

**Pronouncement of the Fatwa and Shari'a Supervisory Board of the
National Bonds Corporation
on Sukuk Mudaraba in its meeting held on 16 March, 2006**

A. Summary of the Scheme:

1. The National Bonds Corporation submitted to the Shari'a Board the proposed scheme of National Bonds which are Sharia-compliant Mudaraba certificates fulfilling the terms and conditions of a Shari'a compliant Mudaraba.
2. The certificate holders shall be the (Arbab ul Mal) and the National Bonds Corporation shall act as Mudarib, and the proceeds from the sale of the certificates shall form the capital of the Mudaraba. The Mudarib shall maintain a separate account for the Mudaraba.
3. The Mudarib has conducted a feasibility study, identifying the investment activities and the expected return from these activities.
4. The Offering Circular (Prospectus) has mentioned the profit distribution ratio between the Mudarib and Rabb ul Mal as 80/20 in favour of the Mudarib and Rabb ul Mal respectively. On the basis of the projected net profit and the distribution formula between the Mudarib and the Rabb ul Mal, the Mudarib has given an indicative annual rate of profit on the certificates. However, if the profit of the Rabbul Mal exceeds 3% p.a., the excess amount shall be given to the Mudarib as an incentive fee for good performance.
5. The Mudarib has committed to invest the proceeds of the Sukuk in the following manner:
 - a. **60%** of the proceeds shall be invested in new Shari'a compliant identified projects;
 - b. **40%** of the proceeds shall be invested in short-term Sharia compliant investment products such as Murabahat, Sukuk, funds and portfolios in order to meet the liquidity requirements.

- c. Till the time new projects are identified for investment, the allocated 60% of the Mudaraba proceeds shall be invested in existing Shari'a compliant projects.
6. The Mudarib gives away, at its sole discretion and without any guarantee on its part, prizes out of its own share of profit or other sources through transparent draws among the certificate holders, without stipulating that in the Mudaraba contract.
7. The Mudaraba period is five years from the date of Initial Issue Date of the Prospectus; and the Mudarib may renew it for one or more periods unless 25% of the certificate holders object to the renewal.
8. The certificate holders give sale undertaking to sell the Mudaraba Assets to the Mudarib, enabling it to redeem the certificates if it desires to wind up the Mudaraba pre-maturely if, in its opinion, such a premature winding up is in the interest of the certificate holders; or if it desires to renew the Mudareaba and 25% of the certificate holders object to it; or if the number of certificates held by a certificate holder falls below ten.
9. The Mudarib gives a purchase undertaking to redeem the certificates in case of negligence, misconduct or violation of the terms by the Mudarib or whenever presented by the certificate holders for redemption. The certificate holder, although able to encumber his certificate, shall sell the certificates to the Mudarib on the basis of his sale undertaking.

The Prospectus has spelled out the terms of Mudaraba and invited eligible people to purchase the certificates.

Shari'a Pronouncement:

1. The Structure and investment strategy:

After examining the structure and the investment strategy and the terms and conditions incorporated in the Prospectus, and decided that they are Shari'a compliant fulfilling all the conditions of Mudaraba, and there is no provision or term which is in conflict with the Shari'a rules. In the opinion of the Board, there is no Shari'a issue if the 60% of the capital of

Mudaraba allocated for new identified projects is invested in existing projects till new projects are identified for investment.

2. Distribution of the profit:

The proposed profit distribution formula between the Mudarib and the Rabbul Mal on the basis of a pre-agreed ratio of the profit as stipulated in the Prospectus is Shari'a compliant. Sharia also permits the Mudarib to give an indicative rate of profit from the Mudaraba activities on the basis of its experience and feasibility study conducted by it on professional lines. However, the Prospectus stipulates that the Mudarib guarantees neither the profit nor the Mudaraba capital except in case of its negligence, misconduct, violation of the terms and conditions of the Mudaraba or gross mistake in taking investment decisions.

Shari'a allows the Mudarib to dispose of its share of the profits in any manner that it deems appropriate. Therefore, there is no Shari'a issue if the Mudarib gives away prizes to winning certificate holders in transparent draws held by the Mudarib from time to time as long as it is not stipulated in the Mudaraba contract.

Shari'a also allows Rabbul Mal to give away any amount in excess of a certain percentage of its profit or capital gain to Mudarib as an incentive fee.

3. Tradability of the Certificates

As the certificates represent undivided shares in the Mudaraba Assets, they can be traded freely provided the **tangible assets** of the Mudaraba constitute minimum 30% of the total Mudaraba assets. However, the Prospectus has restricted this right of the certificate holder to sell the certificates to the National Bonds Corporation whenever the certificate holder wants to do so on the basis of his promise to give priority to the Corporation.

4. Redemption

There is no Shari'a issue if National Bonds Corporation, in a capacity independent of its role as Mudarib, gives a purchase undertaking to redeem all the certificates in case of default by the Mudarib and/or redeem the certificates of any certificate holder if he desires to sell his share in the Mudaraba Assets.

Similarly, there is no Shari'a issue if the certificate holders give a sale undertaking entitling the Mudarib to a call option in case it desires to wind up the Mudaraba prematurely if, in its opinion, such a wind up is in the interest of the certificate holders; or in case the Mudarib desires to renew the Mudaraba and 25% of the certificate holder object to the renewal; or if the number of certificates held by a certificate holder falls below ten.

5. Management of Mudaraba

Shari'a gives the Mudarib exclusive authority to take the investment decisions beneficial for Mudaraba, including the right to appoint managers and administrators, sign contracts and do anything within the Sharia parameters to fulfill its responsibilities as the Mudarib. The direct costs of the Mudaraba transactions shall be borne by the Mudaraba. However, the staff cost of the Mudaraba may be borne by the Mudarib or the Mudaraba as per the terms of the Mudaraba contract.

6. Mudarib's Responsibilities

The Mudarib is a trustee and agent in holding and managing the Assets of Mudaraba and is obliged to safeguard and protect the Mudaraba Assets in a professional manner, as it would safeguard and protect its own assets.

The Mudarib is required to invest the Mudaraba capital in a professional manner and with utmost care.

Mudarib is not allowed to utilize the Mudaraba assets for any other purpose, except for the purpose stipulated in the Mudaraba.

7. Documents

The following documents will be required to execute the scheme:

- I. Offering Circular regulating the relationship of certificate holders with Mudareb
- II. Purchase Undertaking by NBC
- III. Certificate Holder Sale Undertaking
- IV. Investment Management Agreement(s) between the Mudareb and the project manager(s)
- V. Application Form
- VI. Redemption Form

Dr. Hussain Hamid Hassan

Chairman

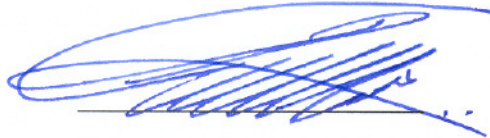
Fatwa & Sharia Supervisory Board

National Bonds Mudaraba



Dr. Ajeel Jasim al-Nashmi

Member



Dr. Muhammad Qaseem

Member



