**Sources of funds**

| **No** | **Type of Islamic financial instrument** | **Description** | **Classification according to annex 4.3 of MFSMCG** | **Type of return payable to asset holder** | **Proposed classification of property income in 2008 SNA** |
| --- | --- | --- | --- | --- | --- |
| 1 | Qard, Wadiah, Amanah | Deposits that can be withdrawn, at par, without penalty or restriction, and are generally usable for making payments by check, draft, giro, or other direct payment facilities. Are not linked to any profit-making ventures and are not part of profit and loss sharing schemes. | Transferable deposits (F22) if they are directly usable for making payments by check, draft, giro order, direct debit, or direct payment facility. Otherwise, classified as Other deposits (F29) | Usually offer no or very small returns to depositors on the basis of gift (hibah) | Interest (D41) |
| 2 | Mudaraba (also known as profit-sharing investment account) | A contract between investors and an IFI that, as a silent partner, invests the deposits in a commercial venture. Profit sharing of the venture is pre-determined on the basis of risk and return, and the IFI and investors share any profit generated from the venture. A Mudaraba can be entered into for a single investment or on a continuing basis with the IFI acting as a fiduciary.  There are two types of Mudaraba investment accounts according to the AAOIFI FAS No. 27 (Investment Accounts), namely Restricted Mudaraba (2a) and Unrestricted Mudaraba (2b).  **(2a**) **Restricted Mudaraba** is where the investor restricts the manner as to where, how, and for what purpose the funds are invested. No mixing of funds is allowed from other sources to ensure proper management and accountability of the funds. A separate disclosure (off-balance sheet) in the form of Statement of Restricted Mudaraba is required to be kept by the IFIs.  **(2b) Unrestricted Mudaraba** is where the investor fully authorizes an IFI to invest the funds without restrictions as to where, how, and for what purpose the funds should be invested as long as it is deemed appropriate. Mixing of funds from other sources (including shareholders’ funds) is permitted and separate disclosure in the financial statement is therefore required.  Similar to the case of deposits at conventional financial institutions, Unrestricted Mudaraba can be divided into the following types:  i. Mudaraba accepted without a fixed time period. The investors are free to withdraw their money at any time.  ii. Mudaraba accepted for a fixed period that provides an opportunity for IFIs to invest in more profitable long-term projects. This type of Unrestricted Mudaraba is similar to time deposits at conventional financial institutions and usually generates higher profits in comparison to the former type.  iii. Mudaraba accepted for fixed periods and arranged through negotiable instruments (called investment deposit certificates or Mudaraba Certificates). This type of Unrestricted Mudaraba has characteristics similar to those of debt securities unless it provides a claim on the residual value of the issuing entity, in which case it is classified as equity. | (2a) Restricted Mudaraba  – Other deposits (F29)  (2b) Unrestricted Mudaraba  i. Unrestricted Mudaraba without fixed period  – Other deposits (F29)  ii. Unrestricted Mudaraba accepted for a fixed period but not negotiable  – Other deposits (F29)  iii. Unrestricted Mudaraba accepted for fixed period and arranged through negotiable instruments  – Debt securities (F3) unless it provides a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51) | Share of profit | Interest (D41) if classified as deposits or debt securities  Dividends (D421) if classified as equity |
| 3 | Qard-hasan | Return-free deposits voluntarily placed by depositors, to participate in the financing for needy individuals or for social purposes. | Other deposits (F29) | No return | Interest (D41) |
| 4 | Participation term certificates | Long-term investment instruments that entitle the holder to a share of a corporation’s profit. | Other deposits (F29) if certificate treated as debt liabilities  Equity (F51) if part of the capital base | Share of profit | Interest (D41) if classified as debt liabilities  Dividends (D421) if classified as equity |
| 5 | Profit and loss sharing certificates | Investors’ deposits that somewhat resemble shares in a company but do not provide a claim on the residual value of the IFI and participation in its governance. | Other deposits (F29) if it is not negotiable  Debt securities (F3) if it is negotiable | Share of profit | Interest (D41) if classified as other deposit  Interest (D41) if classified as debt securities |
| 6 | Sukūk | Known as Islamic bonds and considered as an alternative to conventional bonds, are investment certificates issued by IFIs as a way to obtain funding. According to the IFSB-15 (Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services), Sukūk (plural of sakk) are certificates, with each sakk representing a proportional undivided ownership right in tangible and intangible assets, monetary assets, usufruct, services, debts or a pool of predominantly tangible assets, or a business venture (such as Mudaraba or Musharaka) | Debt securities (F3) unless it provides a claim on the residual value of the issuing entity, in which case it is classified as Equity (F51) | Share of revenue | Interest (D41) if classified as debt securities  Dividends (D421) if classified as equity |
| 7 | Wakalah | The bank acts as an agent for investments of depositor’s funds in exchange for a fee, usually in the 1.5 to 2 percent range.  The depositors are offered an indicative return, but if the actual return is lower, the depositors will receive only the actual return. Conversely, if the actual return is higher, the IFI pays only the indicative return and keep any excess as an incentive fee. | Other deposits (F29) – not classified in annex 4.3 of MFSMCG | Return earned from incentive fee | Interest (D41) |
|  |

Uses of funds

| **No** | **Type of Islamic financial instrument** | **Description** | **Classification according to annex 4.3 of MFSMCG** | **Type of return payable to asset holder** | **Classification of property income** |
| --- | --- | --- | --- | --- | --- |
| 1 | Qard-Hasan financing | Return-free financing that is made to needy individuals or for some social purpose and the debtors are required only to repay the principal amount of the financing. | Loans (F4) | No return | Interest (D41) |
| 2 | Murabaha financing | A type of financing provided by an IFI to its client by supplying desired goods or services at cost plus an agreed profit margin with deferred payments.  In a Murabaha contract, an IFI purchases goods upon the request of a client, who makes deferred payments that cover costs and an agreed-upon profit margin for the IFI. The IFI handles payments to the supplier including direct expenses incurred (delivery, insurance, storage, fees for letter of credit, etc.). Operating expenses of the IFI are not included. Under Murabaha contracts, disclosure of cost of the underlying goods is necessary. | Loans (F4) | Profit margin | Interest (D41) |
| 3 | Bai Muajjal | A type of financing provided by an IFI to its client by supplying desired goods or services with deferred payments.  The difference with Murabaha is that the initial cost of the goods or service does not need to be disclosed by the IFI. | Loans (F4) | Profit from higher good/service price | Interest (D41) |
| 4 | Bai Salam | A short-term agreement in which an IFI makes full prepayments (spot payment) for future (deferred) delivery of a specified quantity of goods on a specified date.  Bai Salam is typically used to provide short-term financing of agricultural products. | Loans (F4) | Profit from a higher price for the goods | Interest (D41) |
| 5 | Istisna’a | A partnership between an IFI and an enterprise, usually manufacturer or construction company, in which the IFI places an order and provides financing to the enterprise to manufacture/construct and or supply certain goods or buildings. | Loans (F4) if the produced goods/building are not for IFI’s own use  Other account receivable (F8) if goods or building are for IFI’s own use | Profit from a higher price for the goods | Interest (D41) |
| 6 | Ijarah | A lease-purchase contract in which an IFI purchases capital equipment or property and leases it to an enterprise. The IFI may either rent the equipment or receive a share of the profits earned through its use.  Under Operating Ijarah the title for the underlying asset is not transferred to the client (lessee).  A financing Ijarah involves two contracts (i.e., a lease over the lease period and transfer of ownership at the end of the contract). | Operating Ijarah – operating lease  Financing Ijarah – Loans (F4) | Benefit from using the assets in productive activity  Share of profit earned through using assets | Interest (D41) |
| 7 | Musharaka | A partnership between an IFI and an enterprise in which both parties contribute to the capital (*rab al maal*) of partnership. | Loans (F4) unless the IFI acquires a claim on the residual value of the enterprise, in which case it is classified as Equity (F51) | Share of profit | Interest (D41) if classified as loans  Dividends (D421) if classified as equity |
| 8 | Mudaraba financing | A partnership between an IFI and a client in which the IFI provides capital (*rab al maal*) and the client provides skillful labor whereby skill and money are brought together to conduct business. Profits generated from the business are shared according to the agreement, while losses are borne fully by the IFI as the capital provider, except when losses were due to misconduct, negligence or violation of the agreed conditions by the client. | Loans (F4)  Although Mudaraba financing has features of equity, it has a fixed-term claim on the client rather than a claim on any residual value. | Share of profit | Interest (D41) |
| 9 | Tawarruq | A type of financing provided by an IFI with the intent to supply cash to its client.  Tawarruq contracts are comprised of two parts:  1) A Murabaha contract where the client purchases a product from the IFI for a marked-up price on a deferred payment basis.  2) The client sells the good to a third party on a spot payment basis. In practice the IFI sells the good to the third party on behalf of the customer.  This results in the client receiving cash on the spot with the obligation to pay the initial marked-up price of the good either in installments or as a deferred lump sum payment to the IFI. | Loans (F4) | Profit margin | Interest (D41) |

Takaful

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| --- | --- | --- | --- | --- | --- |
| **NO** | **Type of Islamic financial instrument** | **Description** | **Classification according to annex 4.3 of MFSMCG** | **Type of return payable to asset holder** | **Classification of property income** |
| 1 | Takaful | An agreement between persons exposed to specific risks in order to avoid damages through creating a fund in which contributions are deposited on a voluntary basis. Participants receive compensation for damages from the occurrence of the insured risk. | Insurance, pension and standardized guarantee schemes (F6) | Investment income | Investment income attributable to insurance policy holders (D441) |

Notes

1. Interest (D41) on deposits and loans refers to SNA interest in the allocation of primary account and actual interest in the financial account.