijrar

A contract between a supplier and a buyer whereby the supplier supplies a particular item on an ongoing basis on an agreed method of payment

Bai` Istisna`

Sale contract by way of order for certain product with certain specifications and certain mode of delivery and payment (either in cash or deferred)

Bai` Murabahah

Sale contract with a disclosure of the asset cost price and profit margin to the buyer

Bai` Murabahah to the Purchase Orderer (MPO)

Murabahah by an order or promise to purchase by the customer prior to the seller's acquisition of the goods

Bai` Musawamah

Sale contract without the disclosure of the asset cost price and profit margin to the buyer

Gharar - Uncertainty

Gharamah - Fine / penalty

Hibah ruqba

A gift during the lifetime of the giver or recipient of hibah with a condition that the death of a party (either the giver or recipient of hibah) is the effective condition for ownership of the property by the surviving party

Ibra'

Rebate / waiver of partial or total claim against certain right or debt

Ijarah

Lease or service contract that involves benefit / usufruct of certain asset or work for an agreed payment or commission within an agreed period

Ijarah Muntahiyah Bit-Tamlik / Ijarah Thumma Bai`

Lease contract which ends with acquisition of ownership of the asset by the lessee

Kafalah - Guarantee

Musharakah

A contract of partnership based on joint capital contribution by a number of parties to share in the profit and loss based on agreed terms

Glossary of Islamic Transaction Terminologies

Musharakah Mutanaqisah

A contract of partnership that allows one (or more) partner(s) to give a right to gradually own his share of the asset to the remaining partners based on agreed terms

Mudarabah

Profit sharing contract

Mudarabah Muqayyadah

A contract of partnership that allows the capital owner to restrict the utilisation of funds by the entrepreneur for a specific time, type of business, business location or type of services.

Qardh - Loan contract

Rahn – Pledge / charge

Sukuk – Islamic securities / bonds

Ta`widh - Compensation

Tanazul - Waive of the entitlement to claim

Tawarruq

Purchasing an asset with deferred price, either on the basis of musawamah or murabahah, then selling it to a third party to obtain cash

Ujrah - Fee

Wa`d - Promise

Wadiah

Safe keeping contract in which a party entrusted his property to another party for safe keeping and to be returned upon request

Wakalah – Agency contract

Waqaf – A form of endowment by an owner of a property for public benefit and wellbeing which is allowed by Shariah

For more information on Shariah contracts application in Bank Islam's product and services, please contact:

Product Development Department : 03 2088 8069 / 8064 / 8062

Shariah Division : 03 2088 8052 / 8054

Contact Centre : 03 26 900 900

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