

ISLAMIC BANKING GLOSSARY

MURABAHA

The concept of Murabaha in Islamic Fiqh differs from the concept of Murabaha to the purchase orderer used in banks. That is, Murabaha in Islamic Fiqh is a type of trust sales [e.g. Wadhi'ah (a sale with a specified loss), Tawliyyah (to sell as per the purchasing price without making profit), and Murabaha] in which the seller shall disclose to the buyer any factors affecting the commodity price such as the price of purchase, and whether it will be paid on a deferred basis or on the spot, and so on. Murabaha to the purchase orderer, however, is a finance instrument composed of a number of steps that begin with the client's request to purchase a commodity with a promise to purchase that commodity with a specified profit margin from the Bank if the bank purchases this commodity. This sale to the client may be a Murabaha sale in accordance with the Islamic Fiqh concept, which is the most preferable, or it may be a Musawamah (bargain) sale.

IJARAH FINANCING

It is a financing instrument that comprised of a number of steps that begin with a promise by the client to rent a commodity from the Bank, and the Bank then buys that commodity and rent it to the client with a specified rental fare and period, All terms of the Ijarah will apply throughout this period. If the client pays all rental installments and does not breach any of its obligation in the relevant agreement, the Bank then shall convey the ownership of the commodity to the client by sale based on a prior promise to sell or a gift, as it specified in the relevant agreement.

MUSHARAKA

It is a investment partnership in which all partners are entitle to receive a portion of the profits of a certain project with mutually agreed percentage to each partner. Losses also will be shared between partner in proportion to the amount invested, and all partners shall participate in any amounts paid related to the relevant losses. One of Musharaka contract's forms the following:

Musharaka contract may involve import the commodities of Musharaka. Accordingly, the bank enters into partnership with the client, in the uncovered part, to buy the commodity, then, the bank sells its share to the client on the basis of deferred sale after the bank takes acquisition of title to, and Qabd (taking possession) of its share, provided that the sale to the client (the partner) shall not be based on a binding promise, or stipulated in the Musharaka (partnership) contract, and that there shall be no prior contractual commitment between the client and the original supplier of the commodities.

THE MUDARABA

Contract of Mudaraba in which the bank (Mudarib) and the client who is provider of the capital (rab al-maal) share

the returns of investment transactions resulting from the amounts deposited in the account of Mudaraba. The profits are distributed between them based on their agreement. Moreover, it is not permissible to stipulate guarantee of the capital or a specific portion of the income on the Mudarib.

THE GHARAR

Uncertainty and lack of knowledge of the specific sale descriptions, and this uncertainty can be either in the sold item or in the price of this item.

CURRENT ACCOUNT

Any amounts in current accounts are juristically considered as being Qards (loans) to the bank. The bank shall make such amounts available to the owner of a current account on demand. In addition, it is permissible for the bank (the debtor) to invest the money of current accounts owners (loaner) provided that the bank shall be under obligation to return such amounts of these accounts on demand without the client being eligible for the profits achieved by the bank.

SUKUK

Sukuk are certificates representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects.

RAHEN

A contract to hold an asset in favor of the creditor as a security of a certain debt, provided that the creditor (mortgagee) is entitle to possess this asset as either physically or a constructively. In the event of default by the debtor (the mortgagor) , the creditor has the right to sell the relevant asset without obtaining the Mortgagor's approval.

QARD HASSAN

Qard Hasan (free-interest loan) is giving free money to the one who wants to get benefit of it and return it without interest.

LETTER OF GUARANTEE

A letter issued by the bank based on the request of its client, according to which the bank pledges to pay a certain amount in favor of a specific entity for a specific purpose within a specified period.

KHIYAR-ASSHART

Khiyarush-Shart (sale with termination option) is a condition that gives either or both of the contracting parties the right to cancel the contract during the period of option.

ZAKAT

A financial obligation to be paid to its designated purposes. It is imposed legally (Compliance with Sharia) on those who have money that reached the nisab (designated amount) and was transferred.