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## SHARE FUND FINANCIAL INSTRUMENTS

### I-OUR POTENTIALS AND CRITERIA

Potential of working according to participation, sharing and ethical criteria financial institutions and Finance Market Estimates \$3.4 Trillion by end of 2018. Finance assets represented 1% of the global financial market of \$127 Trillion in assets.

Alternative-ethic-safe-profitable financial instruments is a centuries-old practice that is gaining recognition throughout the world and whose ethical nature is even drawing the interest of all investors.

Big potential finance investors have been trying to lead their assets to safe investments.

It is important to note that there is a need for a more efficient and cost-effective way to increase the profitability of the finance and loan market.

**GulfUS Capital and US SHAREFUND** is a leading alternative Financial Service Company that is focused on building dynamic, profitable, and reputable finance and investments in the United States.

The **US Share Fund operates** in accordance with the principles of interest-free financial model as a participation fund, with bonds and profit sharing accounts, and lending such funds through production support, finance lease and profit/loss sharing partnership.

Our financial models is based on four core principles: Prohibiting usury-Avoiding speculation-Avoiding gambling-Investing ethically

Although our in the financial models have many products similar to those offered by conventional banks, the two entities differ conceptually. One key difference is that conventional banks earn their money by charging interest and fees for services, whereas our in the financial models earn their money by profit and loss sharing, trading, leasing, charging fees for services rendered, and using other share contracts of exchange.

Our partner financial institutions must comply with a variety of ethic principles besides avoiding interest.

Our Fund has a wholly-owned subsidiary that generates leasing/rental income by leasing assets back to the originating company which were taken over from the originating company.

In the our mortgage system, rather than lending a customer money to buy a house, the bank will buy the house itself. The customer can then either buy the house back from the bank at

an agreed-upon, above-market value paid in instalments (this is called murabahah) or he can make monthly payments comprising a rental fee and a piece of the purchase price until he owns the home outright (ijara).

## II-OUR FINANCIAL SYSTEM PRODUCTS

Our instruments of Share Fund ; finance are not referred to as “loans’ but rather as financing modes falling under one of the three categories: 1-Profit-and-loss sharing (PLS), 2- non-PLS contracts, 3- fee-based products.

PLS financing is closest to the spirit of Share Fund finance. Compared with non-PLS financing, its core principles of equity and participation, as well as its strong link to real economic activities, help promote a more equitable distribution of income, leading to a more efficient allocation of resources. There are two types of PLS financing: musharakah and mudârabah.

### A- Profit-and-loss sharing (PLS) financing products:

**1-Mudarabah;** A profit-sharing partnership to which one contributes the capital and the other the entrepreneurship; or the bank provides the capital, the customer manages the project.

In a **mudaraba contract**, a financier provides capital to an entrepreneur who manages an economic activity such as property construction, a business, or a joint venture. When this economic activity returns a profit, both parties share the proceeds; when a loss occurs, only the financier bears the financial loss. (The entrepreneur loses his effort and time.) However, if the loss is due to the misconduct of the entrepreneur, then he must suffer the financial loss as well.

**2-Musharakah;** Equity participation, investment and management from all partners; profits are shared according to a pre-agreed ratio, losses according to equity contributions.

**Musharaka Partnership and joint stock ownership products:** In musharaka contract, both parties become involved in a joint venture project or property by investing capital and entrepreneurship. Both parties share any profit or bear any loss generated by the activity.

**Three such structures are most common:**

**a. Declining-Balance Shared Equity:** Commonly used to finance a home purchase, the declining balance method calls for the bank and the investor to purchase the home jointly,

with the institutional investor gradually transferring its portion of the equity in the home to the individual homeowner, whose payments constitute the homeowner's equity.

**b. Lease-to-Own:** This arrangement is similar to the declining balance one described above, except that the financial institution puts up most, if not all, of the money for the house and agrees on arrangements with the homeowner to sell the house to him at the end of a fixed term. A portion of every payment goes toward the lease and the balance toward the purchase price of the home.

**c. Installment (Cost-Plus) Sale (murabaha):** This is an action where an intermediary buys the home with free and clear title to it. The intermediary investor then agrees on a sale price with the prospective buyer; this price includes some profit. The purchase may be made outright (lump sum) or through a series of deferred (installment) payments. This credit sale is an acceptable form of finance and is not to be confused with an interest-bearing loan.

## **B- Non-PLS Financing Products**

Non-PLS contracts are most common in practice. They are generally used to finance consumer and corporate credit, as well as asset rental and manufacturing. Non-PLS financing instruments include murâbaḥah, ijārah, salam, and istisna'.

### **Advance purchase financing products:**

**1-Murabahah;** is a popular sale transaction mostly used in trade and asset financing. The bank purchases the goods and delivers them to the customer, deferring payment to a date agreed by the two parties. The expected return on murâbaḥah is usually aligned with interest payments on conventional loans, creating a similarity between murâbaḥah sales and asset-backed loans. However, murâbaḥah is a deferred payment sale transaction where the intention is to facilitate the acquisition of goods and not to exchange money for more money (or monetary equivalents) over a period of time. Unlike conventional loans, after the murâbaḥah contract is signed, the amount being financed cannot be increased in case of late payment or default, nor can a penalty be imposed, unless the buyer has deliberately refused to make a payment. Also, the seller has to assume any liability from delivering defective goods.

**2-Forwards (salam and 'istisna):** These are rare forms of financing, used for certain types of business.

**Salam** is a form of forward agreement where delivery occurs at a future date in exchange for spot payment. Such transactions were originally allowed to meet the financing needs of small

farmers as they were unable to yield adequate returns until several periods after the initial investment.

**Istithna'**; A sales contract between bank and customer where the customer specifies goods to be made or shipped, which the bank then sells to the customer according to a pre-agreed arrangement.

**Istisna'** is a contract in which a commodity can be transacted before it comes into existence. The unique feature of istisna' (or manufacturing) is that nothing is exchanged on the spot or at the time of contracting.

**3-Ajaar-Lease and Hire Purchase:** A contract under which the bank leases equipment to a customer for a rental fee; at the end of the lease period the customer will buy the equipment at an agreed price minus the rental fees already paid.

**Leasing ('ijarah/'ijar);** The sale of the right to use an object (usufruct) for a specific time period. One condition is that the lessor must own the leased object for the duration of the lease. A variation on the lease, 'ijarah wa 'iqtina provides for a lease to be written whereby the lessor agrees to sell the leased object at the lease's end at a predetermined residual value. Only the lessor is bound by this promise. The lessee, by contrast, is not obligated to purchasing the item.

### **C-Fee-Based Products**

Our partner banks offer a wide spectrum of fee-based services using three types of contracts, wakalah, kafalah, or ju'ala. They are usually auxiliary to the main murâbahah and mudârabah transactions, though they generate various types of fees and commissions. The fee-based services provided by partner banks include bank transfers, issuing letters of credit and guarantees, credit cards, and offering collection and safe-custody services, mostly used in trade financing.

**1-Mu'ajjal;** Purchase with deferred delivery: A sales contract where the price is paid in advance by the bank and the goods are delivered later by the customer to a designee

**2-Qard Hasan;** Charitable loans free of interest and profit-sharing margins, repayment by instalments.

**3-Wakalah;** An authorization to the bank to conduct some business on the customer's behalf. Wakalah results from the bank acting as the agent of a customer in a trade transaction or issuing a letter of credit facility.

**4-Kafalah** is a financial guarantee whereby the bank gives a pledge to a creditor on behalf of the debtor to cover fines or any other personal liability. It is widely used in conjunction with other financing modes or documentary credits.

**5-Hawalah;** An agreement by the bank to undertake some of the liabilities of the customer for which the bank receives a fee.

**6-Ju'ala** is essentially an istisna' contract that is applicable for rendering a specified service as opposed to the manufacturing of a product.

### **Other Financial Instruments;**

#### **D- Deposit products**

**1-Wadi'ah;** Deposits, including current accounts

**2-Mudarabah;** Deposit products based on revenue-sharing between depositor and bank, including savings products withdrawable at any time and time deposit products

#### **E-Basic Investment Vehicles**

Here are some types of investment for investing:

**1-Equities.** Investment in companies may be in shares or by direct investment (private equity).

**2-Fixed-Income Funds.** Retirement Investments. specific types of investment in real estate, either directly or in securitized fashion (a diversified real estate fund), could provide steady retirement income

**3- Leasing bond-equivalent (Sukuk).** The issuer will sell the financial certificate to an investor group, who will own them before renting them back to the issuer in exchange for a predetermined rental return. Like the interest rate on a conventional bond, the rental return may be a fixed or floating rate pegged to a benchmark, such as LIBOR. The issuer makes a binding promise to buy back the bonds at a future date at par value. Special purpose vehicles (SPV) are often set up to act as intermediaries in the transaction.

Instead of receiving interest payments on lent money, as in a standard bond, a sukuk generally entitles its possessor to (nominal) part-ownership of an asset; he then receives income either from profits generated by that asset or from rental payments made by the issuer.

**Share Bonds** are investment products (such as mutual funds and unit trusts) that are based on equities that are screened, or filtered, to ensure ethic compliance.

Sukuk are often referred to as “profit-sharing bonds,” but they’re very different from conventional bonds, which benefit one party more than another and, therefore, can’t promote social justice.

Sukuk are asset-based securities; they’re certificates (sold to investors) that represent ownership in a tangible asset, service, project, business, or joint venture.

### **F- Insurance products**

**Tadamun, Takaful;** Islamic insurance with joint risk-sharing