

**SAMPLES OF ISLAMIC
FINANCE CONTRACTS**

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SAMPLES OF ISLAMIC FINANCE CONTRACTS

Objectives:

The purpose of providing sample contracts of Islamic Financing is to show how these contracts are formulated and how the Islamic Financing principles are reflected in legal terms. The following shall not be legal documents, and we warn users of the Islamic Financing Net that they must consult their legal advisers before using any clause(s) sampled on the Net. The Provider does not carry any legal or moral responsibility for any use of these samples. They are not offered as legal documents, and we do not give, on this Net, legal counseling...

Presentation:

Each Shari'ah-approved financing document may be sampled here in different versions, depending on whether there are certain variations in the way a financing mode is applied. Also, each version consists of core clauses that explain the financing relationships and make the essential body of the contract and marginal, though necessary, clauses that indicate its legal and economic milieu.

Preparation:

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Samples Presented:

A – Use of Funds: Financing

- Murabahah to the purchase orderer
- Musharakah
- Mudharabah
- Leasing
- Istisna' (with parallel Istisna')
- Salam (with parallel Salam)

B – Mobilization of Funds: Deposits

- Unrestricted Investment Deposits
- Restricted Investment Deposits
- Current Account (Demand) Deposits

• **MURABAHAH**

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party,
and
2) A purchase order, as a second party
2. The second party orders the bank to buy
..... as described in the proforma

No..... date issued by
..... for the price of, and
to open an irrevocable letter of credit to the order and
benefit of the supplier for the total price.

The second party promises to purchase the goods
described above after they are purchased and
received by the Bank for the price mentioned in
article 4.

3. The first party gives, by this agreement, a proxy to
the second party to work as an agent of the first
party, in corresponding with the supplier, and in
receiving the goods in the port and inspecting them,
and in all relations with the insurance company,
custom and other government and non government
agencies.
4. Upon receipt of shipping documents, the first party
shall hand them to the second party as its agent. And
the second party shall inspect the goods at the port
and receive them on behalf of the first party.

After receipt, the second party shall inform the first
party that, according to the promise, he purchases
the goods for the price of which consists
of the original purchase price of plus the
mark up profit of the bank of The
price is payable by the second party to the first party
in the city of on the day of the
year; and he becomes totally responsible

for the goods, including customs formalities, taxes, etc.

5. Collateral and Security:

The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes.

★ Notes:

1. The collateral mentioned in clause 5 may be any valuables, mobile or immobile. It may also be an investment deposit with the financing bank, or a personal or bank guarantee.
2. Islamic Financial Institutions that are not licensed as banks may give their Murabahah through a licensed bank as a third party that acts as an agent of the financial institution. It may also be a guarantor of the beneficiary.
3. Sale price of Murabahah may be divided on several installments.

• **MUSHARAKAH**

Musharakah may take one of five versions:

- A. Musharakah to the purchase orderer
- B. (Normal) Musharakah
- C. Musharakah with a promise to sell
- D. Declining Musharakah
- E. Buying Shares

A. Musharakah to the purchase orderer

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first partner,
and
3) A purchase order, as a second partner
2. The second partner asks the bank to enter with him/her in a partnership on the basis of(90%) to the first partner and 10% to the second partner, to buy as described in the proforma No..... date issued by, for the price of, and then to open an irrevocable letter of credit to the order and benefit of the supplier for the total price of.....

The second partner promises to purchase, after actual receipt of the merchandise, the share of the first partner in the partnership for the price of (cost + mark up).

3. The second partner will be responsible for all correspondence with the supplier, receiving the merchandise in the port, inspecting it and for all

relations with the insurance company, custom and other government and non government agencies.

4. After receipt of shipping documents, the first partner shall inspect the goods at the port, and shall, according to the promise, inform the first partner that he purchases them for the price of (cost + mark up). This price is payable to the first partner in the city of on the day of, the year And from the time of this purchase, the second partner alone becomes owner of the goods and responsible for all taxes, fees, custom duties, etc. related to them.

5. Collateral and Security:

The second partner delivers to the first partner his shares of company for use as collateral, duly endorsed to the name of the bank for the debt resulting after the purchase of the first partner's share in the partnership.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes.

B. Musharakah (normal)

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first partner,

and

- 2) A legal or natural person, as a second partner
2. Statement of objective of Musharakah, such as "The Second Partner approached the bank to enter into a partnership agreement to operate the factory of located at which is owned by the second partner, for a period of
3. A Musharakah is hereby established between the two partners as follows:
 - the first partner provides a capital of US\$ for the purpose of using it as an operational capital for the factory
 - the second partner provides the net worth of his factory as represented in the balance sheet, as amended and accepted by the two partners, in the amount of
4. The second partner shall manage this Musharakah in the usual and customary manner and to the best interest of the partnership within the scope of a mutually agreed upon policy and strategy. However, the first partner shall appoint one of its employee, as a representative in the partnership. The representative has the full right to inspect accounts, books and records of the partnership at any time, and to place a reservation or an objection on any managerial acts he sees unfit with the best interest of the partnership.

5. All banking transactions of the partnership shall be exclusively effected in , with and through the first partner.
6. The second partner pledges to supply the bank with quarterly reports and to consult with its representative before taking any decision in important matters and to take a written approval before disbursement, or pledge of disbursement of any amount exceeding US\$
7. The distribution of profits shall be as follows:
 -% to the second partner as compensation for his managerial efforts
 - the remainder shall be distributed according to the shares in capital, as mentioned in Article 3 of this agreement and any losses shall solely be distributed in proportion to share in capital as in Article 3 too.
8. The duration of this Musharakah is (one) year, i.e., until the day of the month of of the year only; and a balance sheet shall be prepared at the end of this period and sufficient assets of the partnership shall, by then, be liquidated to pay the share of the first partner plus/minus profit or loss.
9. The second partner puts under the full authority of the first partner his (securities, real estates, etc.) as a guarantee to be used only in case of any damage caused by neglect or transgression by the second partner.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.

C. Musharakah with a promise to sell (applies to fixed assets)

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first partner, and
3) A legal or natural person, as a second partner
2. The objective of partnership is to construct (purchase) a (airplane, ship, building, etc.) in the specification mentioned in Annex I; and operate it for profit.
3. A Musharakah is hereby established between the two partners as follows:
 - the first partner provides 90% of the capital or US\$
 - the second partner provides 10% of the capital or US\$
 - in case the cost of the assets to be constructed (or purchased) exceeds the amount of US\$ the increment shall be contributed by the parties in the same proportion.
4. The second partner shall manage this Musharakah in the usual and customary manner and to the best interest of the partnership within the scope of a mutually agreed upon policy and strategy. However,

the first partner shall appoint one of its employee, as a representative in the partnership. The representative has the full right to inspect accounts, books and records of the partnership at any time, and to place a reservation or an objection on any managerial acts he sees unfit with the best interest of the partnership.

5. All banking transactions of the partnership shall be exclusively effected in , with and through the first partner.
6. The second partner pledges to supply the bank with quarterly report and to consult with its representative before taking any decision in important matters and to take a written approval before disbursement, or pledge of disbursement of any amount exceeding US\$
.....
7. The distribution of profits shall be as follows:
 -% to the second partner as compensation for his managerial efforts
 - the remainder shall be distributed according to the share in capital mentioned in Article 3 of this agreement and any losses shall be distributed in proportion to share in capital as in Article 3 too.
8. The duration of this Musharakah is (e.g., seven) years.
9. The first partner promises to sell his share in the partnership, at the end of its duration, to the second partner for a price of US\$
10. The second partner puts under the full authority of the first partner his (securities, real

estates, etc.) as a guarantee to be used only in case of any damage caused by neglect or transgression by the second partner.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. The second partner shall deposit in a special investment account with the first partner % of the total of his managerial and capital profits for the purpose of accumulating an amount sufficient for buying the first partner out. This deposit shall be invested on Mudharabah basis as a long-term Mudharabah fund with a distribution of profit as follows:
 - 10% to the bank as a Mudhareb
 - 90% to the depositor

D. Declining Musharakah (applies to fixed assets)

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first partner,
and
2) A legal or natural person, as a second partner
2. The objective of partnership is to construct (purchase) a (airplane, ship or building in

the specification mentioned in Annex I and operate it for profit.

3. A Musharakah is hereby established between the two partners as follows:
 - the first partner provides 90% of the capital or US\$
 - the second partner provides 10% of the capital or US\$
 - in case the cost of the assets to be constructed (or purchased) exceed the amount of US\$ the increment shall be contributed by the parties in the same proportion.
4. The second partner shall manage this Musharakah in the usual and customary manner and to the best interest of the partnership within the scope of a mutually agreed upon policy and strategy. However, the first partner shall appoint one of its employee, as a representative in the partnership. The representative has the full right to inspect accounts, books and records of the partnership at any time, and to place a reservation or an objection on any managerial acts he sees unfit with the best interest of the partnership.
5. All banking transactions of the partnership shall be exclusively effected in , with and through the first partner.
6. The second partner pledges to supply the bank with quarterly report and to consult with its representative before taking any decision in important matters and to take a written approval before disbursement, or

pledge of disbursement of any amount exceeding US\$

7. The distribution of profits shall be as follows:

-% to the second partner as compensation for his managerial efforts
- the remainder shall be distributed according to the share in capital mentioned in Article 3 of this agreement and any losses shall be distributed in proportion to share in capital as in Article 3 too.

8. The duration of this Musharakah is nine years.

9. The first partner promises to sell, out his share, 10% of the total capital of the partnership to the second partner at the end of each accounting year for the amount of US\$, payable at the time of signing the sale contract.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. The second partner shall deposit in a special investment account with the first partner % of the total of his managerial and capital profits for the purpose of accumulating an amount sufficient for buying the shares promised for sale at the end of each year. This deposit shall be invested on Mudharabah basis as a long term Mudharabah fund with a distribution of profit as follows:
 - 10% to the bank as a Mudhareb
 - 90% to the depositor

E. Buying Shares

This is done by means of sale contract if shares are bought from organized or non-organized markets; or by means of agreement to establish a company or corporation.

• MUDHARABAH

Mudharabah may take one of four versions:

- A. (Normal) or simple Mudharabah
- B. Mudharabah with a promise to sell
- C. Declining Mudharabah
- D. Buying Non-voting Shares

A. Simple (Normal) Mudharabah

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a Rabb al Mal (funds owner) who shall be called the bank, and
2) A legal or natural person, as a Mudhareb (working partner)
2. Statement of objective of Mudharabah, such as: "The Mudhareb approached the bank to enter into a Mudharabah agreement to trade in textile, through import and distribution in the location of

..... which is owned by the Mudhareb,
for a period of

3. A Mudharabah is hereby established between the two parties as follows:
 - a) the Rabb al Mal provides a capital of US\$ for the purpose of using it as a principal for the Mudharabah
 - b) the Mudhareb takes full charge of managing this Mudharabah for the purpose of maximizing its profit and to liquidate all its properties by its closing date. All that with full honesty and maximum loyalty to its objective. He shall maintain separate, inclusive and comprehensive accounts for the Mudharabah.
4. The Rabb al Mal has the full right to inspect accounts, books and records of the Mudharabah at any time, and to place a reservation on any managerial acts he sees unfit with the best interest of the Mudharabah.
5. All banking transactions of the Mudharabah shall be exclusively effected in , with and through the bank.
6. The Mudhareb pledges to supply the bank with quarterly reports. And it is understood that he shall use his expertise and facilities of his business in the fulfillment of the objectives of this Mudharabah.
7. The profit is defined as any amount in excess of the principal after liquidating all properties of the Mudharabah.

The distribution of the profit shall be as follows:

- a)% to the Mudhareb

- b)% to the Rabb al Mal
 - c) Any losses shall solely be born by Rabb al Mal.
8. The duration of this Mudharabah is (one) year, i.e., until the day of the month of of the year only; and the Mudhareb is required, by the end of this period, to liquidate all assets of the Mudharabah.

★ Other Clauses:

1. A collateral may be added to be used only in case of loss resulting from Mudhareb's negligence or violation of conditions of contract.
2. Certain limitation may be added in matters related to geographical boundary of the business and to kinds of merchandise. By the same token, a Mudharabah may be left very general or restricted to a specific or single transaction.
3. A condition allowing the Mudhareb to mix own and/or others' funds with fund of Mudharabah, may also be added.
4. Number of original copies of the contract.
5. Determining the Court of competent jurisdiction over the contract.

**B. Mudharabah with a promise to sell
(applies to fixed assets)**

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a Rabb al Mal, called the bank, and

- 2) A legal or natural person, as a Mudhareb
2. The objective of the Mudharabah is to contribute 90% to the construction (purchase) of a (airplane, ship, building, etc.) in the specification mentioned in Annex I; and operate it for profit.
3. A Mudharabah is hereby established between the two parties as follows:
- the bank provides 90% of the total cost or US\$, this is defined as the Mudharabah principal
 - the Mudhareb provides 10% of the cost or US\$, to be mixed with the Mudharabah principal
 - in case the cost of the assets to be constructed (or purchased) exceeds the amount of US\$ the increment shall be contributed by the parties in the same proportion
 - the total construction (purchase) of above mentioned assets and their operation for profit is hereby called the project.
4. The Mudhareb shall manage this Mudharabah in the usual and customary manner and to the best interest of the Mudharabah within the scope of this contract. He is required to maintain separate, inclusive and comprehensive accounts for this project of which the Mudharabah makes 90%. However, the Rabb al Mal shall have the full right to inspect accounts, books and records of the Mudharabah at any time, and to place

- a reservation on any managerial acts he sees unfit with the best interest of the Mudharabah.
5. All banking transactions of the Mudharabah shall be exclusively effected in , with and through the bank.
 6. The Mudhareb pledges to supply the bank with quarterly report.
 7. The distribution of profits shall be as follows:
 - a) 10% (ten percent) of the profit (loss) of the project shall be to the second party as a reward on his contribution to the capital of the project
 - b) the remaining 90% (ninety percent) is defined as the Mudharabah outcome and shall be distributed according to the following:
 -% to the Rabb al Mal, and
 -% to the Mudhareb.
 - In case of loss, all this 90% of losses of the project shall be born by Rabb al Mal.
 8. The duration of this Mudharabah is (e.g., seven) years.
 9. The Rabb al Mal promises to sell his share in the project, at the end of the Mudharabah duration, to the Mudhareb for a price of US\$ This sale shall be effected by means of a separate contract at that time.

★ Other Clauses:

- 1) A collateral may be added to be used only in case of loss resulting from Mudhareb's negligence or violation of conditions of contract.

- 2) Certain limitation may be added in matters related to geographical boundary of the business and to kinds of merchandise. By the same token, a Mudharabah may be left very general or restricted to a specific or single transaction.
- 3) A condition allowing the Mudhareb to mix own and/or others' funds with fund of Mudharabah, may also be added.
- 4) Number of original copies of the contract.
- 5) Determining the Court of competent jurisdiction over the contract.
- 6) The Mudhareb shall deposit in a special investment account with the bank% of the total of his managerial and capital profits for the purpose of accumulating an amount sufficient for buying the Rabb al Mal out. This deposit shall be invested on Mudharabah basis as a long-term Mudharabah fund with a distribution of profit as follows:
 - 10% to the bank as a Mudhareb
 - 90% to the depositor

C. Declining Mudharabah (applies to fixed assets)

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a Rabb al Mal, called the bank, and
2) A legal or natural person, as a Mudhareb
2. The objective of the Mudharabah is to contribute 90% to the construction (purchase) of a

(airplane, ship, building, etc.) in the specification mentioned in Annex I; and operate it for profit.

3. A Mudharabah is hereby established between the two parties as follows:
 - a) the bank provides 90% of the total cost or US\$, this is defined as the Mudharabah principal
 - b) the Mudhareb provides 10% of the cost or US\$, to be mixed with the Mudharabah principal
 - c) in case the cost of the assets to be constructed (or purchased) exceeds the amount of US\$ the increment shall be contributed by the parties in the same proportion
 - d) the total construction (purchase) of above mentioned assets and their operation for profit is hereby called the project.
4. The Mudhareb shall manage this Mudharabah in the usual and customary manner and to the best interest of the Mudharabah within the scope of this contract. He is required to maintain separate, inclusive and comprehensive accounts for this project of which the Mudharabah makes 90%. However, the Rabb al Mal shall have the full right to inspect accounts, books and records of the Mudharabah at any time, and to place a reservation on any managerial acts he sees unfit with the best interest of the Mudharabah.
5. All banking transactions of the Mudharabah shall be exclusively effected in , with and through the bank.

6. The Mudhareb pledges to supply the bank with quarterly report.
7. The distribution of profits shall be as follows:
 - a) 10% (ten percent) of the profit (loss) of the project shall be to the second party as a reward on his contribution to the capital of the project
 - b) the remaining 90% (ninety percent) is defined as the Mudharabah outcome and shall be distributed according to the following:
 -% to the Rabb al Mal, and
 -% to the Mudhareb.
 - In case of loss, all this 90% of losses of the project shall be born by Rabb al Mal.
8. The duration of this Mudharabah is nine years.
9. The Rabb al Mal promises to sell, out his share, 10% of his shares in the project to the Mudhareb at the end of each accounting year for the amount of US\$ payable each year at the time of signing the sale contract.

★ Other Clauses:

- 1) A collateral may be added to be used only in case of loss resulting from Mudhareb's negligence or violation of conditions of contract.
- 2) Certain limitation may be added in matters related to geographical boundary of the business and to kinds of merchandise. By the same token, a Mudharabah may be left very general or restricted to a specific or single transaction.

- 3) A condition allowing the Mudhareb to mix own and/or others' funds with fund of Mudharabah, may also be added.
- 4) Number of original copies of the contract.
- 5) Determining the Court of competent jurisdiction over the contract.
- 6) The Mudhareb shall deposit in a special investment account with the bank % of the total of his managerial and capital profits for the purpose of accumulating an amount sufficient for buying the Rabb al Mal out. This deposit shall be invested on Mudharabah basis as a long-term Mudharabah fund with a distribution of profit as follows:
 - 10% to the bank as a Mudhareb
 - 90% to the depositor

D. Buying Non-voting Shares (Mudharabah Shares)

This is done by means of sale contract if shares are bought from organized or non-organized markets; or by means of agreement to establish a company or corporation. Keeping in mind that certain laws (for instance, in Bahrain) allow companies to issue non-voting shares, which are, in fact, Rabb al Mal shares in a Mudharabah.

• LEASING (IJARAH)

It may take one of four versions:

- A. Leasing (simple or normal)
- B. Leasing to Purchase Orderer
- C. Declining Leasing (sometimes called Ijarah wa Iqtina')

D. Variable-Return Leasing

A. Leasing (simple or normal)

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, owner of rentable asset, as a first party, called Lessor, and 2) A natural or legal person, as a second party, called Lessee.
2. The first party leases to the second party (description of leased asset), for a period of (e.g., from January 1, 2000, to December 31, 2000), for a total rent of US\$ This asset shall be used by the lessee (and his family or employees) as in a normal and customary utilization.
3. The rent is payable on (e.g., quarterly) installments. Each installment is due and becomes payable on the first day of each (quarter), i.e., January 1, April 1, July 1 and October 1 of each year for the whole period of the rent.
4. The first party delivers the key of the leased asset and its operational manual on the day of, of the month of, of the year of, to the lessee. He shall have days for inspection and trial operation (or: the lessee have inspected leased asset and finds it fit for use and in complete compliance with this agreement).
5. The lessor is responsible for major maintenance that restores the leased asset to normal use in case of any

deficiency, defect, whether natural, or affected by normal operation or by any human being, unless such defect is caused by violation of the operational manual and instructions, improper use by lessee, or an act of aggression on his part.

6. The lessor is also responsible for insurance on the asset itself. This insurance must cover body of the asset and its function under conditions of normal operations. The two parties may agree that this insurance is contracted by the lessee, on behalf and to the benefit of the lessor, and deduct its premium from the rental installments.
7. The lessee is fully responsible for regular operational maintenance and for any defect caused by harsh, and/or abnormal use of the asset, or by use in violation of operational manual and instructions.

He is also responsible for any damage that may be caused to other parties by the operation of the leased asset. Effects caused by persons under authority of lessee are considered as by himself.

8. Collateral and Security:
The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.
9. At the end of this lease, the lessee shall return the asset to the first party (or: the lessor pledges to give it

as a gift to lessee; or to sell it to him for the amount of US\$).

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes for quarterly rent.

★ Notes:

1. The collateral mentioned in clause 8 may be any valuables, mobile or immobile. It may also be an investment deposit with the financing bank, or a personal or bank guarantee.
2. Islamic Financial Institutions that are not licensed as banks may give their leasing through a licensed bank as a third party that acts as an agent of the financial institution. It may also be a guarantor of the beneficiary.

B. Leasing to Purchase Orderer

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party and lessor
2) A purchase orderer/lessee, as a second party
2. The second party orders the bank to buy as described in the proforma No..... date issued by

..... for the price of, and to open an irrevocable letter of credit to the order and benefit of the supplier for the total price.

The second party promises to lease the (e.g., machines) described above after they are purchased and received by the Bank for the rental mentioned in article 4.

3. The first party gives, by this agreement, a proxy to the second party to work as an agent of the first party, in corresponding with the supplier, and in receiving the goods in the port and inspecting them, and in all relations with the insurance company, custom and other government and non-government agencies.
4. Upon receipt of shipping documents, the first party shall hand them to the second party as its agent. And the second party shall inspect the (machines) at the port and receive them on behalf of the first party.

After receipt, the second party shall inform the first party that, according to the promise, he leases the assets for the total rent of which is payable on installments, due and become payable on the first day of each six months beginning from July 1, 2000. These machines are to be exclusively used by the second party.

5. The lessor is responsible for major maintenance that restores the leased asset to normal use in case of any

deficiency, defect, whether natural, or affected by normal operation or by any human being, unless such defect is caused by violation of the operational manual and instructions, improper use by lessee, or an act of aggression on his part.

6. The lessor is also responsible for insurance on the asset itself. This insurance must cover body of the asset and its function under conditions of normal operations. The two parties may agree that this insurance is contracted by the lessee, on behalf and to the benefit of the lessor, and deduct its premium from the rental installments.
7. The lessee is fully responsible for regular operational maintenance and for any defect caused by harsh, and/or abnormal use of the asset, or by use in violation of operational manual and instructions.

He is also responsible for any damage that may be caused to other parties by the operation of the leased asset. Effects caused by persons under authority of lessee are considered as by himself.

8. Collateral and Security:
The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.
9. At the end of this lease, the lessee shall return the asset to the first party (or: the lessor pledges to give it

as a gift to lessee; or to sell it to him for the amount of US\$).

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes for quarterly rent.

★ Notes:

1. The collateral mentioned in clause 8 may be any valuables, mobile or immobile. It may also be an investment deposit with the financing bank, or a personal or bank guarantee.
2. Islamic Financial Institutions that are not licensed as banks may give their leasing through a licensed bank as a third party that acts as an agent of the financial institution. It may also be a guarantor of the beneficiary.

C. Declining Leasing

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party and lessor
2) A purchase orderer/lessee, as a second party
2. The second party orders the bank to buy as described in the proforma No..... date issued by

..... for the price of, and to open an irrevocable letter of credit to the order and benefit of the supplier for the total price.

The second party promises to lease the (e.g. machines) described above after they are purchased and received by the Bank for the rental mentioned in article 4.

3. The first party gives, by this agreement, a proxy to the second party to work as an agent of the first party, in corresponding with the supplier, and in receiving the goods in the port and inspecting them, and in all relations with the insurance company, custom and other government and non-government agencies.
4. Upon receipt of shipping documents, the first party shall hand them to the second party as its agent. And the second party shall inspect the (machines) at the port and receive them on behalf of the first party.

After receipt, the second party shall inform the first party that, according to the promise, he leases the assets for the total rent of which is payable on installments, due and become payable on the first day of each six months beginning from July 1, 2000. These machines are to be exclusively used by the second party.

It is understood that with each rental installment, the second party shall purchase a portion of the leased assets as given in following schedule. Once a portion is bought by the lessee, the rent declines in some proportion.

Hypothetical Asset Ownership and Rental Schedule

	Ownership of Lessor	Ownership of Lessee	Rent Payment	Purchased by Lessee	Total Payment
2 nd First Period	100,000	-	10,000	4,000	14,000
3 rd First Period	96,000	4,000	9,600	4,400	14,000
4 th First Period	91,600	8,400	9,160	4,840	14,000
5 th First Period	86,760	13,240	8,676	5,324	14,000
6 th First Period	81,436	18,564	8,144	5,856	14,000
7 th First Period
8 th First Period
9 th First Period

5. The lessor is responsible for major maintenance that restores the leased asset to normal use in case of any deficiency, defect, whether natural, or affected by normal operation or by any human being, unless such defect is caused by violation of the operational manual and instructions, improper use by lessee, or an act of aggression on his part.
6. The lessor is also responsible for insurance on the asset itself. This insurance must cover body of the asset and its function under conditions of normal operations. The two parties may agree that this insurance is contracted by the lessee, on behalf and to the benefit of the lessor, and deduct its premium from the rental installments.

7. The lessee is fully responsible for regular operational maintenance and for any defect caused by harsh, and/or abnormal use of the asset, or by use in violation of operational manual and instructions.

He is also responsible for any damage that may be caused to other parties by the operation of the leased asset. Effects caused by persons under authority of lessee are considered as by himself.

8. Collateral and Security:

The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.

9. At the end of the lease, the asset becomes a property of the lessee.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes for quarterly rent.

★ Notes:

1. The collateral mentioned in clause 8 may be any valuables, mobile or immobile. It may also be an investment deposit with the financing bank, or a personal or bank guarantee.

2. Islamic Financial Institutions that are not licensed as banks may give their leasing through a licensed bank as a third party that acts as an agent of the financial institution. It may also be a guarantor of the beneficiary.

D. Variable Return Lease

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party and lessor
2) A purchase orderer/lessee, as a second party
2. The second party orders the bank to buy as described in the proforma No..... date issued by for the price of, and to open an irrevocable letter of credit to the order and benefit of the supplier for the total price.

The second party promises to lease the (e.g., machines) described above after they are purchased and received by the Bank for the rental mentioned in article 4.

3. The first party gives, by this agreement, a proxy to the second party to work as an agent of the first party, in corresponding with the supplier, and in receiving the goods in the port and inspecting them, and in all relations with the insurance company, custom and other government and non-government agencies.

4. Upon receipt of shipping documents, the first party shall hand them to the second party as its agent. And the second party shall inspect the (machines) at the port and receive them on behalf of the first party.

After receipt of the assets, the second party shall lease the assets for (seven) years. Rent shall be paid at the beginning of each six month. Each six month rent shall be determined as a percentage of the asset's total cost and shall be calculated as follows:

Announced LIBOR two weeks before the beginning of the rental period plus 2%. The lessor shall send a telex note to the lessee of the amount of rent that shall be paid on the first day of rental period. Non objection to this telex note is considered acceptance.

In case of objection, 95% of requested rent shall be payable and the two parties shall verify the facts of the formula and calculation within two weeks. Then the remainder becomes payable.

5. The lessor is responsible for major maintenance that restores the leased asset to normal use in case of any deficiency, defect, whether natural, or affected by normal operation or by any human being, unless such defect is caused by violation of the operational manual and instructions, improper use by lessee, or an act of aggression on his part.

6. The lessor is also responsible for insurance on the asset itself. This insurance must cover body of the asset and its function under conditions of normal operations. The two parties may agree that this insurance is contracted by the lessee, on behalf and to the benefit of the lessor, and deduct its premium from the rental installments.
7. The lessee is fully responsible for regular operational maintenance and for any defect caused by harsh, and/or abnormal use of the asset, or by use in violation of operational manual and instructions.

He is also responsible for any damage that may be caused to other parties by the operation of the leased asset. Effects caused by persons under authority of lessee are considered as by himself.

8. Collateral and Security:
The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.
9. At the end of this lease, the lessee shall return the asset to the first party (or: the lessor pledges to give it as a gift to lessee; or to sell it to him for the amount of US\$).

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.

3. Signing promissory notes for quarterly rent.

★ Notes:

1. The collateral mentioned in clause 8 may be any valuables, mobile or immobile. It may also be an investment deposit with the financing bank, or a personal or bank guarantee.
2. Islamic Financial Institutions that are not licensed as banks may give their leasing through a licensed bank as a third party that acts as an agent of the financial institution. It may also be a guarantor of the beneficiary.

• **ISTISNA'**

★ Notes:

Financing Istisna' can only be done by means of two parallel contracts whose subjects are exactly similar: first contract is between the financier and the party that needs contracted things. Second contract is between financier and the contractor who actually manufactures, constructs or builds the contracted things. Difference in prices is the profit of financier, and the two contracts are linked by proxy or agency agreement.

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party, herewith called Mustasna'
- 2) A legal or natural person, as a second party, herewith called Mustasni'

2. The second party orders the Mustasna' to construct (build, or manufacture) the materials specified and described in Annex 1, in the stages and delivery program detailed in the same, and hereby buys these materials from the first party for a price as mentioned in article 4.
3. It is understood that the first party, in a separate contract, shall subcontract materials as described in Annex 1, with same stages of delivery, for the price and schedule of payment as detailed in Annex 2.

The Mustasna', hereby appoints the second party as his agent in inspecting construction (manufacturing or building) on his behalf and give him full power of attorney to inspect, check, follow up and receive delivery of the materials hereby contracted

4. The price of contract is calculated as follows:
 - 4.1 each payment paid to the subcontractor shall be multiplied by the following factor:
 - $(1 + \text{LIBOR} (\text{on day of payment} + 2\%)) \times \frac{\text{number of day from payment to delivery of last stage}}{360}$
 - 4.2 On day of delivery of final stage, all such amounts calculated in 4.1 above shall be added together.
 - 4.3 The price of this contract is the amount of the total face value of (e.g., ten) equal yearly installments. The first of them is payable on the day of the month of the year of (e.g., giving 2 years grace after final delivery).

The installment's face value is calculated according to the following formula:

$$\begin{aligned} \text{Total from 4.2} = & x[1-(L+2)]^{-2} + [1-(L+2)]^{-2} \\ & +x[1-(L+2)]^{-4} + \\ & ...+x[1-(L+2)]^{-12} \end{aligned}$$

where: X_{1-n} is the installment face value

L is the LIBOR on the day of final disbursement

4.4 Upon disbursement of final payment to subcontractor, the bank shall send a list containing installments, due date of each and method of calculation, with documentation of the rates of LIBOR applied.

5. Collateral and Security:

The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.

6. Annexes 1 and 2 are integral parts and components of this contract.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes.

• **THE PARALLEL ISTISNA' CONTRACT**

This contract is between the bank and the builder (manufacturer or constructor).

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party, herewith called Mustasni'
2) A legal or natural person, as a second party, herewith called Mustasna'
2. The first party orders the Mustasna' to construct (build, or manufacture) the materials specified and described in Annex 1, in the stages and delivery program detailed in the same, and hereby buys these materials from the second party for a price as mentioned in article 4.
3. The Bank hereby appoints (the second party in first contract) as his agent in inspecting construction (manufacturing or building) on his behalf and gives him full power of attorney to inspect, check, follow up and receive delivery of the materials hereby contracted
4. The price of this contract is US\$ payable as in Annex 2.
5. Collateral and Security:
The second party delivers to the first party his shares of company as collateral for the payment of the debt of due on that arises from this transaction duly endorsed to the name of the bank.

This security may be substituted by a Bank Guarantee from a commercial bank acceptable to the first party.

6. Annexes 1 and 2 are integral parts and components of this contract.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.
3. Signing promissory notes.

• **SALAM**

★ Core Clauses:

1. The Parties: 1) An Islamic Bank, as a first party, the purchaser
2) A natural or legal person, as a second party, the seller
2. The seller offers to sell to the bank the quantity of of the commodity with specifications as
....., delivery on the day of, the month of, the year of in the (address) in this city of for the total price of US\$
3. The bank accepts to buy the merchandise as described in article 2 and to pay the price in cash (or by cheque No..... dated today).
4. Collateral and Security:

The second party delivers to the first party his shares of company as collateral for the payment of the debt of (name of commodity and quantity) due on that arises from this transaction, duly endorsed to the name of the bank.

This security may be substituted by a Bank Guarantee from a commercial bank acceptable to the first party.

★ Other Clauses:

1. Number of original copies of the contract.
2. Determining the Court of competent jurisdiction over the contract.

★ Notes:

Very often, the bank does not like to remain in an open position of owning a debt in kind.

A second, parallel Salam contract may be undertaken in which the bank sells similar quantity with same specification and delivery date. The difference between the prices of the two contracts is the bank's profit.

FUNDS MOBILIZATION

In funds mobilization there are three types of contracts;

- 1) General Investment Deposit
- 2) Restricted Investment Deposit
- 3) Demand Deposit in Current Account

I. APPLICATION (CONTRACT) TO OPEN GENERAL (UNRESTRICTED) DEPOSIT ACCOUNT

To
Islamic Bank of

Please open, in my name in your books a "General Deposit Account". In the account I can deposit any amount for the purpose of investment by the bank, as a Mudhareb, at its own discretion and within its general investment pool, with sharing the profit, while any loss will be on the principal. This account is to be operated strictly according to Islamic law and through the forms of contract approved to be in accordance with Islamic law.

I understand that the basic conditions of Islamic deposit to which I agree to be bound are as follows:

1. No interest will be paid on my deposit but instead I shall be entitled to a share of the net profit as explained in No.6 below after deduction of expenses and necessary provisions according to accounting practices.
2. The profits will be assessed annually on the basis of actual received income as well as receivables, to which depositors-

whose deposits are used during the period necessary for its collection are entitled.

The depositors share in the results of the transactions of the investment pool for the accounts of the year concerned, regardless of matching between the dates the transactions began and the dates the deposits began.

My share of the profit will be added to the amount of the deposit as from 1 January of the following year, for which these profits are assessed unless I request the bank to transfer my share of the profit to a specific account.

3. As soon as the final share of profit on matured deposits is paid I have no right of recourse on the bank. Nor does the bank have any right of recourse on me. Both parties agree in advance on the mutual acceptance of minor differences, which are unavoidable in the calculation of final profits.
4. In the event of notice of withdrawal of a deposit not being received by the bank two working days before the maturity date, the deposit plus its share of the profit will be renewed automatically for a similar period of time and may not be withdrawn before the renewed period has expired. At subsequent maturity dates, the same procedure will apply.

As an exception to the above, the management of the bank has the right, on request of the depositor to refund to him not more than half the amount of his deposit before maturity, on the condition that the amount withdrawn shall not participate in profit and losses from the beginning of the period during which withdrawal takes place.

5. In case of withdrawal of the deposit both parties agree on a final settlement according to the actual situation of the mutual rights, regardless to whether later on losses have been realised less than or in excess of the provisions retained for it.

6. Deposits attract profit Pro Rata to the amount and period of time deposited. The longer the period the greater the share of the net profit to the depositor. The following table gives current distribution details:

Initial Fixed term & renewals for similar terms	The bank share of profit	Distributed to depositors
5 years	7%	93%
3 years	10%	90%
2 years	15%	85%
1 year	20%	80%
6 months	35%	65%
3 months	45%	55%
30 days	60%	40%

Deposits for one million dollars and above are accepted on special conditions which are available on request.

The bank reserves the right to vary the above percentages for new and automatically renewed deposits under notice to the depositors ten day prior to effecting date of the change. Revised percentages shall apply from the date of a new deposit or a renewal of deposit.

I hereby declare that I select my deposit to be for a period of , renewable in accordance with No.4 above.

7. Deposits automatically renewed for similar periods (No.4) will not have their period of time accumulated so as to make a single longer period for the purpose of attracting a higher pro-rata share of the profit.

8. Deposits may be for any period of whole months as in No.6 above. New deposits begin sharing in the investment pool and earning profit from the date received until their maturity.
9. In accordance with the Islamic rules of Sharia, depositors must accept losses as well as profits. If losses occur, profit may not be paid and the value of deposits shall be reduced by their share of losses.

It is expected that the management of the bank will follow a safe investment policy aiming at modest, safe, and stable profit expectations.

All communications should be sent to me/us at the under-noted address and I/we undertake to keep you advised of any change of address. Letters and remittances sent by the bank to the last recorded address shall constitute good delivery.

Yours faithfully,

Full Name(s)*

.....

Full Address*

..... Telephone

Profession Nationality

Date Signature(s)

*In BLOCK CAPITALS please

NOTE: In the case of joint depositors, communications will be addressed to the depositor first named above and drafts/cheques will also be made out in his/her name.

II. APPLICATION (CONTRACT) TO OPEN RESTRICTED INVESTMENT DEPOSIT ACCOUNT

To
Islamic Bank of

Please open, in my name in your books a "Restricted Investment Deposit Account". In the account I can deposit any amount for the purpose of investment by the bank, as a Mudhareb. These Deposits are to be used solely in financing buying shares of (or the project owned by, located in), at my own risk with sharing the profit, while any loss will be on the principal. This account is to be operated strictly according to Islamic law and through the forms of contract approved to be in accordance with Islamic law.

I understand that the basic conditions of Islamic deposit to which I agree to be bound are as follows:

1. No interest will be paid on my deposit but instead I shall be entitled to (e.g., 85%) of the net profit and bear all losses after deduction of expenses and necessary provisions according to accounting practices. The bank, as a Mudhareb will take (e.g., 15%) of the profit, and bear no losses.
2. The profit will be assessed annually on the basis of actual received income as well as receivables.

My share of the profit will be added to the amount of the deposit as from 1 January of the following year, for which these profits are assessed unless I request the bank to transfer my share of the profit to a specific account.

3. As soon as the final share of profit on matured deposits is paid I have no right of recourse on the bank. Nor does the bank have any right of recourse on me. Both parties agree in advance on the mutual acceptance of minor differences, which are unavoidable in the calculation of final profits.
4. After the maturity of the financing mentioned in No.2, the deposit along with its profit shall be returned to depositor.

All communications should be sent to me/us at the under-noted address and I/we undertake to keep you advised of any change of address. Letters and remittances sent by the bank to the last recorded address shall constitute good delivery.

Yours faithfully,

Full Name(s)*

.....
Full Address*

..... Telephone

Profession Nationality

Date Signature(s)

*In BLOCK CAPITALS please

NOTE: In the case of joint depositors, communications will be addressed to the depositor first named above and drafts/cheques will also be made out in his/her name.

III. APPLICATION (CONTRACT) TO OPEN DEMAND DEPOSIT IN CURRENT ACCOUNT

To
Islamic Bank of

Please open, in my name in your books a "Current Account". In the account I can deposit any amount, and draw cheques and use other bank facilities in accordance with the bank's regulations, fees and other charges.

This account is always at my disposal and it is guaranteed and secured by the bank, as it is considered a loan to the bank:

I understand that the basic conditions of a loan in Shari'ah apply to this account and I agree to be bound by the following:

1. No interest or any other income or return shall accrue to this account.
2. I can make deposits and withdrawals at any time provided that my balance allows it.
3. I know that handing cheques to others without having sufficient balance in my account is a legal crime punishable by law.

All communications should be sent to me/us at the under-noted address and I/we undertake to keep you advised of any change of address. Letters and remittances sent by the bank to the last recorded address shall constitute good delivery.

Yours faithfully,

Full Name(s)*

.....
Full Address*

..... Telephone

Profession Nationality

Date Signature(s)

*In BLOCK CAPITALS please

NOTE: In the case of joint depositors, communications will be addressed to the depositor first named above and drafts/
cheques will also be made out in his/her name.