

Understand BankIslami Better

How **Murabahah**
takes place at
BankIslami!



BankIslami

بنك الإسلامي



Serving you, the Right way

Murabahah - The Path To Transparent Trading

We at BankIslami take a lot of pride in our authenticity and transparency. Of course, it is your right to know how it works and what it is when we call ourselves an Islamic Bank with stringent Shariah criteria.

'Understand BankIslami Better' is a series of brochures that helps you know more about us. If you still have any questions, you are welcome to talk to any of our Customer Relationship Officers to address to any specific queries.

You may also speak with our Shariah Advisor by scheduling a meeting with him by writing to him at shariah@bankislami.com.pk.

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

"Allah has permitted trading and forbidden Riba."
Holy Quran (2:275)

What Is Murabahah?

Murabahah is a form of financing which is effected on the basis of sale. BankIslami, instead of giving a loan, purchases commodity required by the customer and sells it to him at a profit after disclosing its cost. Cost may not be declared in an ordinary sale.

Practical Example

Shahid sells a car to Ahmed on Murabahah basis for Rs. 200,000, which he had purchased for Rs. 180,000. Shahid discloses cost price and earns a profit of Rs. 20,000, this sale is called Murabahah.

What We Offer

BankIslami offers financing based on trade i.e. sales and purchases. Money is not lent based on an agreed return for money which is prohibited as Islam encourages trade and prohibits lending.

BankIslami purchases goods required by the customer and sells the same at an agreed profit, on the cost price under Murabahah transaction. The value based on price is settled within an agreed time period, either in installments or lump sum. Once the price has been agreed with the customer, it cannot be changed.

Shariah Guidelines

BankIslami ensures compliance of conditions prescribed by Shariah for completion of Murabahah Sale transaction. The Islamic Fiqh or Law clearly lays down rulings for that. Important ones are:

1. Specific and Identifiable

Murabahah is only allowed for specific, identifiable and quantifiable goods and commodities. In a Murabahah transaction, BankIslami ensures that goods sold under Murabahah are specifically known and identified to the buyer.

BankIslami

2. Ownership and Possession of goods

The basic principle of Islam is, what is not owned cannot be sold. It is ensured that goods which are being sold are in the ownership of the Bank at the time of sale. Ownership may be physical or constructive. Constructive possession means, holding title of ownership and not physical possession. Bank being a seller is responsible for the goods or commodity, which includes all rights and responsibilities. BankIslami ensures compliance of rules by making direct payment to the supplier and physical verification of the goods sold.

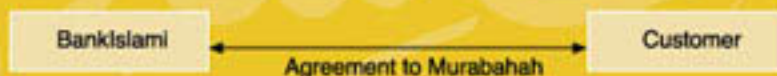
3. Confirmation of Price

As discussed earlier Murabahah is sale of a commodity for a deferred price, which includes an agreed profit plus the cost. Therefore, the price must be agreed at the time of Sale. This price cannot be changed once the sale is completed.

In order to ensure seamless compliance to the above, BankIslami has drawn Agreements and Manual of procedures, which are strictly followed while execution of Murabahah by us.

Following is an illustration of a typical Murabahah Transaction

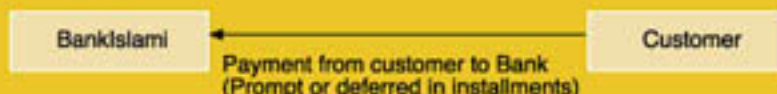
1. Customer and BankIslami sign an agreement to enter into Murabahah



2. BankIslami makes payment to supplier for purchase of goods



3. Customer pays the price value of goods purchased under Murabahah, normally in installments.





BankIslami

Murabahah under Agency Agreement

BankIslami has a variety of customers belonging to different industries from Textile to Engineering Goods. It is difficult, rather impossible for the Bank to be dealing in all goods required in different types of industries. It is also not operationally possible for a Bank to deal with all the suppliers. As well, most of the suppliers do not have any history in dealing with Banks in the absence of any prior contractual agreements. It is then imperative that the commodity may be purchased from the supplier by the customer directly. Consequently, Agency Agreement is executed between the customer and BankIslami. Through this agreement, BankIslami appoints the customer as its agent to select and procure specified goods. Under this arrangement, goods are purchased by the customer in his capacity as an agent of BankIslami. Once the goods are purchased, risk along with ownership title is transferred to BankIslami.

The practical steps in an Agency arrangement are:

1. BankIslami appoints Customer as an agent to purchase goods on its behalf



2. BankIslami makes payment to the supplier, or in exceptional circumstances to the customer (as he is the agent of BankIslami)



بيعنا بالاسلام

3. Customer purchases commodity on behalf of BankIslami and takes possession as the agent of BankIslami. Here the customer has dual roles – customer and agent.

Transfer of Risk



Delivery of Goods

4. Customer informs BankIslami of the purchase of the commodity and at the same time makes an offer to purchase it from BankIslami.



5. As the Customer has already taken possession of the goods as an Agent of BankIslami, sale is concluded as soon as BankIslami accepts the offer. At this stage, ownership as well as risk is transferred to the customer.



بَيْعُ الْمُرَابَاةِ

6. Customer makes payment for goods purchased under *Murabahah* to BankIslami according to an agreed schedule. This is usually done on a deferred payment basis.



How BankIslami ensures compliance of Shariah Regulations?

As a matter of policy, BankIslami will make payment directly to supplier wherever it is possible. BankIslami has also made arrangements to physically verify the goods purchased by the customer in his capacity as an agent.

Avail Murabahah...

We invite you to bank with us and feel the difference in service, delivery and of course authenticity.

*...And whosoever fears Allah and keeps his duty to Him, He will make his matter easy for him...
(Surah Al Talaq Ayat 04).*

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