

Chapter 2: Shari'ah Contracts for Islamic Financial Institutions



Chapter Content

1. Elements of Shariah Contracts
2. Classification of Shariah Contracts
3. Exchange Based Contracts
4. Partnership Contracts
5. Charitable Contracts
6. Agency Contracts
7. Security Contracts
8. Supporting Contracts

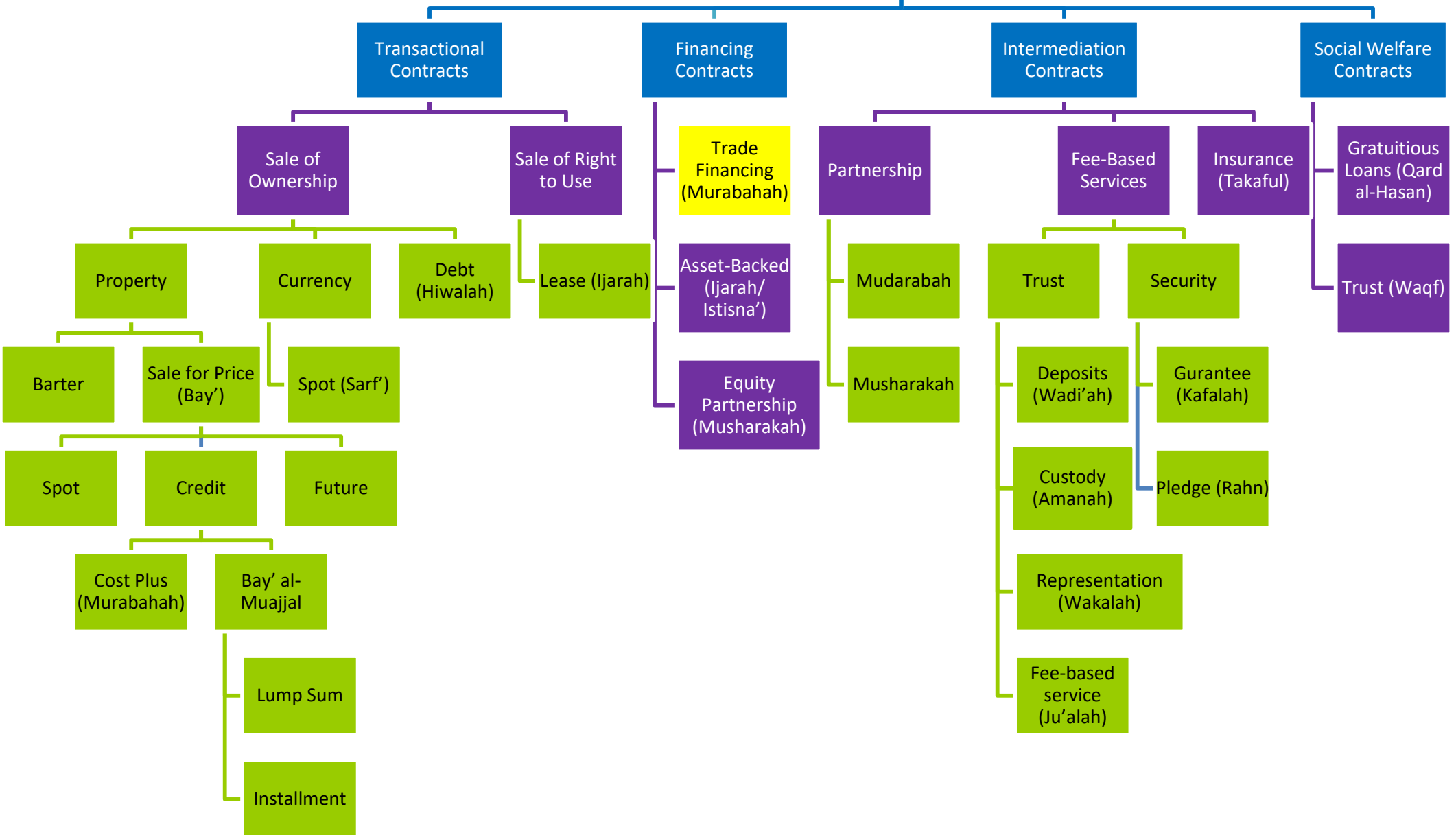
Introduction

- During Prophet Muhammad's lifetime, Islamic methods of finance often drew upon examples from the Prophet's experiences.
- There are many sayings about the Prophet (pbuh) buying on credit, taking financing and sometimes giving personal property as a security or lien.
- It was reported that Prophet Muhammad (pbuh) used the mudharabah contract to trade with Khadijah's capital which involved the Prophet (pbuh) traveling to Syria.

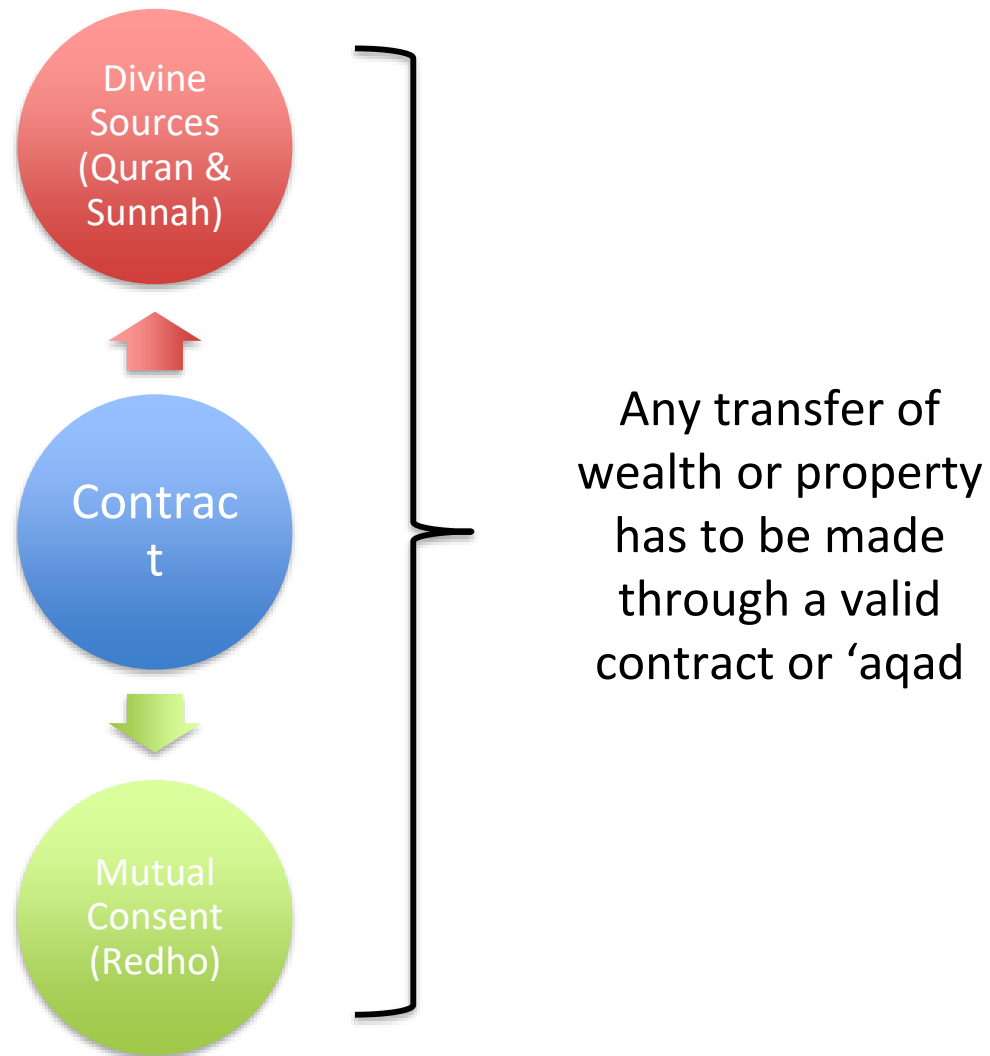
Introduction

- Muslims in Arabia during that period and also in the pre-historic period had widely practiced shirkah or musharakah (full partnership) when operating large commercial enterprises under a profit-and-loss-sharing principle.
- Sayfi bin A'idh became a partner of the Prophet (pbuh) before his prophethood, to trade in Yemen.

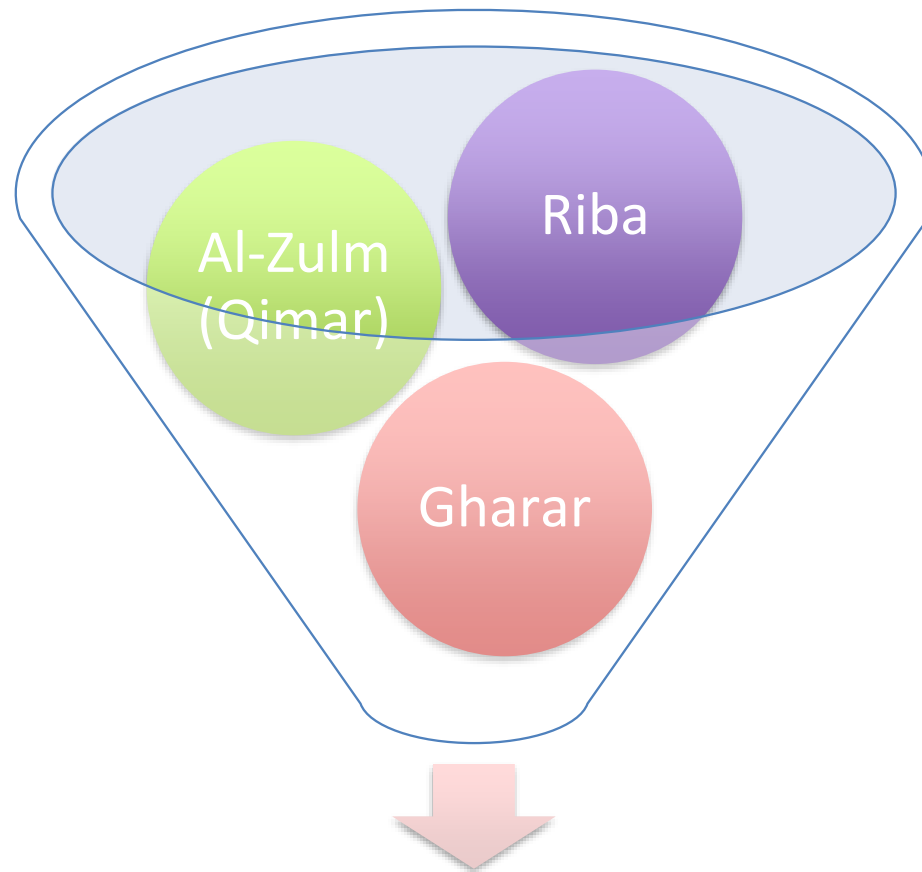
Islamic Financial Contracts/ Instruments



Theory of Contract in Islam



Shariah Parameter in the Theory of Contract



Islamic Contract

Riba and Trade

- Although Islam prohibits riba, it does not prohibit trade.
- The proof of this is that the Holy Prophet himself engaged in business.
- However, some people were mixing trade with interest and insisting that there was no difference between the two.

Riba and Trade

- The Qur'an, however, states:

"They say 'trade is just like interest' whereas Allah has permitted trade and forbidden interest." Qur'an (2:275)

Ribawi Item

- The following goods known as ribawi items if there is any increase because of difference in quantity, quality and/or time:

gold for gold;
silver for silver;
wheat for wheat;
barley for barley;
dates for dates; and
salt for salt.

Ribawi Items

- Thus, in order to avoid riba al-buyu, both the quality and quantity of the exchanged amounts must match and the exchange must be simultaneous.
- Though six commodities are mentioned specifically, some scholars maintain that the principle extends to all commodities.
- As the following hadith show, riba al-buyu can be avoided so long as commodities are exchanged for money simultaneously.

Ribawi Items

- *'Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, and salt by salt - like for like, equal for equal, payment being made on the spot. If the species differ, sell as you wish provided that payment is made on the spot'.*

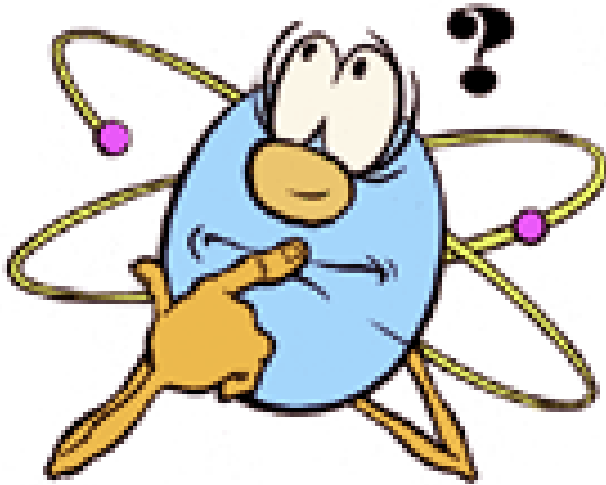
Hadith : Muslim



Ribawi Items

- Abu Sa'id said that Bilal brought to the Prophet some barni dates and when the Prophet asked him how the dates had been obtained, Bilal replied, *'I had some inferior dates so I sold two sas for a sa' (a small container)*. On this the Prophet said *'Ah the very essence of riba, the very essence of riba. Do not do so, but if you wish to buy, sell your dates in a separate transaction, then buy with the proceeds'*.

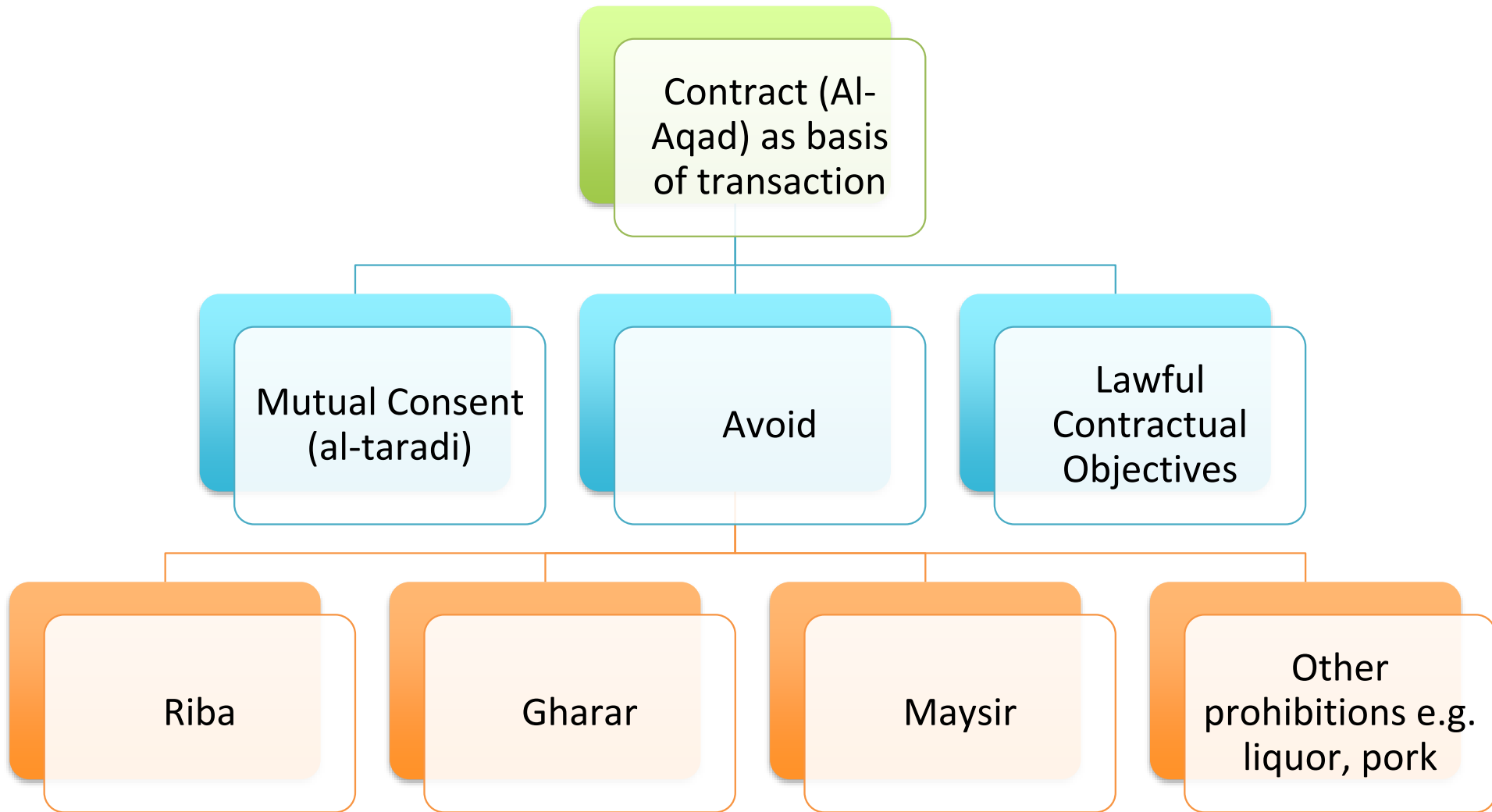
Hadith : Muslim



Form of contract.
Subject matter of contract.
Contracting parties.

ELEMENTS OF SHARI'AH CONTRACTS

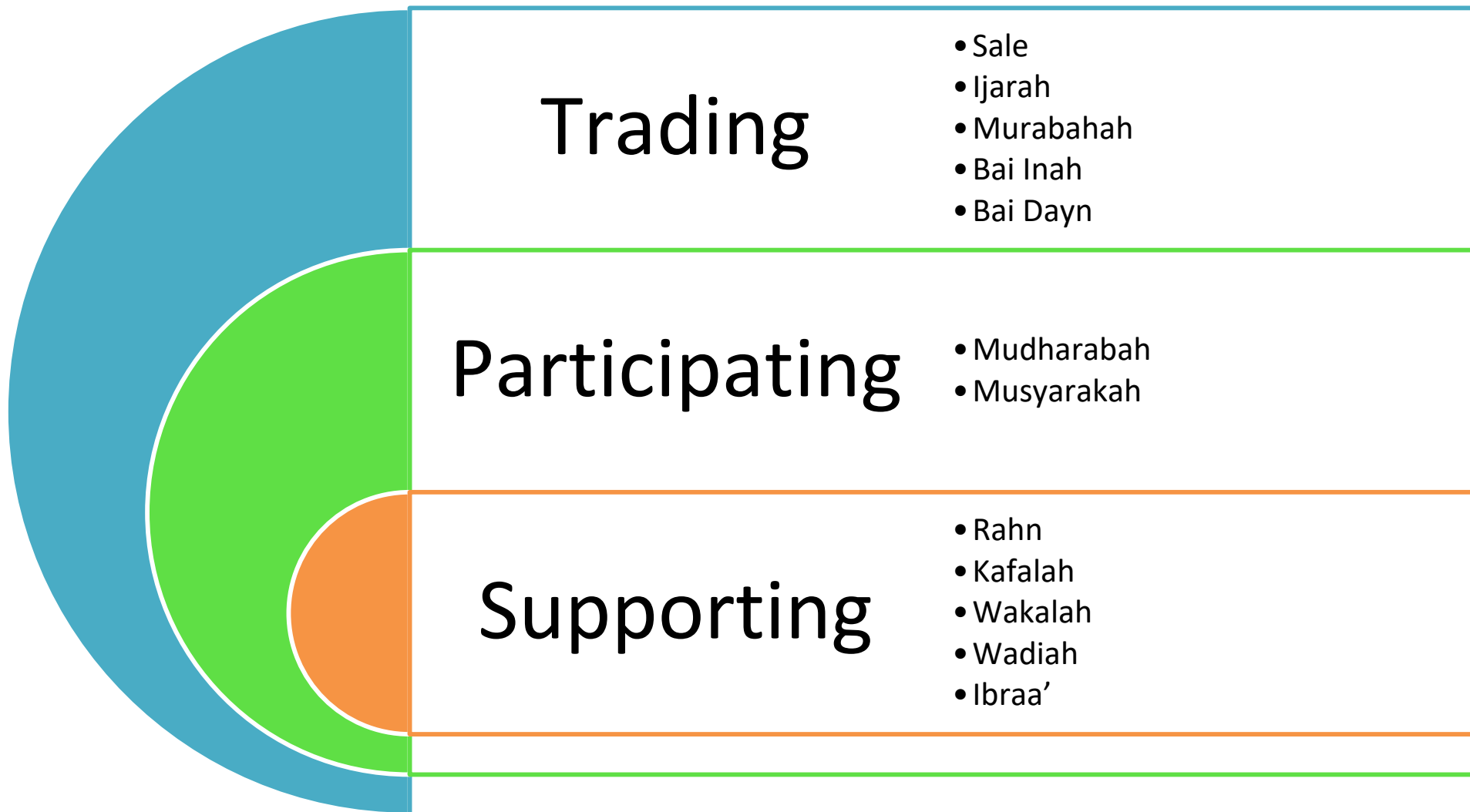
General Principles of Islamic Commercial Transactions



Essential Elements (Rukun) of Contracts and Its Conditions

- For a contract to be valid, each type of contract used must of the essential element required by the contract must meet the necessary conditions outlined.
- Types of contract in Islamic finance is categorized into the following:
 - Trading Contracts
 - Participating Contracts
 - Supporting Contracts

Types of Contracts



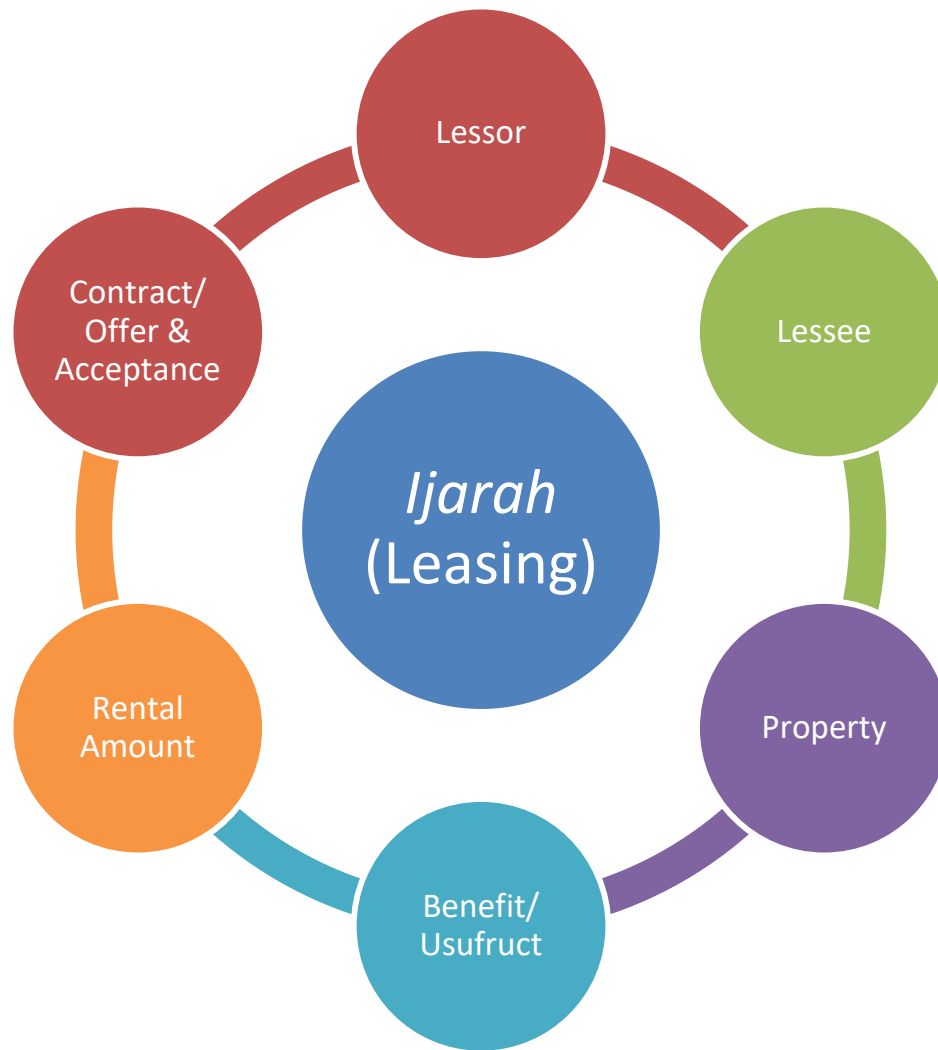
Sale Contract

- Bai
 - Bai is the Arabic word for sale and purchase.
- Among the evidences of the permissibility of Bai or sale are:
 - From the Qur'an surah al-Baqarah verse 275 meaning, *"... but Allah has permitted trade..."*
 - From the Hadith, when the Prophet s.a.w. was asked, *"What is the best means of earning a living,"* he answered, *"A man working with his hands and a good sale."*
 - A good sale is one which does not involve cheating and treachery.

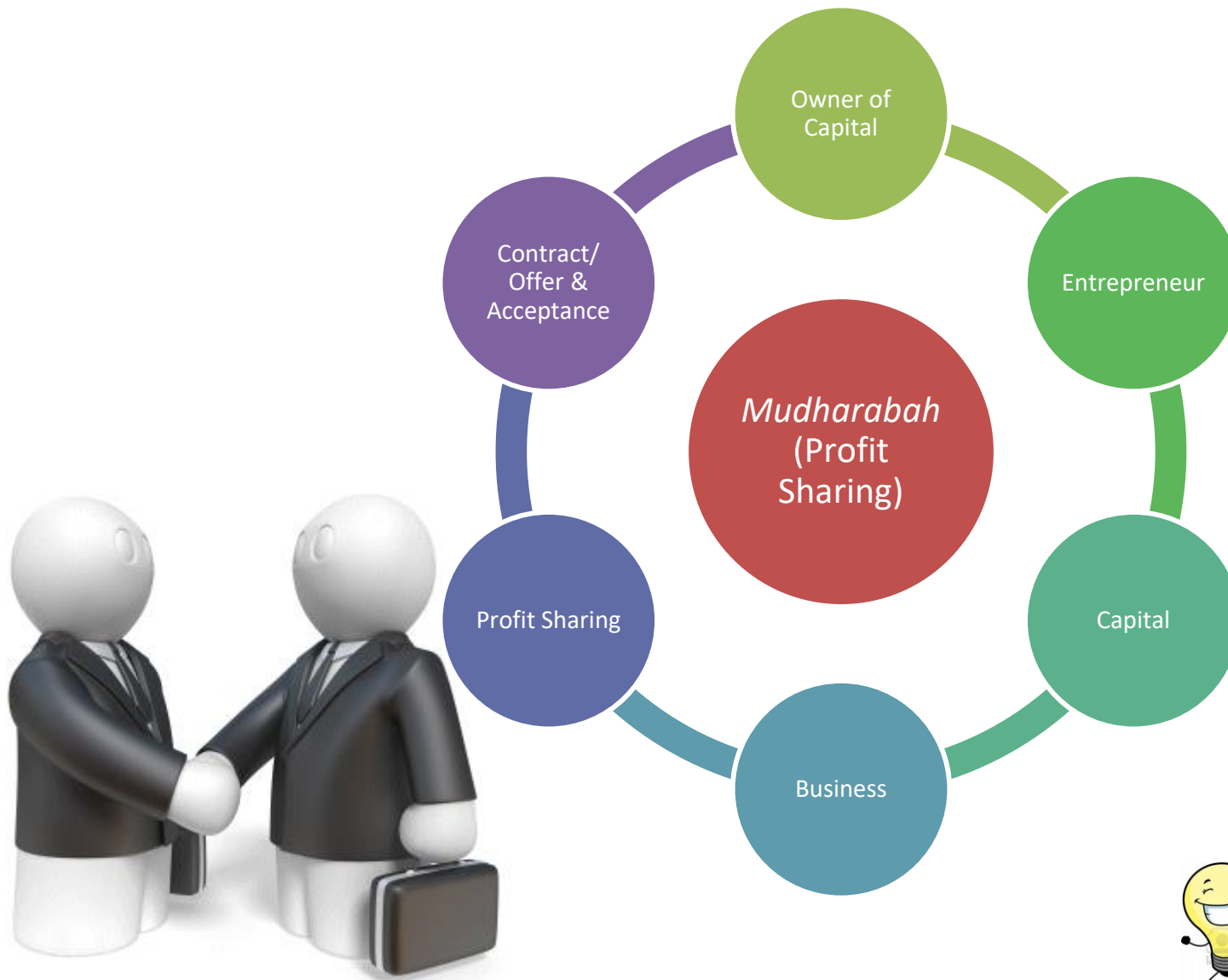
Essential Elements of a Sale Contract



Essential Elements of a Lease Contract



Essential Elements of Participating Contracts



Mudharabah is Profit Sharing, therefore both the Entrepreneur and the Capital Provider only shares the profit and not the loss.

However, for *Musharakah*, it is profit and loss sharing, both the Entrepreneur and Capital Provider shares both profit and loss.

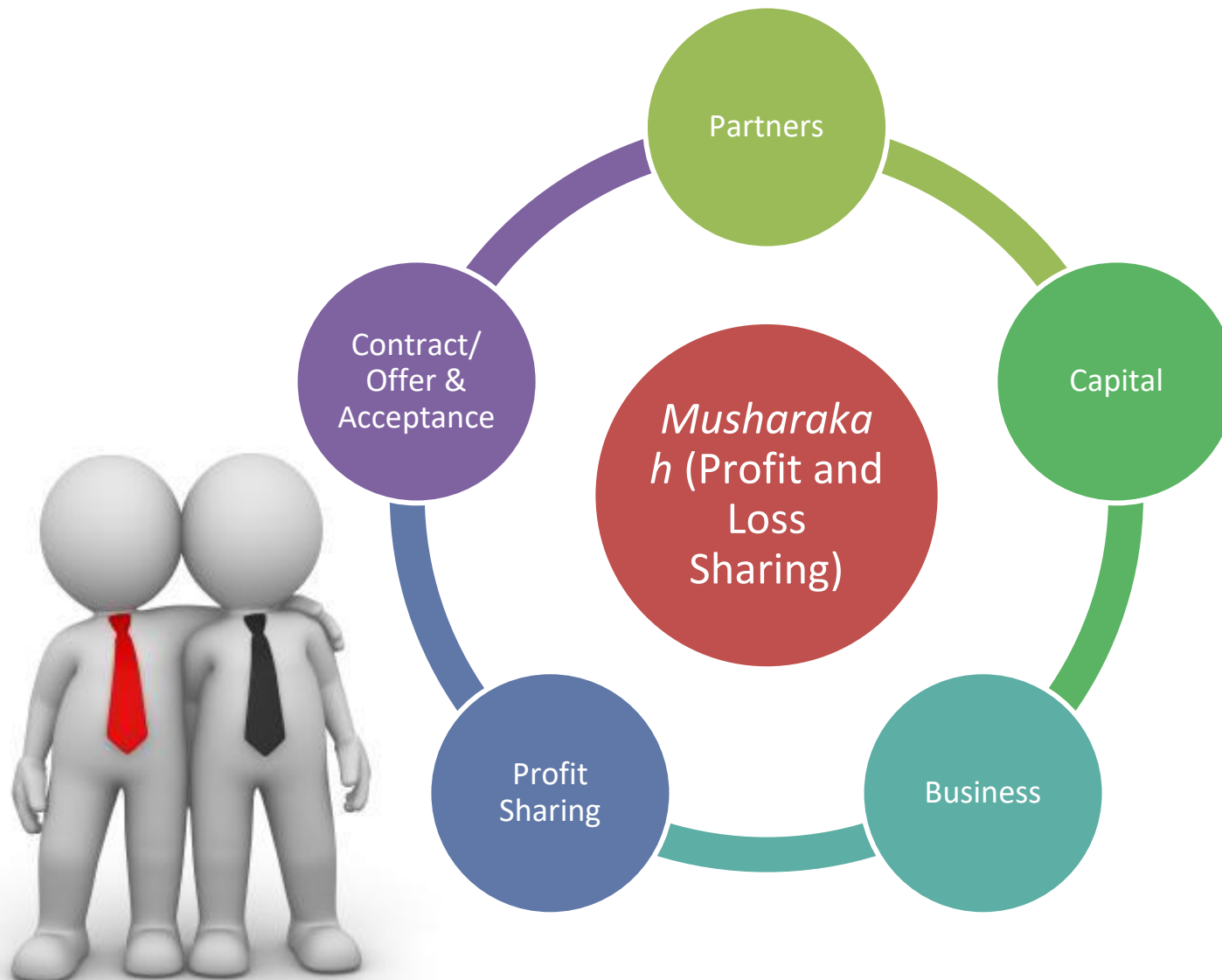


Do you know the **difference** between *Mudharabah* and *Musharakah*?

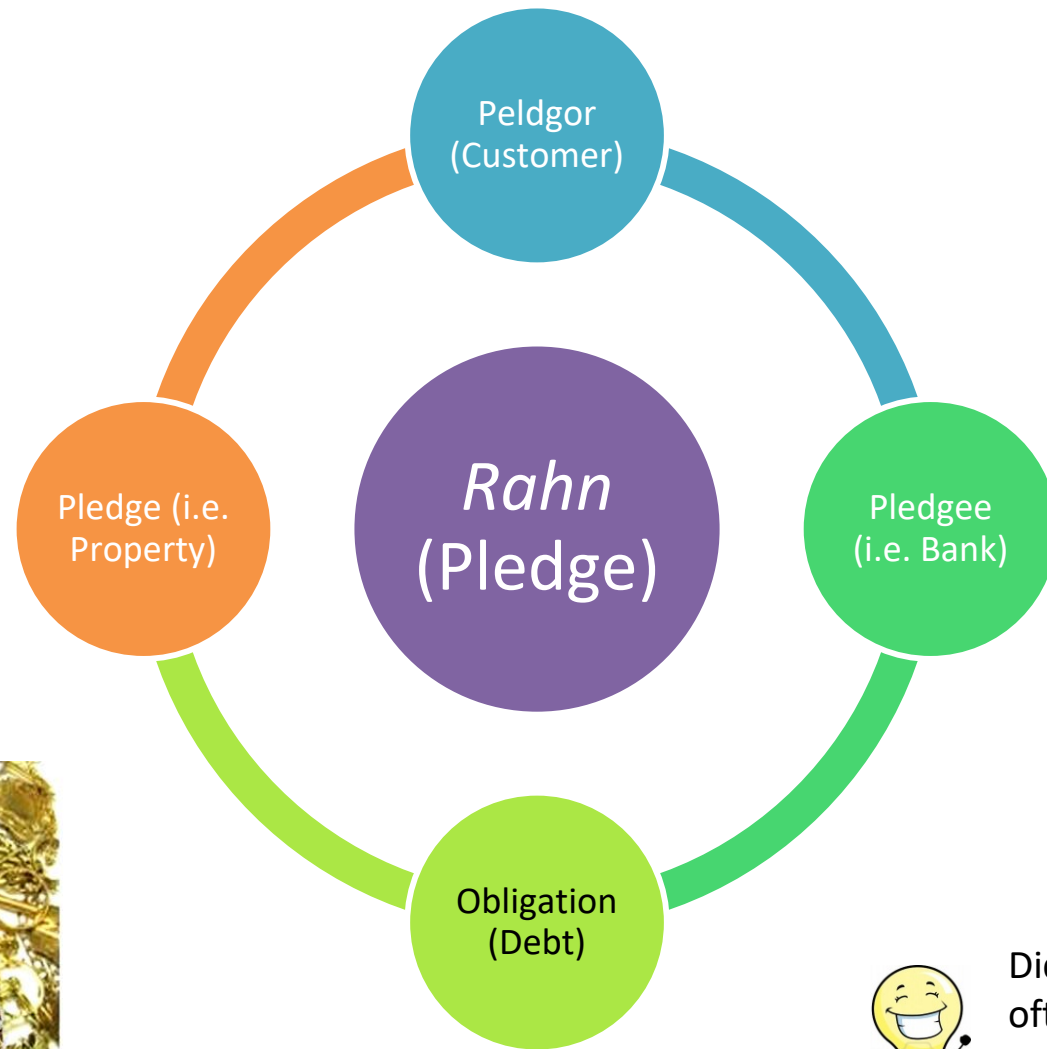
Musharakah

- The Arabic word for participating is 'shirkah' which literally means mixing or associating.
- Example: To mix rice A1 and rice Basmathi. Water and oil cannot mix.
- According to the Shariah it means, *"setting up the right on something for two or more persons on a common basis."*
- Shirkah is also referred to as Musharakah.
- One of the evidences of the permissibility of Musharakah is:
 - Hadith from Al-Saib bin Zaid that "he was the Prophet's s.a.w. partner (in a Musharakah contract) before Muhammad's appointment as the Messenger and he prided himself after the Prophets appointment on being his partner."

Essential Elements of Participating Contracts

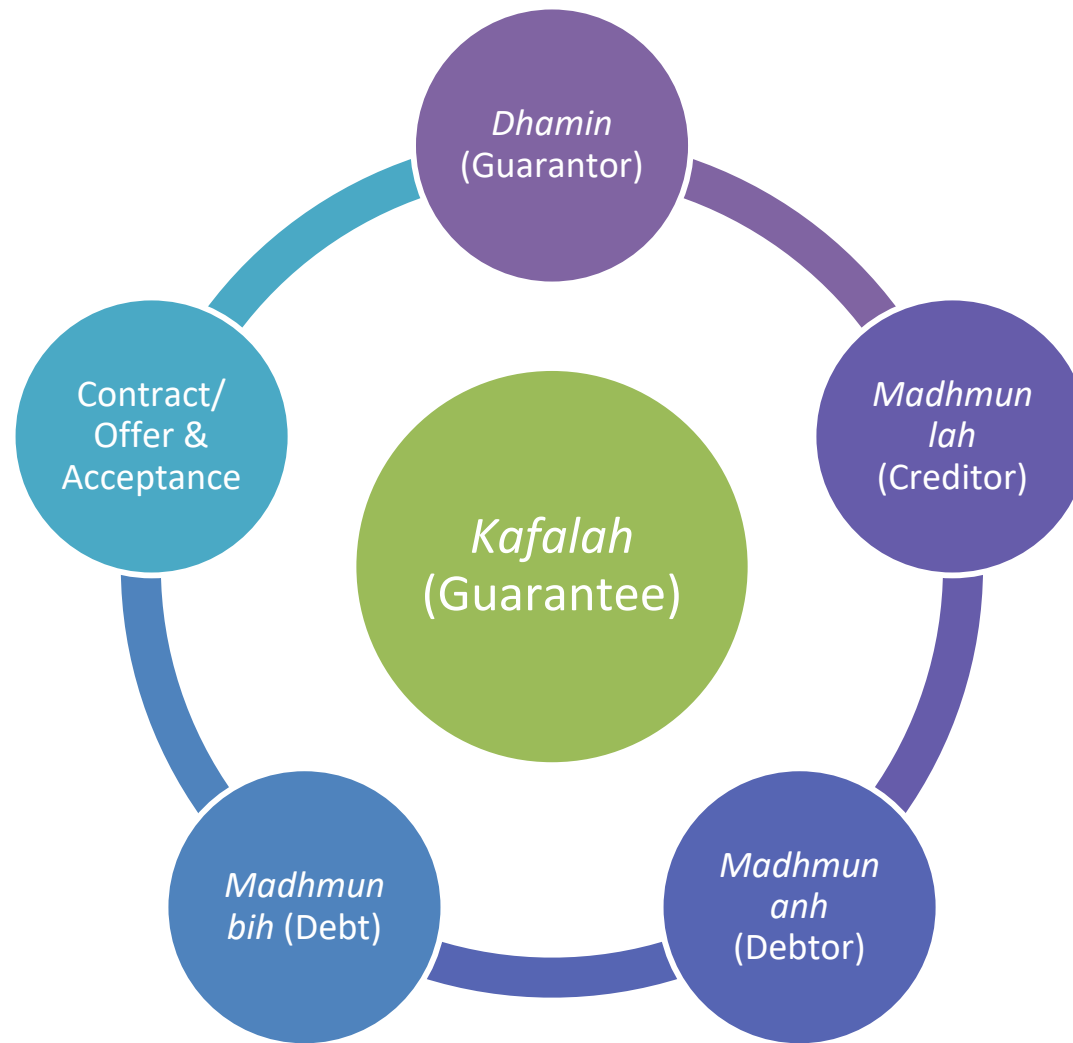


Essential Elements of Supporting Contracts



Did you know that the Malays often buy and collect jewellery so that it can be pawned/pledged for cash in times of hardship?

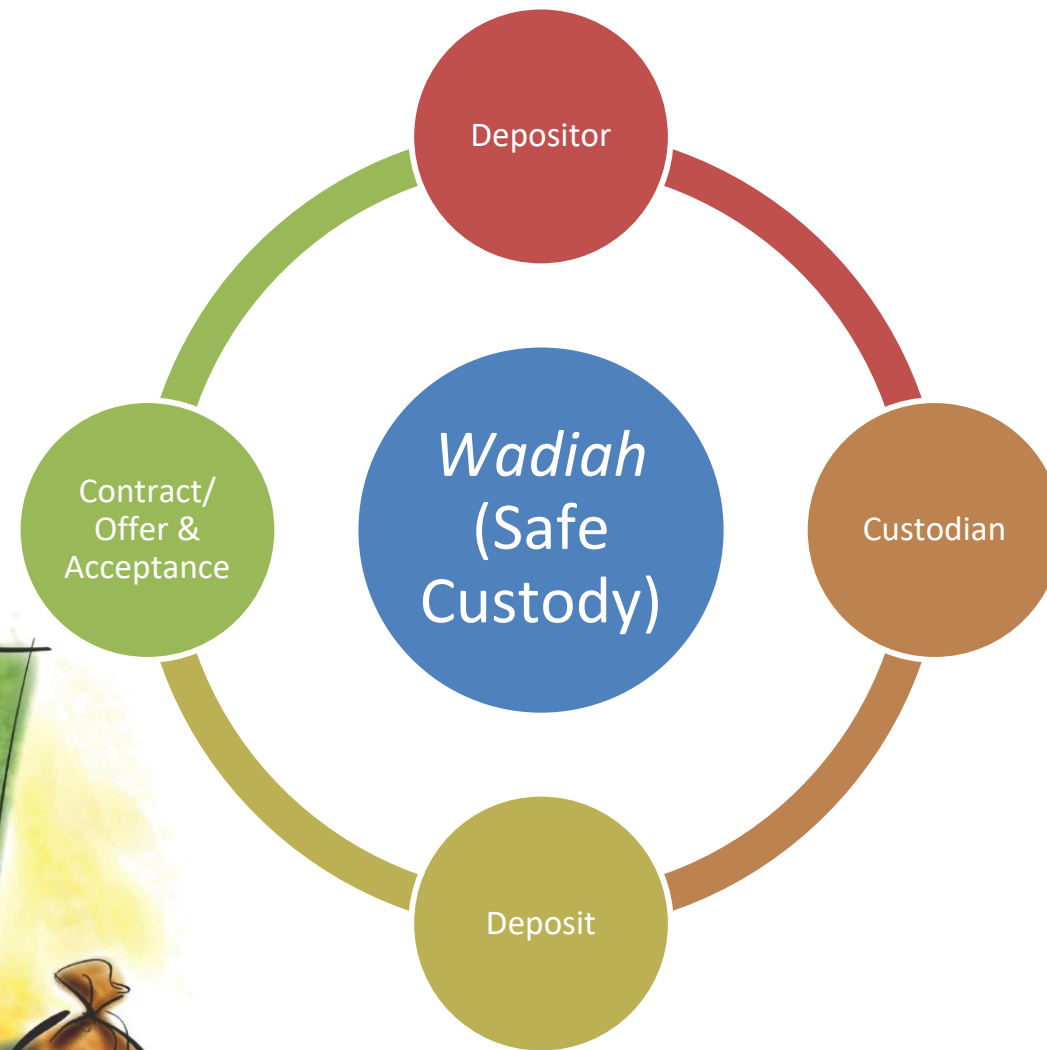
Essential Elements of Supporting Contracts



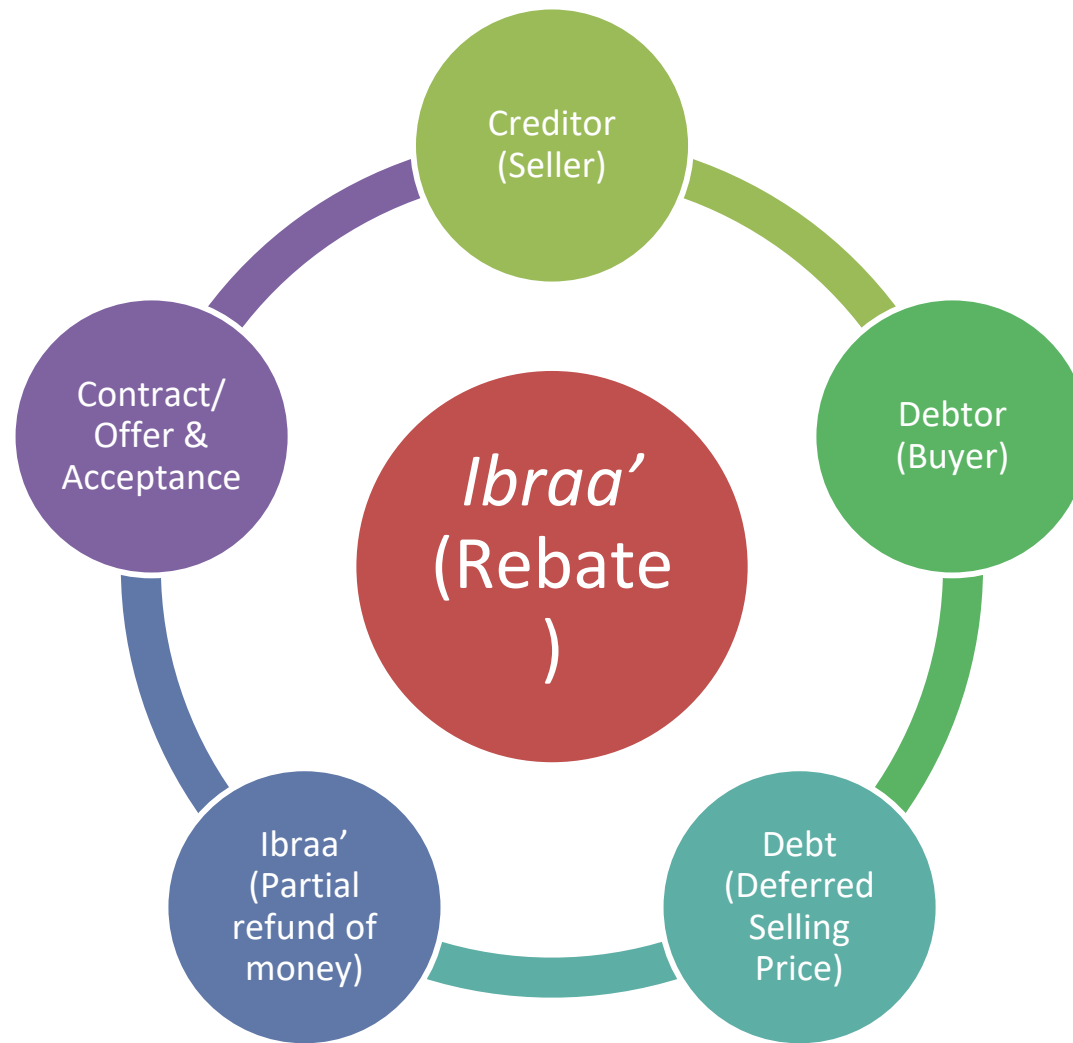
Essential Elements of Supporting Contracts



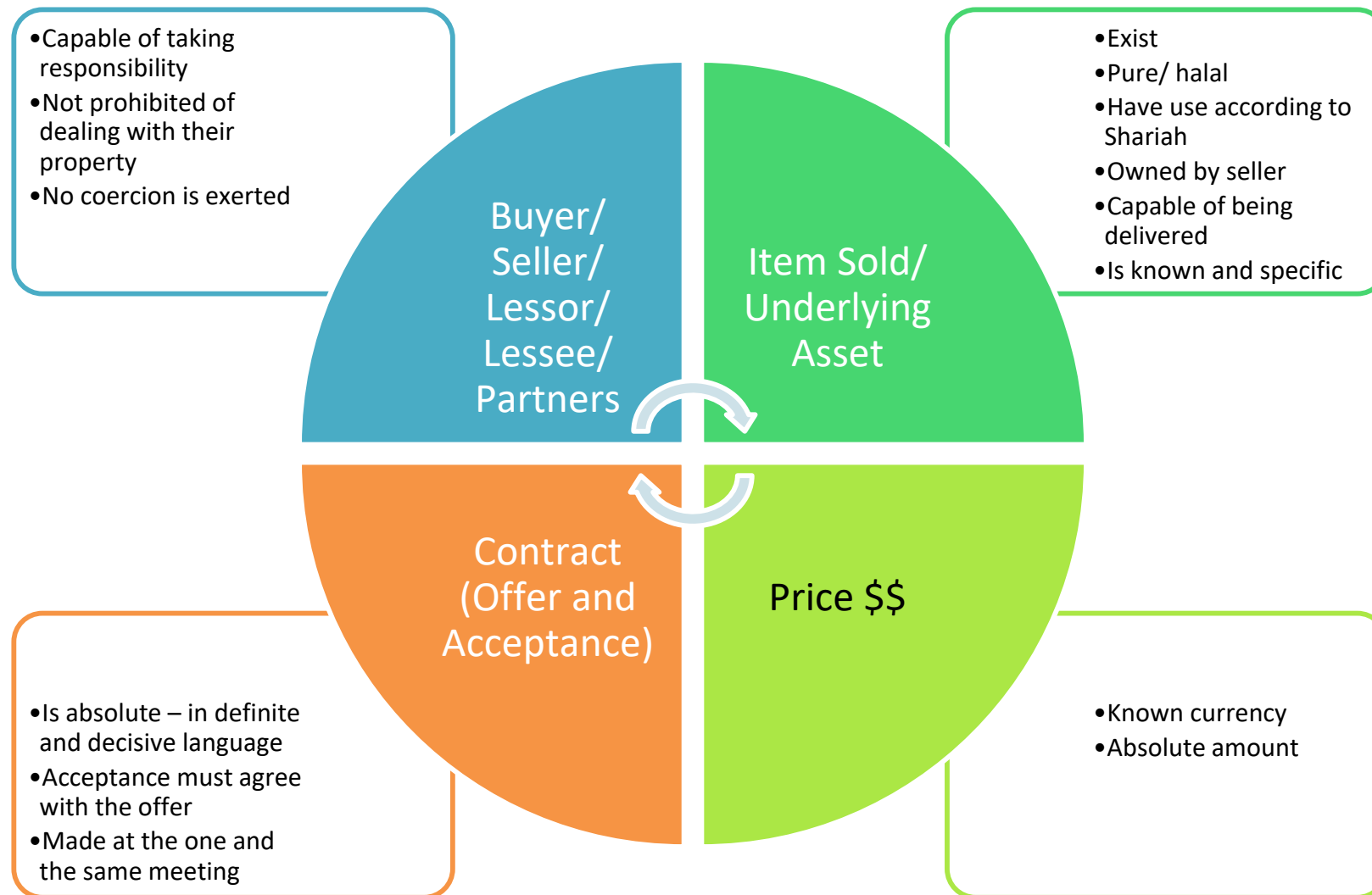
Essential Elements of Supporting Contracts



Essential Elements of Supporting Contracts



Conditions of Essential Elements





CLASSIFICATION OF SHARI'AH CONTRACTS

Various forms of Islamic Contracts used in Banking



Types of Contracts

Contracts of
Exchange/ Transfer
of Property

Contracts of
Security

Contracts of
Partnership

Contracts of Safe
Custody

Contracts
Pertaining to the
Utilization of
Usufruct

Contracts
Pertaining to
Work/ Services

Gratuitous
Contracts

Classification of Contracts

Classification	Details	Example
Contracts of Exchange/ Transfer of Property (Uqudul – Muawadat)	<ul style="list-style-type: none">• Contract that transfer the ownership of goods and merchandise• Involves an exchange of a commodity for another commodity (barter trading), a commodity for money (sale), money for money (sarf).	<ul style="list-style-type: none">• Bai' Bithaman Ajil• Bai' Salam• Bai' al-Istisna'
Contracts of Security (Uqudul – Tawthiqat)	<ul style="list-style-type: none">• Concerned with the provision of securities to protect the interests of the parties to the contract.	<ul style="list-style-type: none">• Kafalah (Guarantee)• Rahn (Pawning)• Hiwalah (Transfer of Debt)

Classification of Contracts

Classification	Details	Example
Contracts of Partnership (Shirkah)	<ul style="list-style-type: none">• Two (2) or more parties jointly venture into projects by sharing in the capital contribution, management of the capital, as well as profits and liabilities.	<ul style="list-style-type: none">• Musharakah (a profit and loss sharing contract where all partners contribute to the capital and management),• Mudharabah (a profit sharing contract where one party provides capital while the other provides management/ skills)
Contract of Safe Custody (Wadiah)	<ul style="list-style-type: none">• Contract involved the owner of property deposited his property in custody of another for safekeeping.• Not intended to transfer any property or utilize the usufruct or to do a work.	<ul style="list-style-type: none">• Deposit (Wadiah)

Classifications of Contracts

Classification	Details	Example
Contracts Pertaining to the Utilization of Usufruct (Uqudul Manfaah)	<ul style="list-style-type: none">• Aim to transfer the right to use the usufruct of a property from the owner to the user for or without a consideration	<ul style="list-style-type: none">• Leasing (Ijarah)• Lending (Ariyah)• Hire/ Employment (Isti'jar)• Loan (Qard)
Contracts Pertaining to Work/ Services	<ul style="list-style-type: none">• Transactions in which one of the contracting parties is requested to do a work whether with a consideration or not	<ul style="list-style-type: none">• Wakalah (Agency)• Reward (Jualah)• Contract of Manufacture (Istisna')
Gratuitous Contracts (Uqudul Tabarru'at)	<ul style="list-style-type: none">• Unilateral in nature and favor the recipient	<ul style="list-style-type: none">• Gift or donation (Hibah)• Bequest (Wasiyyah)• Endowment (Waql)• Waiving of Debt (Ibra')



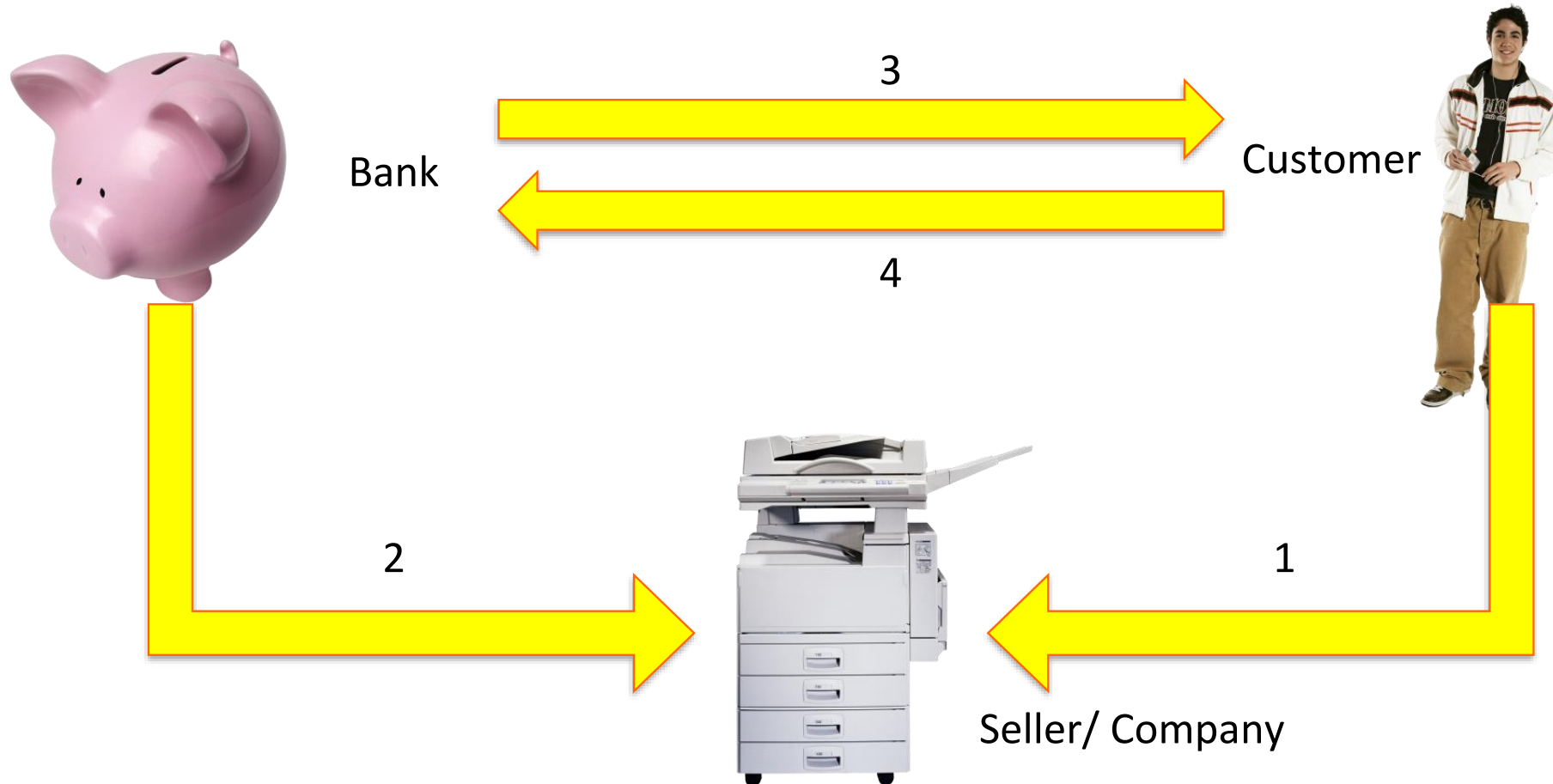
Bay Al Murabahah
Bay Al Istisna
Bay Al Salam
Bay Al Dayn
Bay Al Sarf
Bay Al Inah
Bay Al Tawarruq
Ijarah

EXCHANGE BASED CONTRACTS.

Murabahah مرابحة

- Definition
 - A sale based on the cost price plus profit.
- Practice
 - Payment of selling price in a lump sum.
- As in BBA, a *Murabahah* transaction involves the sale of goods at a price which includes a profit margin agreed by both parties.
- However, in *Murabahah*, the seller must let the buyer know the actual cost for the asset and the profit margin at the time of the sale agreement.

Murabahah (COST PLUS PROFIT)



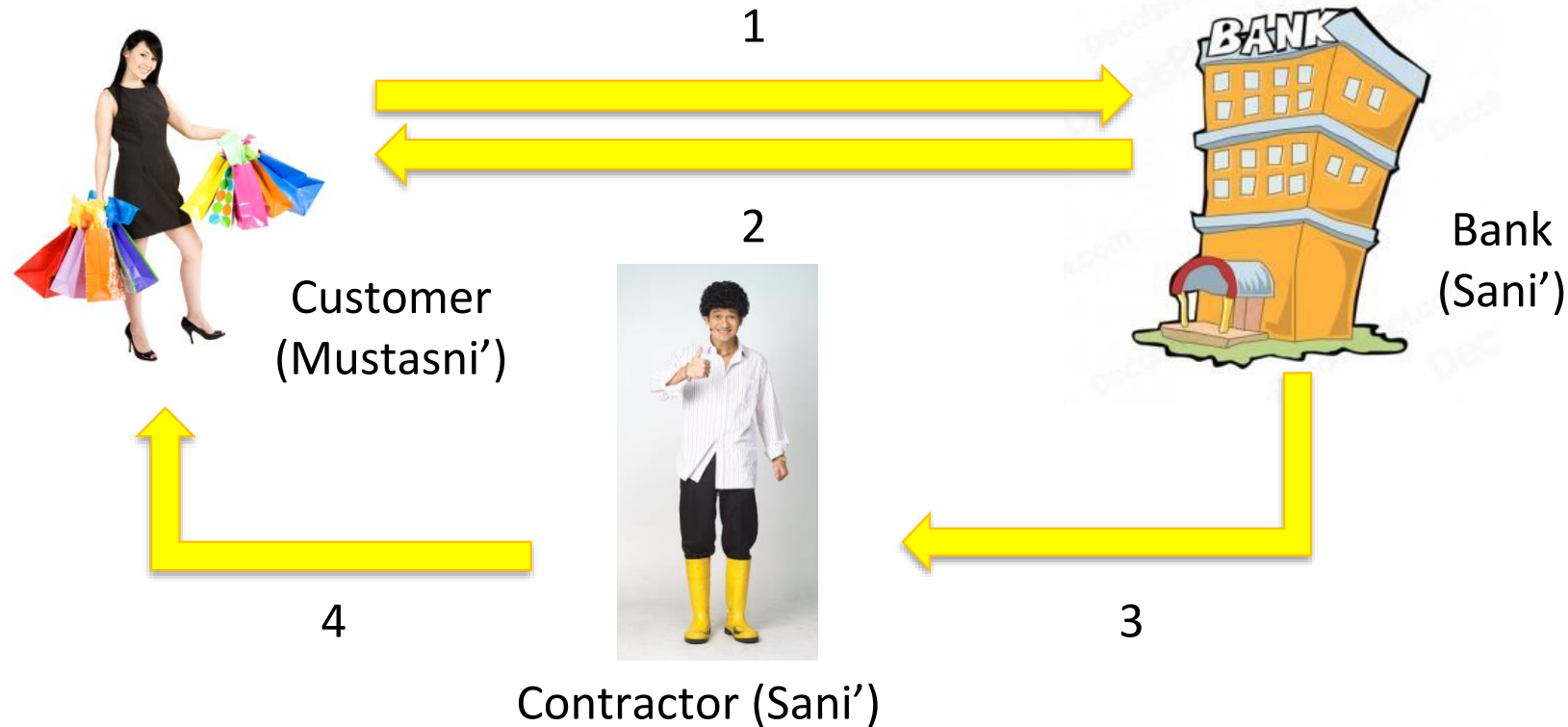
1. The customer identifies the item to be acquired.
2. The bank purchases the item from the owner of a cash basis.
3. The bank sells the item to the customer at a cost plus profit on a credit basis.
4. The customer pays the bank within the agreed terms of financing.

Istisna'

- Definition
 - An order made by the buyer for the manufacture of an item according to specifications.
- Practice
 - The cost price or profit must be known to the buyer.
 - The item does not exist at the time of contract.



Bay' Al-Istisna' (Manufacturing Sale)

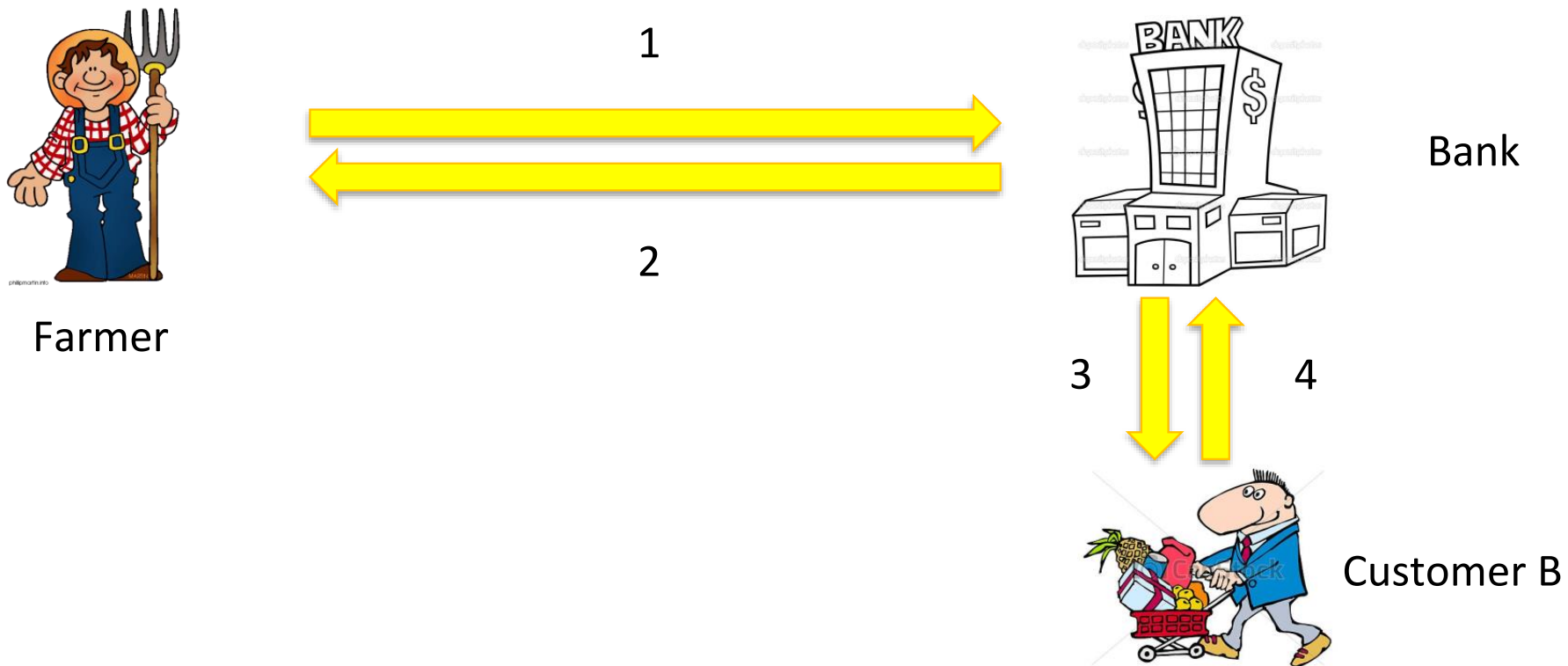


1. Customer requests the bank to construct a specified asset at a pre-agreed price consisting of cost price plus profit margin determined by the bank, payable on deferred payment basis. Both will sign a sale agreement based on an istisna' contract where the customer is the buyer (mustasni') and the bank as the manufacturer (sani').
2. The bank delegates the customer to appoint a contractor on his behalf to construct the asset as specified in the contract at the price determined by the bank which is payable by installment.
3. Both bank and contractor sign a purchase agreement based on an istisna' contract where the bank becomes the mustasni' and the contractor is sani'.
4. Upon completion of the asset, the contractor will deliver the completed asset to the bank and the bank will deliver the asset to the customer. The contractor may also on the authority of the bank deliver the asset directly to the customer.

Bai Salam

- Bai Salam – advance payment sale
- A contract with full advance payment for future delivery of an item.

Bay Al-Salam (Forward Contract)



1. The farmers execute a salam contract to sell a specified amount of wheat in advance for RM10 million to Bank A. The wheat is to be delivered one year from the contract at 1 January 201X.
2. Bank A pays RM10 million on a spot basis to the farmers and also stipulates from where to take delivery on 1 January 19X1.
3. Bank A enters into a promise with customer B in which customer B undertakes that he will purchase wheat from Bank A for RM15 million on 1 January 201X.
4. The farmers supply the specified wheat to Bank A on 1 January 19X1 , Bank A informs customer B to execute the sale and take delivery.

Bai Dayn

- The requirements of the Shariah concerning Bai Dayn are as follows:
 - A debt must have been created through a contract of deferred payment sale of goods or service (i.e. Murabahah, Bai Bithaman Ajil)
 - The goods must have been delivered or the service must have been rendered.
 - The trading of the debt must be on cash terms.

Contract of Bai Dayn

- Bai Dayn – debt trading as one of the concepts used for developing Islamic Capital Market (ICM) instruments.
- Some Islamic jurists allowed this concept but subjected to certain conditions.
- These conditions are met when there is a transparent regulatory system which can safeguard the *maslahah* (interest) of the market participants.

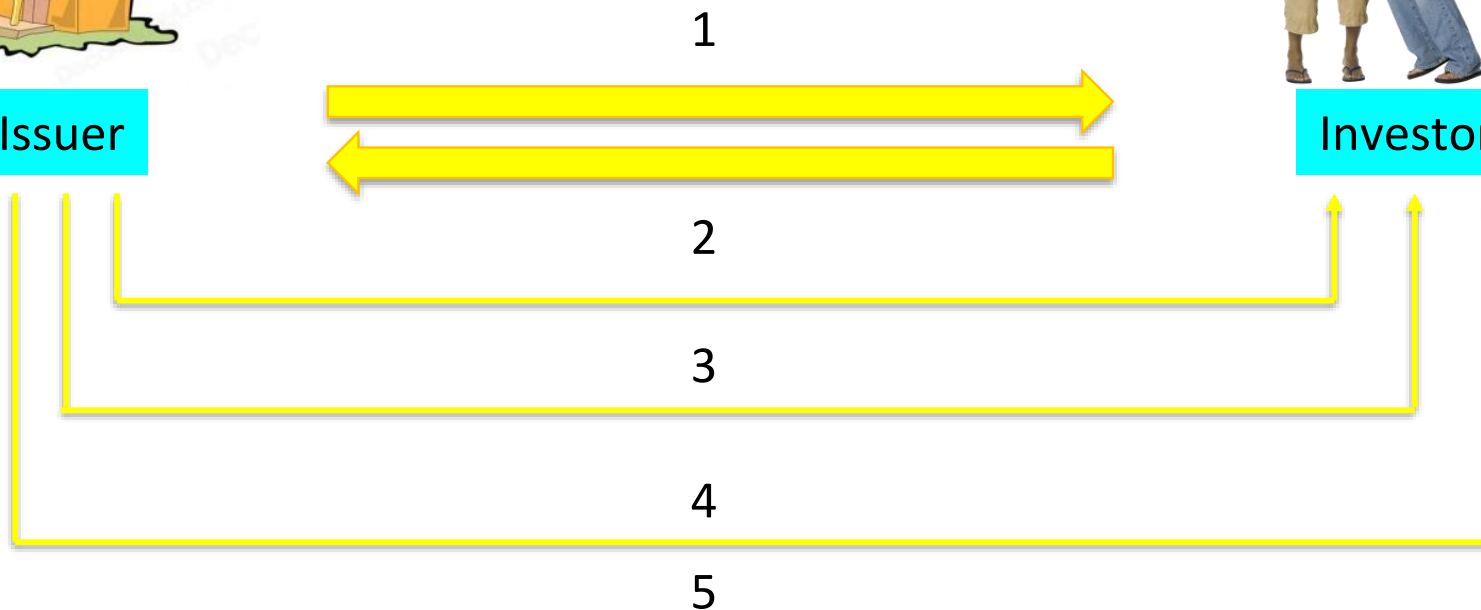
Bay' Al-Dayn (Sale of Debt)



Issuer



Investors

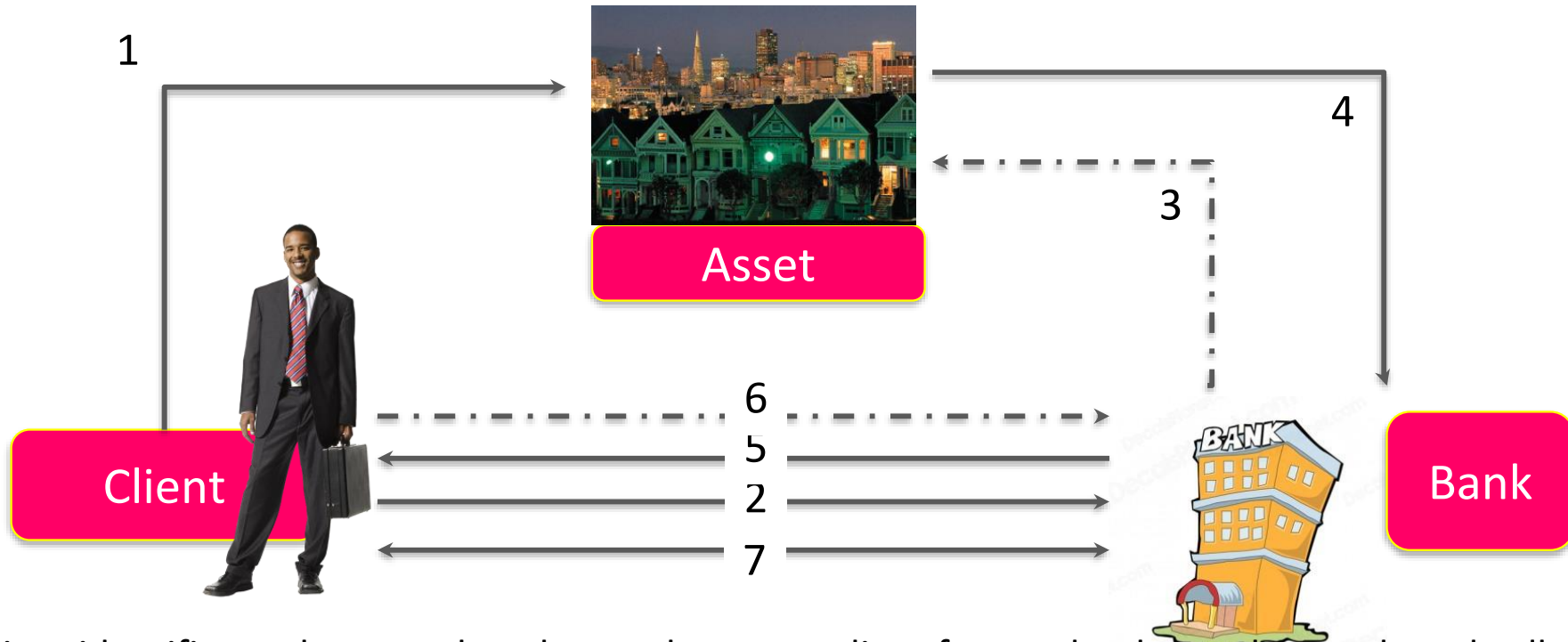


1. The issuer sells an asset worth RM200 million to investors on a cash basis.
2. Subsequently, the investors sell back the underlying asset to the issuer for RM220 million on a credit basis.
3. The issuer makes payment to investors through the issuance of debt certificates (*shahadah al-dayn*).
4. Primary Notes (PNs) are sold to investors at par value redeemable upon maturity to guarantee the repayment of capital. In this case, it represents the amount of RM200 million which will be sold back to the issuer upon maturity for RM200 million on cash basis.
5. Secondary Notes (SNs) are sold to the investors at par value redeemable at the time agreed upon. In this case the issuer will pay RM20 million via installments over a certain period of time.

Ijarah

- Definition
 - A sale of the use of another's property.
- Practice
 - The property to be leased belongs to the lessor.
 - The lessor has the right to repossess the property on a default of the lessee.

Ijarah

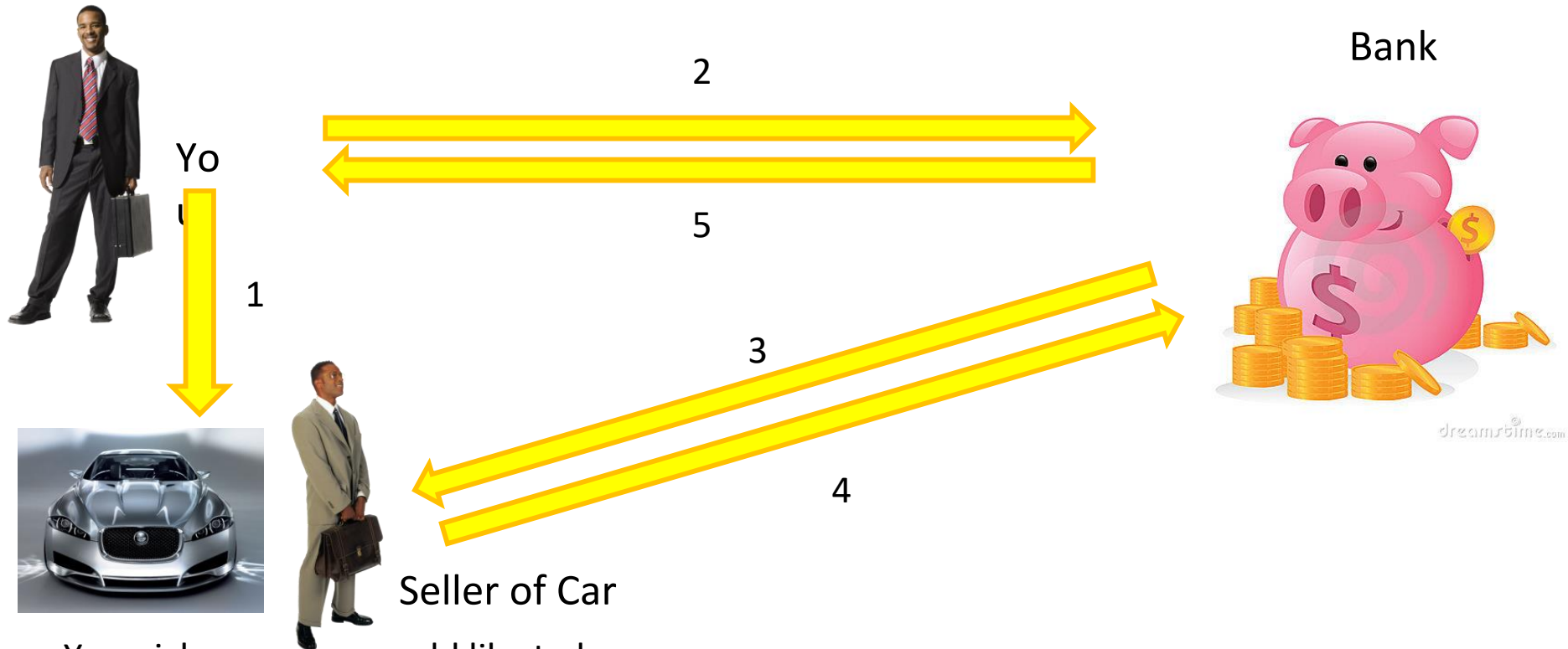


1. The client identifies and approaches the vendor or supplier of asset that he or she needs and collects all the relevant information.
2. The client approaches a bank for ijarah of the asset and promises to take the asset on lease from the bank upon purchase.
3. The bank makes payment of price to the vendor.
4. The vendor transfers ownership of the asset to the bank.
5. The bank leases the asset, transfers possession and specific right of use to the client.
6. The client pays ijarah rentals over future (known) time period(s).
7. The asset reverts back to the bank if it is an operating lease or is transferred to the client if it is a financing lease.

Ijarah Thumma Bai (Hire Purchase)

- Ijarah Thumma Bai – leasing followed by purchase.
- Simple leasing for the leasing period with an option for the lessee to purchase the property at the end of the leasing period through a contract of purchase.
- *Ijarah Thumma Bai* is normally used in financing consumer goods especially motor vehicles.
- There are two separate contracts involved: *Ijarah* contract (leasing/ renting) and Bai' contract (purchase).
- The contracts are made one after the other as shown in the next slide.

Ijarah Thumma Bai' (Hire purchase)

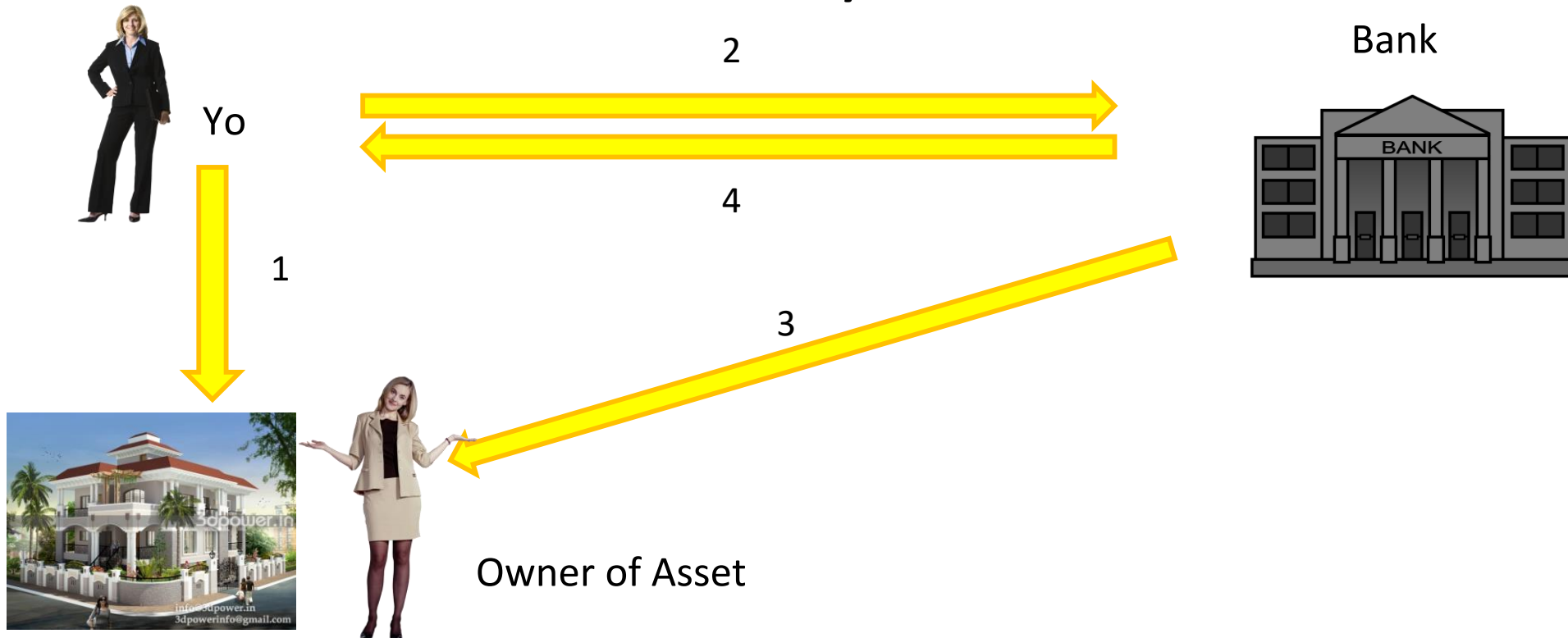


1. You pick a car you would like to have.
2. You ask the bank for *Ijarah* of the car, pay the deposit for the car and promise to lease the car from the bank after the bank has bought the car.
3. Bank pays the seller for the car.
4. Seller passes ownership of the car to the bank.
5. Bank leases the car to you.
6. You pay *Ijarah* rentals over a period.
7. At the end of the leasing period, the bank sells the car to you at the agreed sale price.

Bai Bithaman Ajil (Deferred Payment Sale)

- Definition
 - A normal sale with the payment of the selling price deferred to an agreed later date.
- Practice
 - The item to be sold exists at the time of contract.
 - The Shariah does not require that the cost price be known to the buyer.
- This refers to the sale of goods where the buyer pays the seller after the sale together with an agreed profit margin, either in one lump sum or by installment.

Bai' Bithaman Ajil (Deferred Payment Sale)



1. You pick an asset you would like to buy.
2. You then ask the bank for BBA and promise to buy the asset from the bank through a resale at a mark-up price.
3. Bank buys the asset from the owner on cash basis.
4. Bank sells the good, passes ownership to you at the mark-up price.
5. You pay the bank the mark-up price in installments over a period of time.



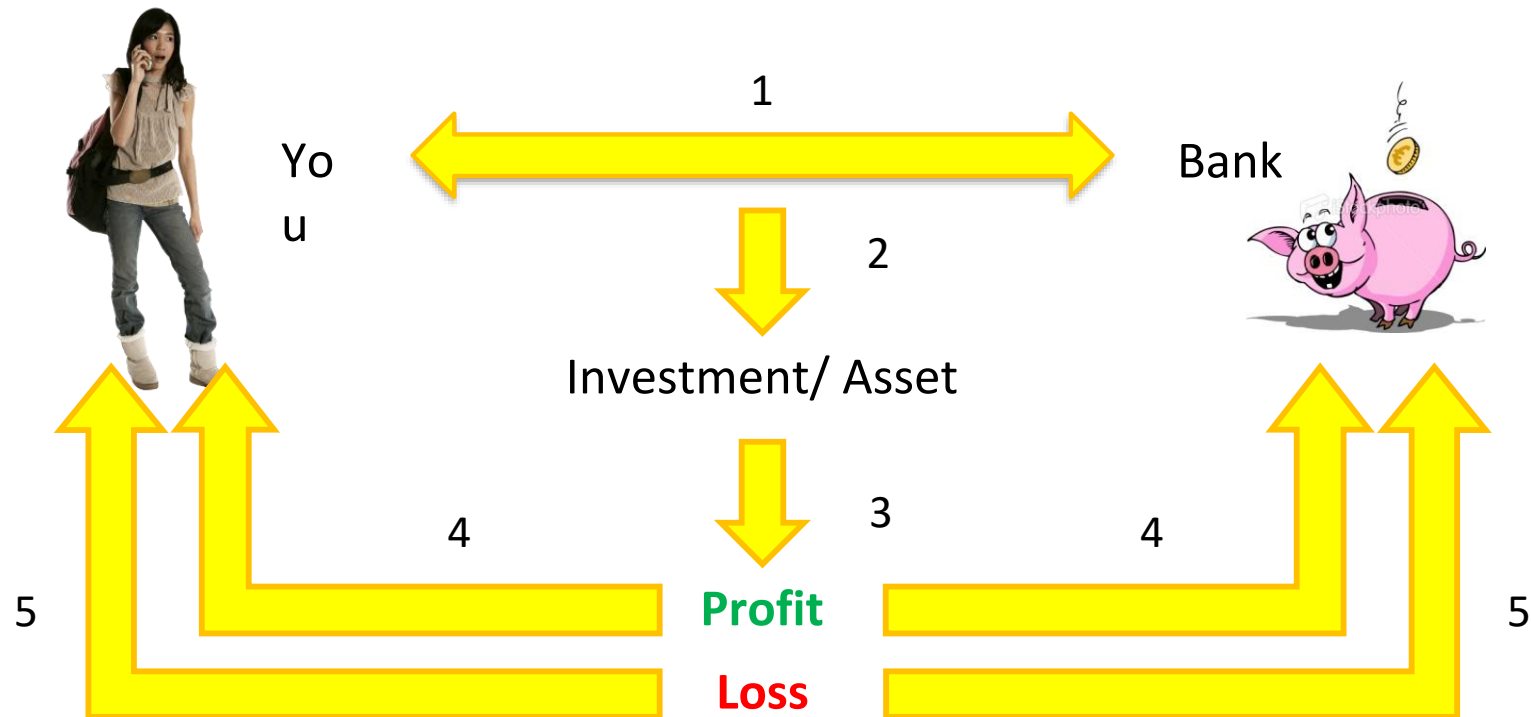
Musharakah
Mudarabah

PARTNERSHIP CONTRACTS

Musyarakah (Joint venture)

- In the context of business and trade, *Musyarakah* refers to a partnership or a joint business venture to make profit.
- Profits made will be shared by the partners based on an agreed ratio which may not be in the same proportion as the amount of investment made by the partners.
- However, losses incurred will be shared based on the ratio of funds invested by each partner.

Musyarakah (Joint venture)



1. You and the bank both invest in a project according to *Musyarakah* terms.
2. The money is then invested in a project which may result in a profit or a loss
3. Profit is shared between you and your bank based on a pre-agreed ratio.
4. Loss will be borne according to percentage of investment amount.

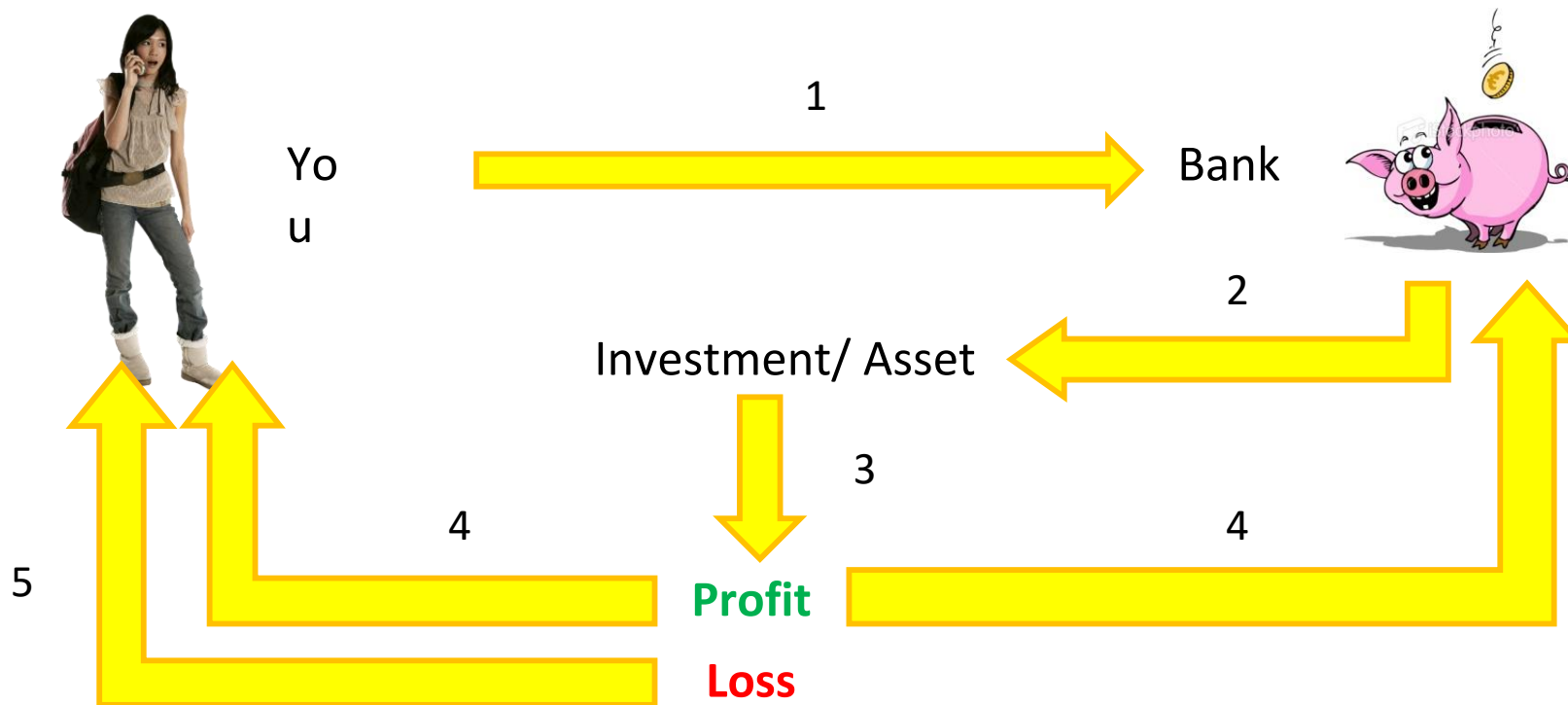
Mudharabah (Profit Sharing)

- *Mudharabah* is a profit sharing arrangement between two parties, that is, an investor and the entrepreneur.
- The investor will supply the entrepreneur with funds for his business venture and gets a return on the funds he puts into the business based on a profit sharing ratio that has been agreed earlier.

Mudharabah (Profit Sharing)

- The principle of *Mudharabah* can be applied to Islamic banking operations in **TWO** ways:
 - (1) between a **bank** (as the entrepreneur) and the customer as the **capital provider**, and
 - (2) between a **bank** (as capital provider) and the customer as the **entrepreneur**.
- Losses suffered shall be borne by the capital provider.

Mudharabah (Profit Sharing)



1. You supply funds to the bank after agreeing on the terms of the *Mudharabah* arrangements.
2. Bank invests funds in assets or in projects.
3. Business may make profit or incur loss.
4. Profit is shared between you and your bank based on a pre-agreed ratio.
5. Any loss will be borne by you. This will reduce the value of the assets/ investments and hence, the amount of funds you have supplied to the bank.



Kafalah
Rahn

SECURITY CONTRACTS

Contract of Kafalah or Dhaman (Guarantee)

- The essential elements of Kafalah or Dhaman are as follows:
 - Dhamin (guarantor)
 - Madmun lah (creditor)
 - Madhmun anh (debtor)
 - Madhmun bih (debt)
 - Contract (Offer and Acceptance)

Rules Related to Personal Guarantee

1. It is permissible to have more than one guarantor to secure the debt.
2. Personal guarantees are divided into two types. One type is a guarantee where the guarantor has a right of recourse to the debtor, and this guarantee is offered at the request or with the consent of the debtor. The other type is a nonrecourse guarantee, which is offered voluntarily by a third party without the debtor's request or consent (voluntary guarantee).
3. It is permissible to fix the duration of a personal guarantee. It is also permissible to set a ceiling on the amount to be guaranteed, and it is permissible that the personal guarantee be restricted by, or be contingent upon, a condition or a future event.
4. It is not permissible to take any remuneration whatsoever for providing a personal guarantee, or to pay commission for obtaining such a guarantee. The guarantor is, however, entitled to claim any expenses actually incurred during the period of a personal guarantee.

Contract of *Rahn* (Pledge)

- The essential elements of Rahn are as follows:
 - Pledgor
 - Pledgee (i.e. Islamic Bank)
 - Obligation or right to a claim (debt)
 - Pledge (property pledged)
 - Contract (Offer and Acceptance)



Features of Pledged Property

- One pledge may be exchanged for another.
- It is lawful to increase the debt that is secured by the pledge.
- One pledge can be taken as security for two different debts from two different creditors.
- A borrowed property can be used as a pledge.

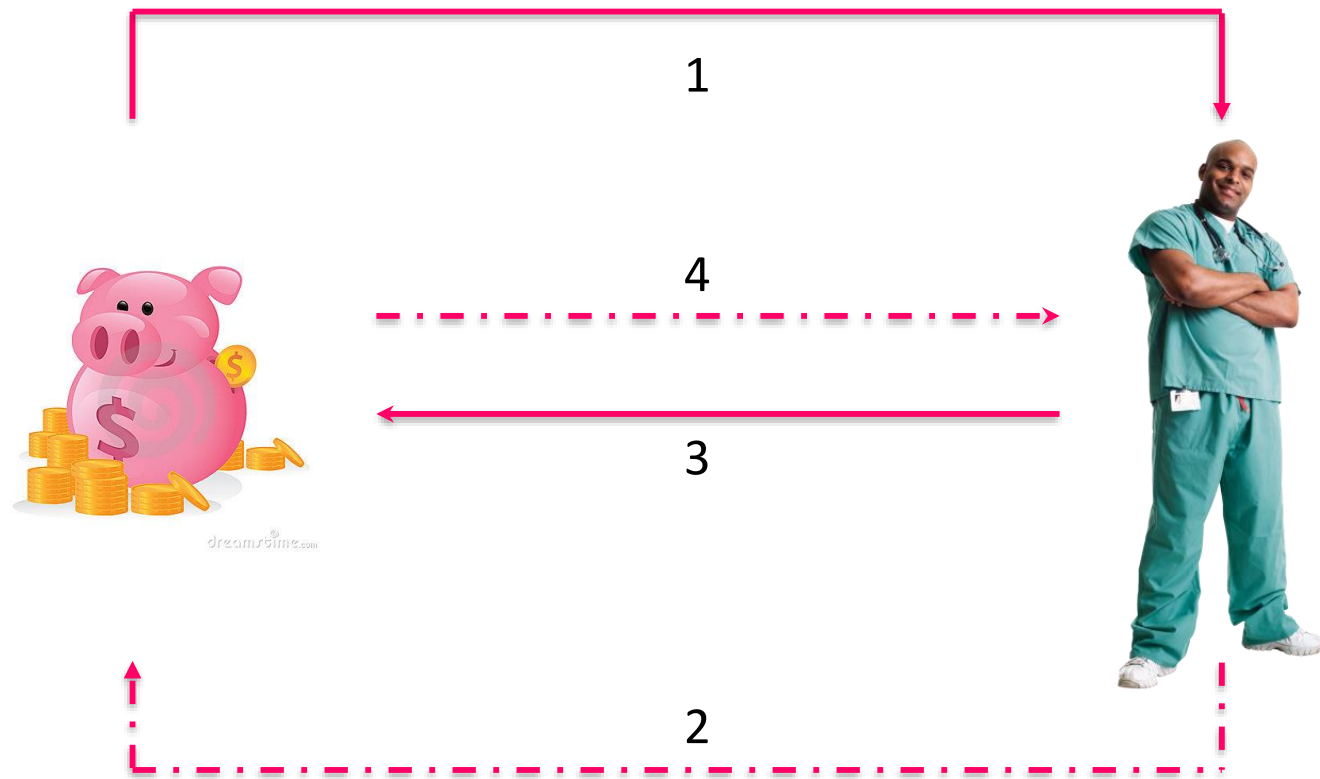
Features of Pledged Property

- The Bank has a right to possession on the pledge until its redemption.
- A pledge does not become necessary to be returned when the debt is partly paid off. The pledgee has a right to hold it until the debt is paid in full.
- It is invalid for the pledgor or pledgee to sell or pledge a pledged property without the others' consent.

Features of Pledged Property

- The pledgor is forbidden from uplifting the pledge.
- The pledgee may on his own accord, release the property from the pledge.
- On maturity of the debt and the pledgor refuses to make payment, the pledgee may apply to court to compel the pledgor to sell the pledge in order to pay the debt. If the pledgor refuses to make payment, the court may sell the pledge to pay the debt.

Rahn



1. Bank A provides financing of RM5,000 to customer B.
2. Customer B pawns his valuable item (e.g. jewelry) as collateral for the financed amount.
3. Customer B pays the debt.
4. Bank A returns the jewelry to Customer B.

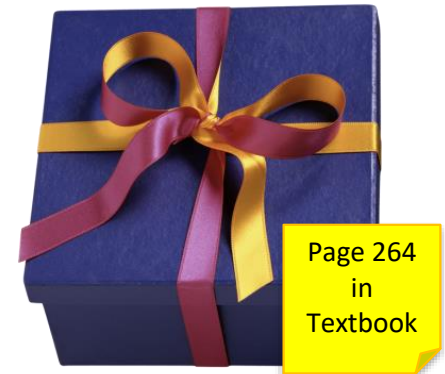


Hibah
Wadiah

CHARITABLE CONTRACTS

Hibah (Gift)

- This refers to a payment made willingly in return for a benefit received.
- Example:
 - In savings operated under *Wadiah*, banks will normally pay their *Wadiah* operators *hibah* although the accountholders only intend to put their savings in the banks for safekeeping.



Pillars and Conditions of a Hibah Contract

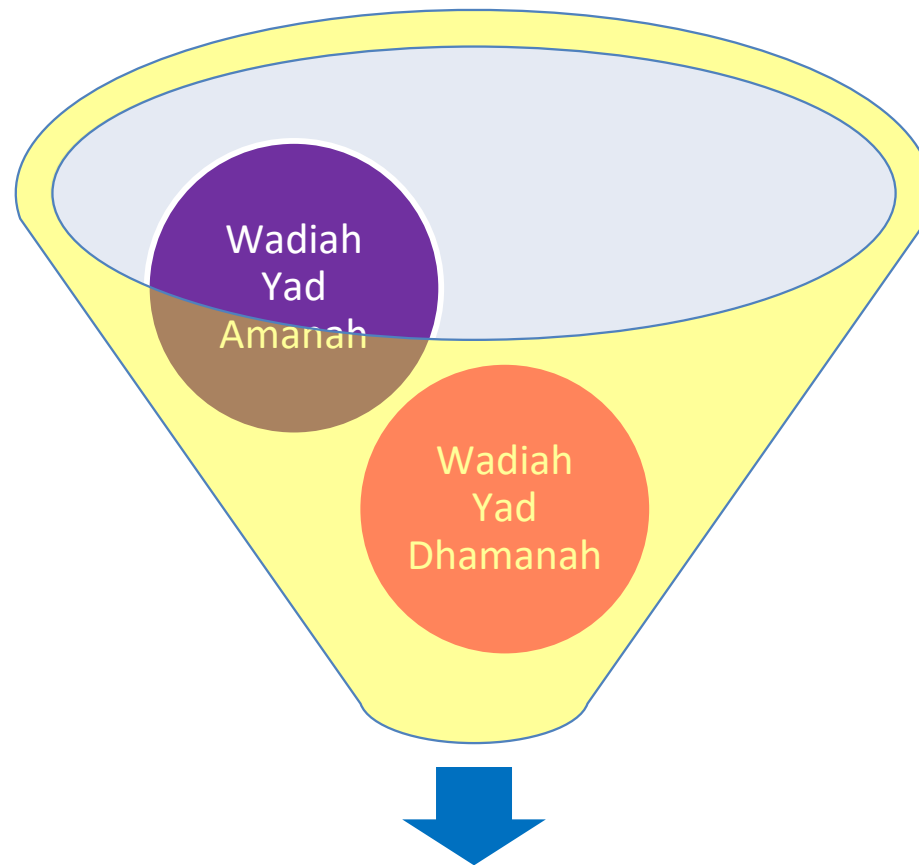
Donor	Is eligible to give his property voluntarily to another, must be the legal owner of the object/ gift, is of legal age and mature (<i>rashid</i>).
Donee	Can be any living human being with or without legal capacity.
<i>Hibah</i> object	Must be in existence at the time of <i>hibah</i> . Must be a valuable property. The object must be separate and separable.
<i>Sighah</i>	Offer (<i>ijab</i>) and acceptance (<i>qabul</i>).

Wadiah (Safekeeping)

- *Wadiah* means custody of safekeeping.
- In a *Wadiah* arrangement, you will deposit cash or other assets in a bank for safekeeping.
- The bank guarantees the safety of the items kept by it.



Types of Wadiah



Types of Wadiah

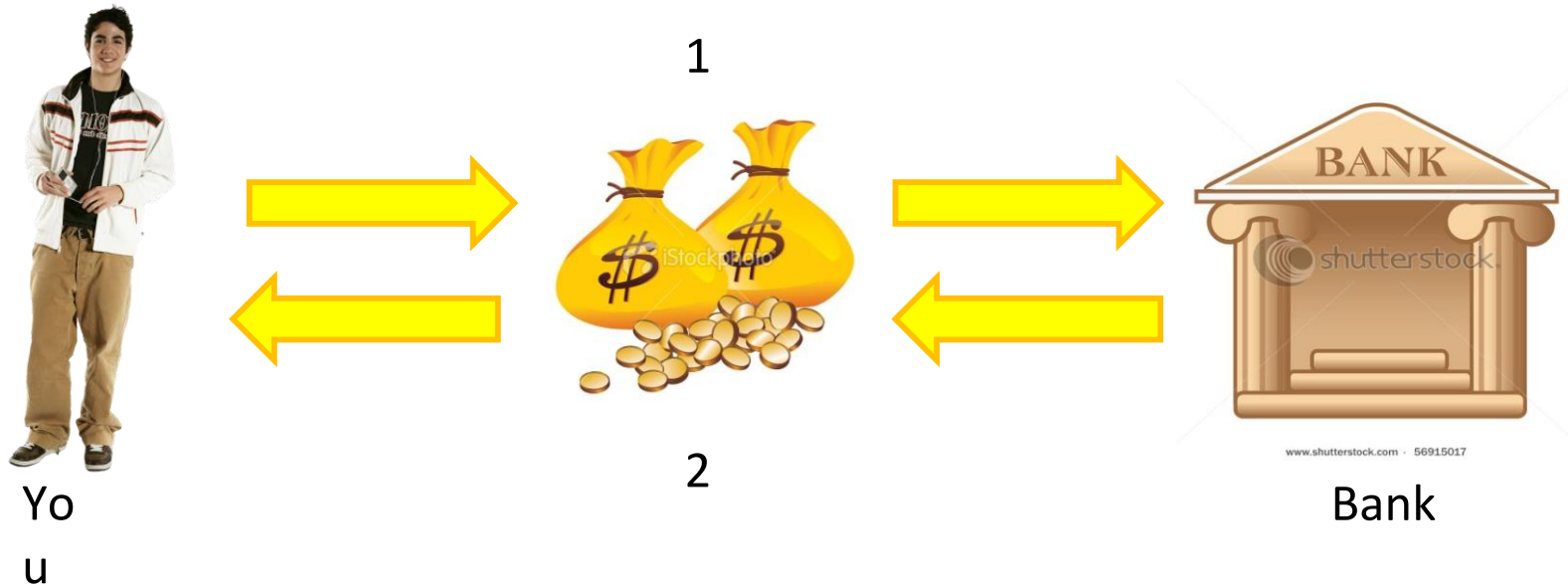
Wadiah Yad Amanah (Safe Custody based on Trust)

- In Wadiah Yad Amanah the custodian must safeguard the deposit by three ways):
 - Not mixing or pooling the deposits of the different depositors under his custody;
 - Not using the deposits; and
 - Not charging any fees for safe custody.

Wadiah Yad Dhamanah (Guaranteed Safe Custody)

- If he failed in any of the above, then the Wadiah Yad Amanah changes to Wadiah Yad Dhamanah where he has to guarantee (return or replace) the deposits to the owners if they were lost or destroyed.

Wadiah (Safekeeping)



1. You place money in a bank and the bank guarantees to return the money to you.
2. You are allowed to withdraw the money anytime.
3. Bank may charge you a fee for looking after your money and may pay *hibah* (gift) to you if it deems fit.
4. This concept is normally used in deposit-taking activities, custodial services and safe deposit boxes.



Wakalah

AGENCY CONTRACT

Wakalah (Agency)

- This is a contract whereby a person (principal) asks another party to act on his behalf (as his agent) for a specific task).
- The person who takes on the task is an agent who will be paid a fee for his services.
- Example:
 - A customer asks a bank to pay someone under certain terms. The bank is therefore the agent for carrying out the financial transaction and the bank will be paid a fee for its services.

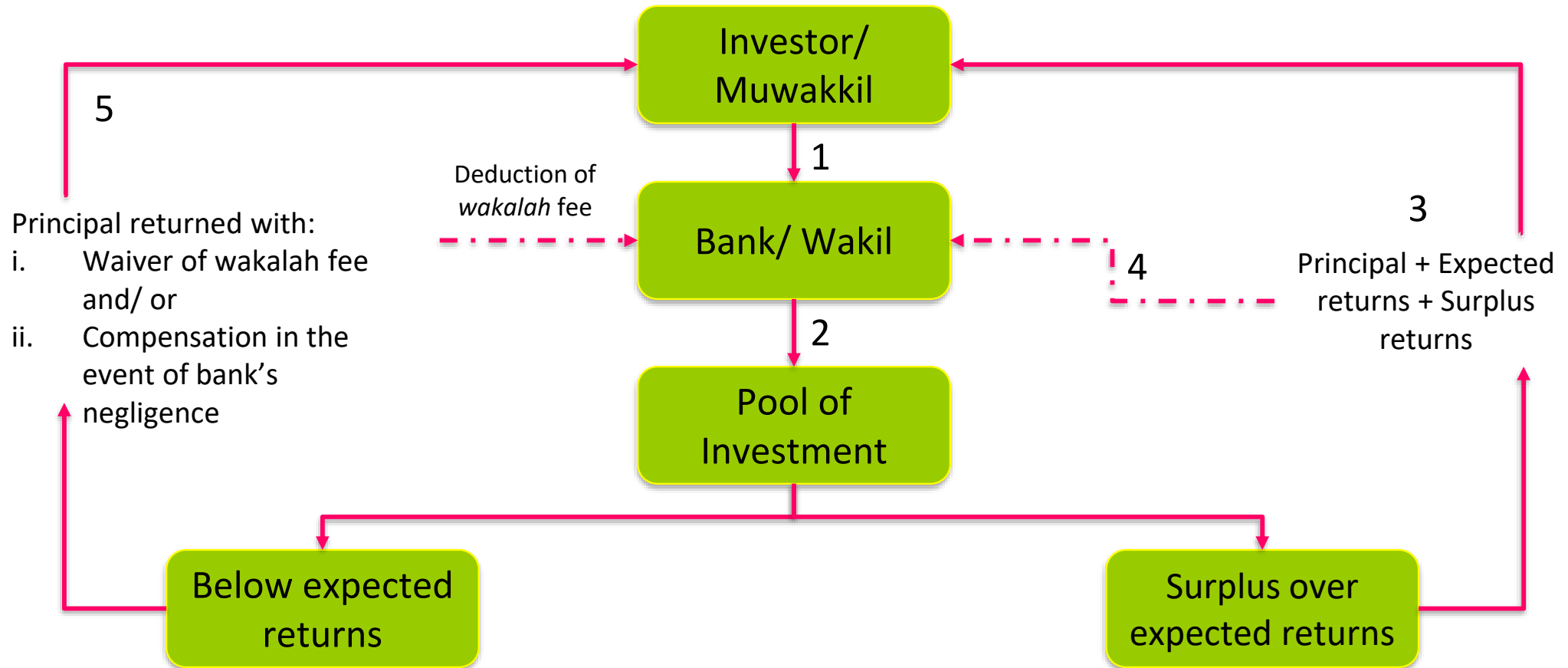
Duties of an Agent

- An agent is a safe custodian for the things that is entrusted to him before delivery to the principal or a third party.
- Contracts of an agent are incumbent on his principal in the following matters:
 - Hibah (gift)
 - Lending and borrowing
 - Debt (deferred payment sale)
 - Wadiah (safe custody)
 - Rahn (mortgage)

Duties of an Agent

- Musharakah, and
- Mudharabah
- In the contracts above, the agent must mention that he acts on behalf of his principal.

Wakalah (Agency Contract)



1. The investor appoints the bank to be his agent.
2. The bank will invest the money/ business delegated to him.
3. The principal and the expected returns are given back to the investor.
4. The surplus returns are either distributed to the bank as performance incentive or shared by the investor and the bank according to the pre-agreed ratio.
5. The principal is returned to the investor with a waiver of the wakalah fee, and/ or compensation in the event of the bank's negligence.



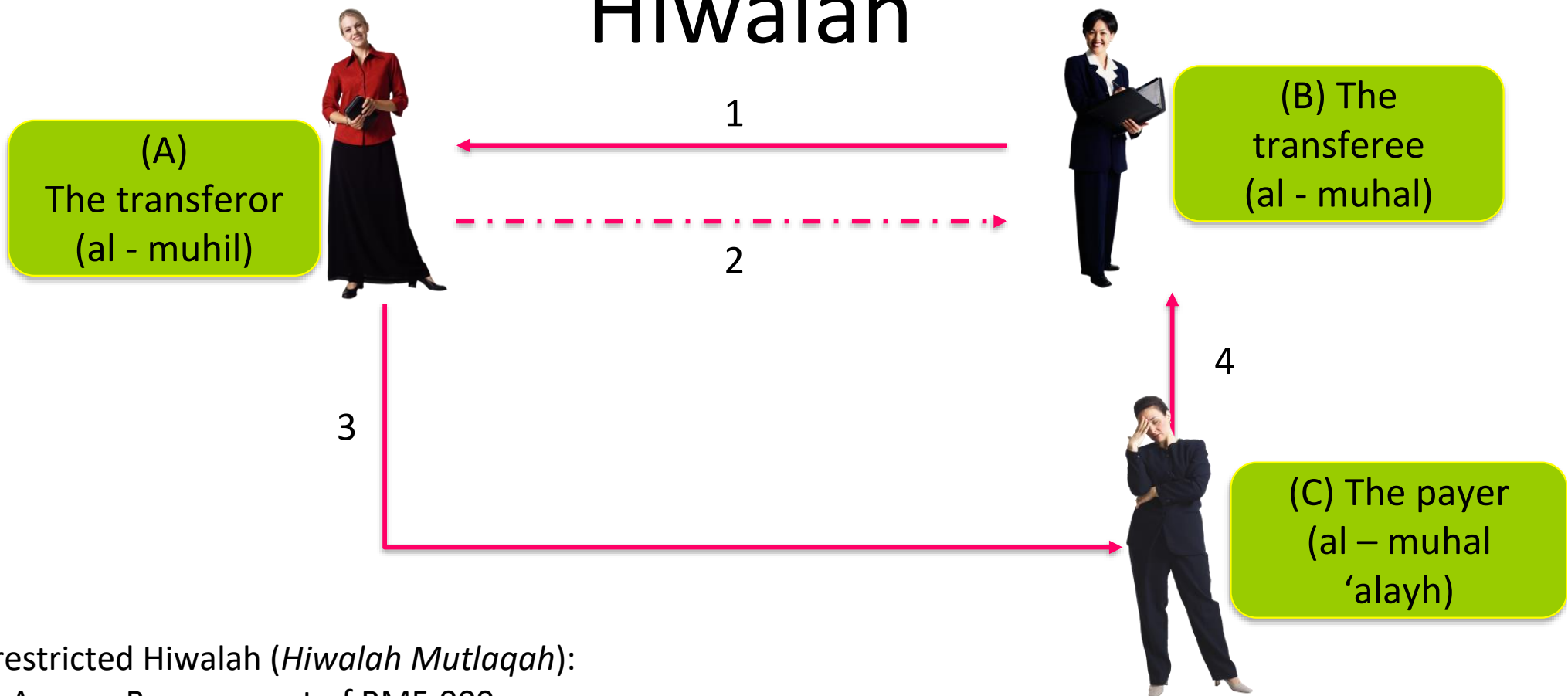
Hiwalah
Muqasah
Ibra'
Wa'd

SUPPORTING CONTRACTS

Hiwalah

- Hiwalah – transfer.
- Two types:
 - Hiwalah al-haqq (transfer of right)
 - Hiwalah al-dayn (transfer of debt)
- Hiwalah al-dayn – the transfer of the right to demand (the debt) from the debtor to another liable person.

Hiwalah



Unrestricted Hiwalah (*Hiwalah Mutlaqah*):

1. A owes B an amount of RM5,000.
2. A is supposed to pay his debt of RM5,000 to B.
3. A transfers his obligation to pay the debt to C.
4. C pays the debt (RM5,000) to B.

Restricted Hiwalah (*Hiwalah Muqayyadah*):

The illustration for restricted hiwalah is the same as the above with one additional element: C was earlier indebted to A. In other words, instead of paying his debt to A, C pays his debt to B whom A owes for the same amount.

Muqasah (Set-off)

- Setting off a debt that is due to the debtor by a creditor who is at the same time indebted to the debtor with certain conditions.
- Debt settlement by contra-transaction or set-off.
- In a muqasah arrangement, an implicit settlement takes place between the two parties i.e. debtor and creditor. As a result of the contra-transaction, there is no more debt between the two parties.
- E.g. Ahmad owes Ali RM2,000. Then, Ali owes Ahmad the same amount. This means the two parties are no longer in debt with each other.

Ibraa' (Rebate)

- *Ibraa'* arises out of a deferred payment sale where the buyer makes an early redemption.
- The essential elements of *Ibraa'* are as follows:
 - Creditor (seller)
 - Debtor (buyer)
 - Debt (deferred selling price)
 - *Ibraa'* (the partial refunds of money paid)
 - Contract (Offer and Acceptance)

“And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay; but if you remit it by way of charity, that is better for you if you did but know” (Al-Quran, 2: 280)

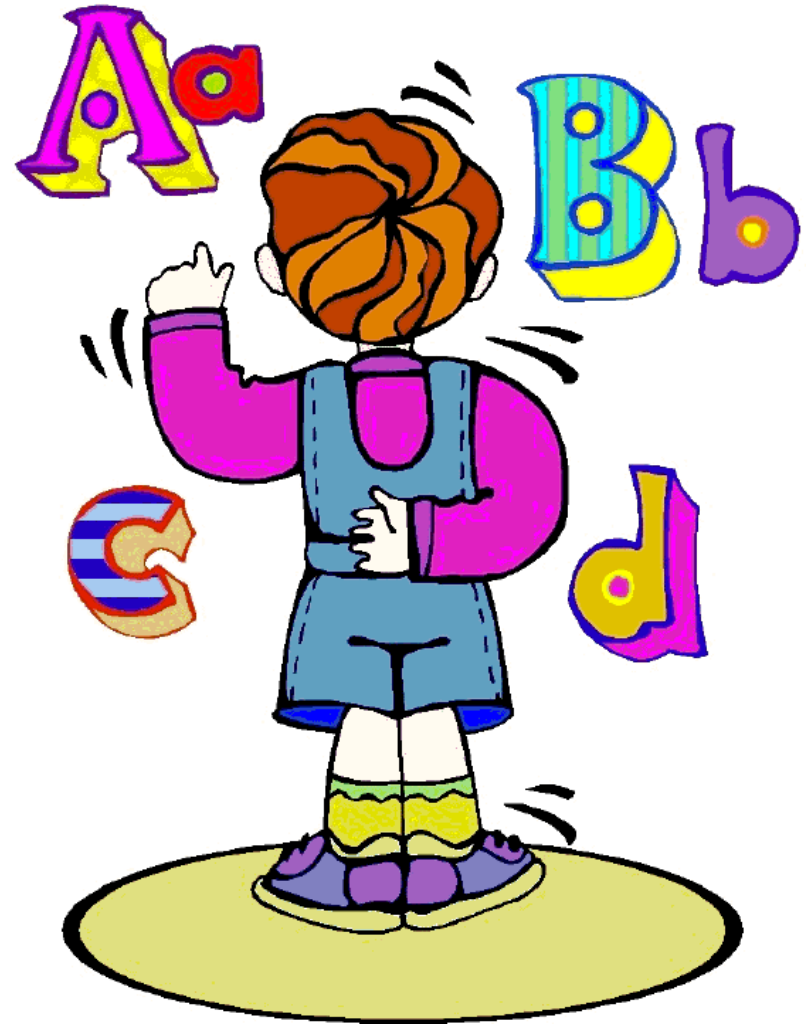
Wa'd (Promise)



- Is a promise which connotes an expression of willingness of a person or a group of persons on a particular subject matter.
- E.g. A makes a promise to sell his car to B for the amount of RM50,000. B stays silent. As such, A's promise is unilateral in nature and does not bind B to accept the offer. It will only be binding upon both parties after the sale contract ('aqd al-bay') is concluded.

Application of Shariah Contracts to Islamic Banking

Type of Products	Type of Shariah Contract Used
Islamic Deposit Products (Mobilization of Deposits)	<ul style="list-style-type: none"> ❖ Musharakah (Shareholders) ❖ Mudharabah (Customers) ❖ Wadiah ❖ Qardh Hasan ❖ Murabahah
Islamic Financing Products (Application of Funds)	<p>Debt Financing</p> <ul style="list-style-type: none"> ❖ Murabahah ❖ Bai Bithaman Ajil ❖ Istisna'a ❖ Ijarah ❖ Ijarah Thumma Bai ❖ Bai Inah <p>Equity Financing</p> <ul style="list-style-type: none"> ❖ Musharakah ❖ Mudharabah



**SAMPLES OF PAST YEAR
QUESTIONS**

April 2010

- *Murabahah* is among the most popular contracts of sale used by Islamic banks for the purchase of commodities or any other suitable products on credit.
 - Explain the concept of *Murabahah* implemented by Islamic banks.
 - Illustrate the process flow/ modus operandi of the contract of *Murabahah*.
 - Explain the features and conditions of the contract of *Murabahah*.

April 2010

- Ms Sahrida Nor deposited RM300,000 into a Special Investment Account for a 9-month period with a newly set up foreign Islamic bank in Melaka. During the aqad, all parties agreed that the pre-determined profit sharing ratio is 75: 25 (customer: bank). Nine months later, the foreign Islamic bank declared an actual profit rate of 6.0% for the accounts.
- Based on the above information, calculate the total profit for:
 - Ms Sharida Nor, the capital provider
 - Foreign Islamic Bank, the entrepreneur

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2. What is Islamic Banking? Banking Info. Bank Negara Malaysia.
3. Islamic Finance by Jaizah Othman and Mohamad Asmady Shahdan. Institute of Education Development, UiTM.
4. What is Usury? Taken from the website: Iqtisad Al-Islamy. http://www.islamic-world.net/economics/riba_usury.htm



“If you are not making the progress you would like to make and capable of making, it is merely because your goals are not clearly defined.”

~ Paul J. Meyer

ANY QUESTIONS