

**LOAN SYSTEM IN BANK ISLAM MALAYSIA BERHAD:
ITS CONCEPTS AND OPERATIONS**

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PREFACE

This project paper is prepared as a Partial Fulfillment of the Requirements for Advanced Diploma In Accountancy. It is also hoped that this manuscript will help the readers to understand some of the basic teachings in Islam, which is actually "the way of life".

This paper basically intends to highlight how conventional banking system, particularly in financing operation, can be replaced by a system that does not go against the basic teachings of Islam. It is therefore hoped that this paper will enable the readers to realized that when Islam prohibits something, there will be some solid reasons behind it and the solutions or alternatives to it.

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1. INTRODUCTION

An Overview on Bank Islam Malaysia Berhad.

The idea of setting an Islamic bank in this country was first started with the establishment of a National Steering Committee on the Islamic Bank in mid 1981 to study, evaluate and coordinate proposals for the establishment of an Islamic bank based upon the principals of Syariah (Islamic law) in banking and finance.

Being quite different from conventional banking, it was necessary to enact a new legislation to govern the establishment an operation of Islamic bank. Thus, a new act was passed by the Parliament which was then called the Islamic Banking Act on March 11, 1983. The Act, modelled on the existing Banking Act, besides requiring the Islamic Bank to conform to the tenets of Islamic financial practices also requires the bank to comply with prudent banking system.

Based on the Act, Bank Islam Malaysia Berhad was officially established on July 1983 with an initial paid-up capital of M\$80 million out of

the M\$500 million authorised capital divided into 500 million ordinary shares of M\$1 each. The main shareholders are the Government of Malaysia and the State Religious Councils, having 37.5% and 25% shareholding respectively. The other shareholders comprise of other Islamic Institutions such as Pilgrims' Management and Fund Board and Federal Agencies.

The Islamic Banking Act 1983 requires the bank to set up a Religious Supervisory Council to supervise its operations in respect of their compliance with the rules of Syariah (see Appendix 1 for Organization Chart). This council shall have a minimum of three and a maximum of seven members whose appointment shall be acceptable to the Minister for a term not exceeding two years and each members is eligible for reappointment. The members would be made up of Muslim religious scholars in the country.

The main purpose of establishing the Islamic bank in this country is to enable the Muslim population to practise the principle of Syariah (Muslim Law) in the area of banking and credit operation. It will also be an alternative to the conventional bank which operates based on