

TAJ BANK LIMITED

NON-INTEREST (ISLAMIC) BANKING PRODUCTS

FINANCING PRODUCTS

Section 3: FINANCING PRODUCTS

MURABAHAH

ISTISNA'

IJARAH HOME AND ASSET FINANCING

IJARAH OF SERVICES FINANCING



MURABAHAH

- ❖ The specific inherent nature of the contract of Murabahah is the sale contract which is based on the element of trust in disclosing the cost and mark-up. The common inherent nature of a sale contract is the transfer of ownership of the goods from the seller to the purchaser.
- ❖ Essential pillars of a sale contract apply to Murabahah which are as follows:
 - ❖ The contracting parties;
 - ❖ Subject matter (Goods, Price);
 - ❖ Offer and acceptance.
- ❖ Murabahah could be for short term and long-term financing needs that include: -
 - ❖ working capital needs such as a purchase of inventory and raw materials;
 - ❖ capital expenditure such as equipment and machinery;
 - ❖ investment in properties and other assets;
 - ❖ purchase of assets for personal use such as: -:
 - ❖ vehicles including automobiles and motorcycles;
 - ❖ consumer products such as home appliances and computers.
- ❖ The purchase and selling prices, other costs and the profit margin must be clearly disclosed to the buyer at the time of the sale agreement.

MURABAHAH – COMPONENTS

Component	Description
Price of Murabahah sale	<ul style="list-style-type: none">• Murabahah sale price consists of the original cost plus a mark-up.• There must be a mutual agreement on mark-up between the Bank and the customer.
The asset of the Murabahah Contract	<ul style="list-style-type: none">• Assets such as traded goods, production materials, property, equipment and fixtures, and other tangible and non-monetary assets, are eligible assets for sale provided these are not specifically prohibited in the Quran and Sunnah such as usurious items, liquor, and flesh of swine. In the context of MUR, intangible assets are excluded.• Assets are for valid and enforceable sale• Transfer of ownership from the Bank to the customer shall take place upon execution of the Murabahah contract and this could be manifested by way of abandoning the right of ownership (takhliyah) by the Bank or enabling the customer to make full use of the asset, assuming full liability (tamkin).• Murabahah Contract shall not take effect between the same contracting parties on the same asset. The revolving facility using a Murabahah Contract may involve the same contracting parties using separate contracts on different assets.• In Murabahah, the vendor from whom the Bank purchases the asset shall be a non-related party to the customer.

MURABAHAH – COMPONENTS

Component	Description
The duty of full disclosure of cost and profit	<ul style="list-style-type: none">• The Murabahah sale price shall be determined based on the disclosed acquisition cost with an added mark-up amount or percentage to be determined prior to the conclusion of the Murabahah contract.• The mark-up, in the form of an absolute amount or a certain percentage of acquisition cost, shall be determined and specified before the conclusion of the Murabahah contract.• The determination of the mark-up may either be based on an agreed percentage of acquisition cost or specified amount for a known and agreed currency.• The agreed mark-up that is determined shall not be subjected to price variation or affected by currency fluctuation as payment due is pre-determined at agreed currency• The acquisition cost, which forms the cost portion of the Murabahah price may include direct expenses which refer to costs incurred to enable the acquisition of goods by the Bank and delivery of the goods to the customer. This includes expenses such as transportation, storage, assembly, taxes, insurance or Takaful or any valid expenses established by customary practice.• Indirect expenses such as staff wages, labour charges, which are not part of the cost of acquisition, shall not be included in the acquisition cost.• Cost of services integral to an asset such as installation cost may form the cost portion of the asset acquired.
Wa'd (promise) to buy	<ul style="list-style-type: none">• The Wa'd (promise) by the customer to purchase the asset from the Bank upon the latter's acquisition of the asset shall be binding on the customer.• The Wa'd be separately executed prior to the execution of the Murabahah contract.

MURABAHAH – PROCESS FLOW

Stage	Description
Stage 1	Customer intends to purchase a car, say for N10,000,000 and requires 90% financing from the Bank.
Stage 2	<p>Customer places a NON-PAYMENT booking to the car dealer and obtains a Proforma Invoice upon booking.</p> <p>To bind the application under a tri-partied arrangement, the customer should not be asked to pay any amount to the seller/vendor.</p>
Stage 3	<p>The customer goes to the Bank with the Proforma Invoice either in the Bank's name or in the customer's name and completes the retail financing application form (attached as Appendix 2) together with other details required by the Bank.</p> <p>The customer completes a Customer's Letter of Undertaking to Buy (attached as Appendix 3)</p>
Stage 4	<p>Bank will undertake the normal credit evaluation process listed below:</p> <ol style="list-style-type: none">Peruse the application form and documents submitted;Undertake credit processing and evaluation as per the Bank's guideline and policy;Approve the facility;Issue the Letter of Offer (Letter of Offer attached as Appendix 4).

MURABAHAH – PROCESS FLOW

Stage	Description
Stage 5	<p>Once the letter of offer is issued and officially accepted by the customer, the legal documentation process will commence.</p> <p>The Bank will advise the car dealer that the Bank has approved financing arrangement to the customer and undertakes to purchase the car directly from the vendor. The Bank will issue a Letter of Undertaking to Pay the purchase price to the vendor (attached as Appendix 5).</p> <p>The Bank may appoint the customer as its agent under the Murabahah Agency Agreement attached as Appendix 6. The Bank, through this Agreement, appoints the Agent to purchase the vehicle as specified in the Customer Letter of Undertaking to Buy.</p> <p>As stated in the letter of offer, the customer is required to pay directly to the Bank the sum of N1,000,000 being the difference in the amount paid by the Bank to the vendor and the financing amount granted to the customer. The Bank keeps the Earnest Deposit (Hamish jiddiyyah) in a Mudarabah account in favour of the customer.</p>
Stage 6	<ol style="list-style-type: none"> a. The Bank will sell the car to the customer at a selling price of N12,000,000 on a deferred basis. The selling price of N12,000,000 comprises the cost of N10,000,000 plus the amount of profit of N2,000,000. b. Customer will make first installment payment for the sum of N1,000,000 (i.e. Hamish jiddiyyah) and the subsequent installment at end of each month based on the agreed installment payment. c. The Bank and customer will execute: <ol style="list-style-type: none"> i. Murabahah Agreement (attached as Appendix 7); ii. Other relevant security documents.
Stage 7	The customer as the Bank's agent inspects the car on behalf of the Bank and sign a Vehicle Financing Schedule (attached as Appendix 8) to indicate that he is satisfied with the condition of the car as well as acknowledged receipt of the car.
Stage 8	Customer. will pay the Bank on deferred payment as stipulated in the contract.

MURABAHAH – DOCUMENTATION REQUIREMENT

- ❖ The documentation for MUR among others includes the following: -
 - ❖ Application Form
 - ❖ Customer's Letter of Undertaking to Buy
 - ❖ Letter of Offer
 - ❖ Bank's Letter of Undertaking to Pay
 - ❖ Murabahah Agency Agreement
 - ❖ Murabahah Sale Agreement
 - ❖ Vehicle Financing Schedule
 - ❖ Change of Vehicle Ownership
 - ❖ Transfer of Ownership

MURABAHAH – TERMS & CONDITIONS

No.	Criteria	Features
1.	Target customers	<p><u>Resident</u></p> <p>Salaried and non-salaried person i.e. businessman/self-employed, with sufficient income evidence and means that meet the Bank's eligibility criteria.</p> <p><u>Salaried Person</u></p> <ul style="list-style-type: none"> • Minimum and maximum age, salary (gross and net of deduction) as per the Bank's policies; • Working in public sectors, licensed financial institutions, listed companies, reputable corporations in various sectors like oil & gas, manufacturing concerns for local and export, selected services related industry and companies that do not fall within our negative employment type. • A confirmed employee and has been working in the present employment for at least 2 years or any other period acceptable by the Bank; • Has been staying in present address for at least 2 years or any other period acceptable by the Bank (unless the car is owned by the applicant and applicant has recently moved to the said address) <p><u>Businessman/Self-Employed</u></p> <ul style="list-style-type: none"> • Professionals such as lawyers, accountants, and engineers. • A businessman or self-employed person e.g. the owner of a small-scale enterprise (SME), and has been running profitably for at least past 3 years or any other period acceptable by the Bank. • Evidence that the applicant has sufficient funds to pay the Earnest Deposit (Hamish jiddiyyah) or balance of the Earnest Deposit (Hamish jiddiyyah). <p><u>Non-Resident</u></p> <ul style="list-style-type: none"> • Owner of businesses with a profitable track record and has been paying taxes in his/her country of origin. For a country that is free from tax, able to provide evidence of good bank statements and/or deposit receipts; • Any other conditions as determined by the Bank

MURABAHAH – TERMS & CONDITIONS

No.	Criteria	Features
2.	Type of goods and services to be financed	<p>Goods and services must be Shariah-compliant.</p> <p>As for the particular type of goods and services e.g. whether brand new or used cars and provider of service packages etc. would be as determined by the Bank's policy.</p>
3.	Financing Tenor	A period deemed appropriate by the Bank.
4.	Pricing (Profit Rate) & Financing Tenor	The pricing will be determined based on the Bank's pricing policy.
5.	Guarantor	Not necessary but may be imposed by the Bank on a case to case basis based on customer's credit scoring/ rating.
6.	Processing Fee	As per the Bank's policies and subject to the CBN relevant guidelines on fees and charges.
7.	Early settlement	In the event of early settlement/redemption prior written notice must be given to the Bank, not less than one (1) month or any other period, as determined by the Bank.
8.	Penalty on default	The compensation (or penalty) charges on late payment shall be imposed based on the Bank's approved policy and in line with the relevant guidelines issued by the CBN.
9.	Charges, if any	As the Bank's Selling Price cannot be more than what is agreed during the "aqd" (contract), any other charges e.g. takaful, postages, and other financing-related charges, will either be offset against security deposit (if any). This security deposit may be required to mitigate the impact of non-repayment.
10.	Collateral	Under Murabahah, the asset purchased or any other asset as approved by the Bank will be used

ISTISNA'

- ❖ Istisna` refers to a contract, which a seller, sells to a purchaser, an asset, which is yet to be constructed, built or manufactured, according to an agreed specification and delivered on an agreed specified future date at an agreed pre-determined price.
- ❖ It is for a customer who seeks a financing facility that requires disbursement to be done either on lump sum basis or progressively or partially for property or factory/building under construction, including for ship building, construction of aircraft, and installation of machine and equipment.
- ❖ In addition, Istisna' contract can also be used for refurbishing of building, office renovation and assets where the installation is in parts due to different delivery schedule.
- ❖ The Istisna` contract must be binding on the contracting parties upon entering into the contract provided that it fulfils its essential elements of Istisna` contract which must include–
 - ❖ specifications of the Istisna` asset; and
 - ❖ determination of the price, time and place of delivery and mode of payment.
 - ❖ Istisna` contract must consist of the following components:
 - ❖ contracting parties, comprising seller and purchaser;
 - ❖ offer and acceptance;
 - ❖ Subject Matter (Istisna` asset; price and payment mode; and Istisna` project and delivery of Istisna` asset.

ISTISNA'

Essential Element	Description
1. Contracting parties	<ul style="list-style-type: none"> There must be a seller and a purchaser (collectively referred to as contracting parties). The contracting parties must be a natural person or a legal entity who must have the legal capacity to enter into contract. A party to an Istisna` contract may enter into the contract through an agent.
2. Offer and Acceptance	<ul style="list-style-type: none"> The Istisna` contract must be entered into through an offer and acceptance between the contracting parties. The offer and acceptance may be expressed orally, in writing or by any other methods which could be evidenced by appropriate documentation or record. Terms and conditions of the Istisna` contract that have been mutually agreed upon by the contracting parties and consistent with the Shariah must be binding on the contracting parties.
3. Istisna` Asset	<ul style="list-style-type: none"> The Istisna` asset is the subject matter of the contract, to be constructed, built or manufactured by the seller on the instruction of or at the request of the purchaser according to mutually agreed specifications. The specifications of the Istisna` asset to be constructed, built or manufactured must be agreed upon by the contracting parties (agreed specifications) at the time of entering into the Istisna` contract. Both the Istisna` asset and the purpose for constructing, building or manufacturing the Istisna` asset must be in compliance with Shariah. The Istisna` asset may either be a unique or homogeneous asset that can be constructed, built or manufactured such as a house, vehicle, aircraft or installation of machine and equipment. The customer has the following options if there is any defect in the Istisna` asset which occurred before the delivery but is discovered by the purchaser after the acceptance of the Istisna` asset: - <ul style="list-style-type: none"> (a) terminate the Istisna` contract; or (b) accept the defective Istisna` asset, with or without any variations to the terms of the Istisna` contract. <p>This option is not applicable if any defect in the Istisna` asset which is discovered upon delivery of the Istisna` asset but accepted by the purchaser.</p>

ISTISNA'

Essential Element	Description
4. Ownership of Istisna` Asset	<ul style="list-style-type: none"> Prior to delivery of the Istisna` asset, ownership remains with the seller. Ownership of the Istisna` asset must transfer from the seller to the purchaser upon the purchaser taking possession of the Istisna` asset that meets the agreed specifications.
5. Price and mode of payment	<ul style="list-style-type: none"> Price of the Istisna` asset must be determined by mutual agreement of the contracting parties (agreed price) at the time of entering into the Istisna` contract. The price may be– <ul style="list-style-type: none"> (a) expressed in monetary value, in kind or other forms of valuable consideration; (b) paid at any time and in any form such as spot, progressive or deferred either by instalments or bullet payments subject to the agreement of the contracting parties. The agreed price of the Istisna` asset may be revised, subject to execution of a new/ supplementary contract, after entering into the Istisna` contract and before delivery of the Istisna` asset to the purchaser due to the following circumstances: <ul style="list-style-type: none"> (a) a reduction in the cost of constructing, building or manufacturing of the Istisna` asset. In this case, the seller may reduce the Istisna` selling price accordingly. (b) an increase in the cost of constructing, building or manufacturing of the Istisna` asset. In this case– <ul style="list-style-type: none"> (i) the purchaser may agree to revise the agreed price of the Istisna` asset to affect the transfer of the cost to the purchaser; or (ii) the purchaser does not agree to revise the agreed price. the seller must bear the increased cost of constructing, building or manufacturing of the Istisna` asset. (a) the purchaser requests for a change in the agreed specifications of the Istisna` asset. In this case, if the seller agrees to the purchaser's request, the contracting parties may agree to revise the agreed price. (b) Other incidental costs and expenses <p>Incidental costs or expenses incurred during the construction, building or manufacturing period of the Istisna` asset such as those arising from the regulatory or legal requirements must be borne by the seller. However. the purchaser may agree</p>

ISTISNA'

Essential Element	Description
6. Istisna` project and delivery of Istisna` asset	<ul style="list-style-type: none"> • The time of delivery of the Istisna` asset must be determined and agreed upon by the contracting parties at the inception of Istisna` contract. • If the Istisna` asset is delivered according to the agreed specifications and time, the purchaser must accept the delivery of the Istisna` asset and pay the agreed price to the seller. • Delay in the agreed delivery period must entitle the purchaser to claim actual loss or damage from the seller as a result of the latter's failure to deliver on time. • The Istisna` contract may incorporate a clause which provides that the seller must act as an agent for the purchaser in disposing of the Istisna` asset at fair market value or at a mutually agreed price, in the event that the purchaser fails to accept the delivery of the Istisna` asset within a reasonable time, or if the purchaser specifically directs the seller to do so. • In the event that the Istisna` asset is not in accordance with the agreed specifications, the purchaser may exercise the following options– <ul style="list-style-type: none"> (a) reject delivery of the Istisna` asset thereby dissolving the contract; (b) accept delivery of the Istisna` asset at the agreed price; or (c) accept the delivery of the Istisna` asset subject to new terms to be mutually agreed upon by the contracting parties such as a revision to the agreed price or extension of time given to the seller to meet the agreed specifications of the Istisna` asset. • In the event that the seller fails to complete and deliver the Istisna` asset on the agreed delivery date, the options available are; - <ul style="list-style-type: none"> ○ the purchaser may take possession of the Istisna` asset on an as-is basis; or ○ the contract is considered void.

ISTISNA' – PROCESS FLOW

Step	Description
1.	Customer assign the Bank (acting as contractor) to construct a project. To undertake this task, the customer will sign an Istisna' Purchase Agreement and Istisna Sale Agreement with the Bank.
2.	The Bank assigns sub-contractor to construct the project.
3.	Bank pays the cost of construction.
4.	Customer pays installments to the Bank
5.	The sub-contractor finishes the project, transfer to the Bank/customer
6.	Customer acquires the finished project.

Product Documentation

- ❖ Letter of Offer
- ❖ Istisna' Agreement – Customer
- ❖ Istisna' Agreement – Contractor
- ❖ Wakalah Agreement
- ❖ Istisna Award Letter

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

- ❖ Ijarah Muntahiah Bittamleek (lease to purchase) is offered to customers based on multiple Shariah contracts beginning with Wa'd (Promise), then Ijarah and finally a sale or Hibah (gift) to enable customers to own the property(ies) such as house, shop house, factory, plants, motor vehicle and other assets for personal and business use.
- ❖ The Bank obtains the customer's requisition to purchase a house or asset and undertaking to take such house or asset on Lease.
- ❖ The Bank acquires the house or asset from its vendor. Also, the Bank may lease the property or asset from Lessor for onward sub-lease to the Customer, where the Lessor is not averse to such arrangements.
- ❖ In some cases, the Bank may enter into a forward lease (Ijarah Mowsufa Fi Al Dhimmah) in which the house or asset to be acquired is to be manufactured to the Customer's specifications by the bank or is not readily available as per Customer's specifications. In such case the Customer will be required to pay some or all of the lease rentals in advance of getting delivery and use of the asset being purchased or manufactured as per specifications.
- ❖ The customer leases the house or asset from the Bank and pays rental to the Bank for the agreed term of the lease.

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

- ❖ The Bank and the Customer may agree on a lease rental to be on fixed or variable rate basis. Where a variable rate is agreed upon, the first period amount must be a specified lump sum and subsequent periods can be determined with reference to a well-known variable indices or benchmark to avoid dispute. Maximum and minimum ceilings should bound the referenced index.
- ❖ Amounts to be paid as rental for future periods can be varied by agreement of both parties provided the client is yet to enjoy the usufruct of the house or asset for that future period, however if the usufruct of the house or asset has already been used then the rental amount due and consequently cannot be reviewed.
- ❖ Where the leased house or asset is damaged or enjoyment of usufruct of the lease contract is impossible to continue till the expiry period (due to external factors not occasioned by the Customer), in such case the difference between the IMT lease rentals so far paid by the Customer up till such time, and the predominant market rate of an operating lease shall be computed. The difference arrived at (if higher) shall then be refunded to Customer as compensation for the higher lease rentals paid in anticipation of owning the house or asset, which never came into fruition

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

- ❖ The house or asset is transferred to the Customer at the end of the lease period or at any time during the lease term when the Lessee (Customer) wishes to (exercise call option) to purchase the leased asset.
- ❖ To transfer the house or asset, the parties may execute a sale and purchase contract to transfer the ownership of the leased asset to the Lessee (Customer). The Bank may decide to execute a sale undertaking in favour of the Customer. Alternatively, the parties may execute a Conditional Gift Contract at the beginning of the Ijarah for the transfer of the ownership of the leased house or asset.

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

Event	Applicable Contract
Promise of customer to lease the house or asset from the Bank upon being acquired by the Bank at his instance	Wa'd Wa'd is a unilateral promise or undertaking which is binding or non-binding.
Lease of house/asset by customer from the Bank	Ijarah
At the end of the Ijarah term, the Bank and the Customer execute Sale and Purchase Agreement. The Asset could also be transferred by a conditional Gift.	Sale and Purchase or Gift

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

Component	Description
The contracting parties	<ul style="list-style-type: none"> The contracting parties are the lessor and lessee. The contracting parties shall be either a natural person or a legal entity who has the legal capacity to enter into the Ijarah contract. If the leased asset is jointly owned by more than one person, consent of all joint owners shall be obtained before the asset can be leased In the context of IMT, the Bank own the asset. And the customer leases the asset from the Bank.
Ijab (offer) and qabul (acceptance)	<ul style="list-style-type: none"> An Ijarah contract shall be entered into through an offer and acceptance between the contracting parties. The offer and acceptance may be expressed orally, in writing or by any other method recognised by Shariah. Terms or conditions of the Ijarah contract that have been mutually agreed by the contracting parties, which does not contravene the Shariah principles, shall be binding on the contracting parties
The asset and usufruct	<ul style="list-style-type: none"> The asset and usufruct in an Ijarah contract shall be– <ol style="list-style-type: none"> recognised by Shariah; valuable; in existence; identifiable; accessible; deliverable; not a debt-based asset; and non-perishable. The asset and its usufruct shall be owned by the lessor. The lessor may appoint the lessee or a third party as an agent to acquire the asset to be leased. Permissible forms of leased assets; <ul style="list-style-type: none"> The asset in an Ijarah contract may be– <ol style="list-style-type: none"> tangible assets, which can either be movable or immovable physical assets such as land, buildings, vehicles and machines; or intangible assets, such as trademark, patent and other forms of intellectual property which are capable of being

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

Component	Description
Rental.	<ul style="list-style-type: none">Rental shall be determined and agreed by the contracting parties at the inception of the Ijarah contract.The contracting parties may mutually agree for the rental to be paid by the lessee in the following manner:<ul style="list-style-type: none">(a) in cash or in kind. In the context of IMT, the rental is to be paid in cash.(b) in advance or in arrears; and(c) in a lump sum or by instalments at such intervals including daily, weekly, monthly, quarterly, semi-annually or annually. In the context of IMT, the rental payment is in accordance with the market practise in Nigeria.The contracting parties may agree for the rental amount–<ul style="list-style-type: none">(a) to be paid in a fixed amount;(b) to be determined via a reference to a specified benchmark, index or formula; or(c) to be paid using a combination of paragraph (a) and (b) above.The lessor shall not increase rental unilaterally.The contracting parties may, from time to time, mutually agree to revise the rental of the leased asset.The rental may be received in advance and such rental may be immediately utilised by the lessor.The lessee shall ensure that the payment of the rental is made timely, promptly and in accordance with the mutually agreed method. Any overdue rental shall be considered as a debt due from the lessee to the lessor.In the event that the contracting parties opt to dissolve the Ijarah contract, the lessee shall compensate the lessor in accordance with the mutually agreed terms under the Ijarah contract.

IJARAH HOME AND ASSET OWNERSHIP SCHEMES

Process Flow

Stage	Description
1.	Customer identifies a house or an asset to own.
2.	The customer applies for financing from the Bank to buy the house or asset and upon approval, the Bank issues a Letter of Offer.
3.	The Bank enters into a sale and purchase agreement with the vendor.
4.	The Bank will lease the house or asset to the customer and the customer, as tenant, agrees to pay rentals as may be agreed.
5.	At the end of the financing tenure and upon full payment, ownership in the asset/house would be transferred to the customer by a Sale Contract or as a Gift.

Product Documentation

a. The contract documentation for the Ijarah based Home and Asset Ownership Schemes are attached In Appendices 3, 4, and 5

Appendix 3 - Letter of Offer

Appendix 4 - Ijarah Muntahia Bittamleek Agreement

Appendix 5 - Purchase requisition & rent undertaking letter

b. Standard collateral documents such as registration of mortgage/charge/assignment on landed property and lien (ownership claim) on registered vehicle and machinery and equipment are to follow the rules and regulations prescribed by the regulatory authorities in Nigeria.

IJARAH HOME AND ASSET OWNERSHIP SCHEMES – TERMS & CONDITIONS

No.	Criteria	Features
1.	Rental	<p>The rental rate is pegged to the Bank's cost of fund (linked to the CBN's monetary policy rate).</p> <p>Rental rate for example, could be stated as Bank's cost of fund (COF) plus 5%. Assuming COF is 15%, rental rate is 20%.</p>
2.	SAMPLE rental calculation	<p>For calculation of rental of a Home finance where the total cost of the asset is NGN 1.2 Million or NGN 1,200,000 with the customer making the down payment (Advance Rent) of NGN 200,000 and the Islamic bank financing the balance which is NGN 1,000,000. In addition, it is agreed between the customer and the Islamic bank that the Islamic bank would lease the asset to the customer for a period of 5 years or 60 months against the monthly rental, which includes the rent against usufruct and the payment towards the bank's finance. The rent is calculated on the Net Asset Value of the leased asset which includes the profit margin of 20% p.a. of the Islamic bank.</p> <p>The formula for rent is:</p> <p>Rental for each instalment in Year 1 –</p> <p>$(((\text{Bank's finance on the Asset} \times \text{Bank's Profit Margin}) / 12) + (\text{Bank's Finance} / \text{Total Lease Period})),$ which is $(((1,000,000 \times 20\%) / 12) + (1,000,000 / 60)) = [16,667 + 16,667] = 33,334$. The rent has a profit component of NGN 16,667 and the payment towards principal of NGN 16,667.</p> <p>Rental for each instalment in Year 2 –</p> <p>$(((\text{Outstanding Bank's finance on the Asset} \times \text{Bank's Profit Margin}) / 12) + (\text{Bank's Finance} / \text{Total Lease Period})),$ which is $(((800,000 \times 20\%) / 12) + (1,000,000 / 60)) = [13,333 + 16,667] = 30,000$. The rent has a profit component of NGN 13,333 and the payment towards principal of NGN 16,667.</p>

IJARAH HOME AND ASSET OWNERSHIP SCHEMES – TERMS & CONDITIONS

No .	Criteria	Features
2.	SAMPLE calculation rental	<p>Rental for each instalment in Year 3 –</p> <p>$(((\text{Outstanding Bank's finance on the Asset} \times \text{Bank's Profit Margin}) / 12) + (\text{Bank's Finance} / \text{Total Lease Period}))$, which is $(((600,000 \times 20 \%) / 12) + (1,000,000 / 60)) = [10,000 + 16,667] = 26,667$. The rent has a profit component of NGN 10,000 and the payment towards principal of NGN 16,667.</p> <p>Rental for each instalment in Year 4 –</p> <p>$(((\text{Outstanding Bank's finance on the Asset} \times \text{Bank's Profit Margin}) / 12) + (\text{Bank's Finance} / \text{Total Lease Period}))$, which is $(((400,000 \times 20 \%) / 12) + (1,000,000 / 60)) = [6,667 + 16,667] = 23,334$. The rent has a profit component of NGN 6,667 and the payment towards principal of NGN 16,667.</p> <p>Rental for each instalment in Year 5 –</p> <p>$(((\text{Outstanding Bank's finance on the Asset} \times \text{Bank's Profit Margin}) / 12) + (\text{Bank's Finance} / \text{Total Lease Period}))$, which is $(((200,000 \times 20 \%) / 12) + (1,000,000 / 60)) = [3,333 + 16,667] = 20,000$. The rent has a profit component of NGN 3,333 and the payment towards principal of NGN 16,667.</p> <p>After paying the total Lease Rent i.e. NGN $[(33,334 \times 12) + (30,000 \times 12) + (26,667 \times 12) + (23,334 \times 12) + (20,000 \times 12)] = 1,600,020$, the Islamic bank would transfer the ownership of the asset to the customer.</p>
3.	Review of annual rentals	The Bank may review the annual rentals. The Customer should be advised of any change in the rental amount as and when it occurs, to reach a mutual agreement on the review.
4.	Offer to buy before maturity of Ijarah	The customer can at any time offer to acquire the Bank's ownership of the house/asset and the Bank must agree to sell.
5.	Termination of ownership	This Bank's ownership of the house or asset is deemed terminated once the customer has bought over the house or asset.

CONCLUSION



Thank You!