

# Glossary of Islamic Banking & Finance

## Adl

It includes in its meanings the concept of justice, equity and fairness.

## Al- Rahn

It refers to pledge or collateral. Rahn means to pledge a property/asset or provide a security by other means for a debt or financial obligation so as to satisfy the creditor to have its claims secured.

## Amanah

It refers to deposits in trust. A person can hold a property in trust for another, sometimes by express contract and sometimes by implication of a contract. Amanah entails absence of liability for loss except in breach of duty. It also entails that deposits in trust can not be used by Ameen.

## Amil

It refers to the person who performs a certain assigned task. Example includes the mudarib in a mudarabah contract or a person appointed to collect zakat.

## Aqd

Aqd in Arabic means contract. Plural: Aqood.

## Ard

It refers to Land or a piece of land.

## Ayn

Ayn refers to Cash or Cash equivalents or things/commodities which can be treated as ready money.

## Ajr

It means consideration, compensation or wage/salary for a work. In Ijarah contract of natural persons, the ajr is the price paid by the hirer/employer to the hired/employed party for the rendering of services by the latter to the former.

## Akl al-batil

It refers to unlawful way or manner of acquisition of wealth.

## Al-ajir al-mushtarak

It refers to a worker, such as a tailor, carpenter, architect, programmer etc who offers his services to more than one and can be contracted by several clients at the same time.

## Al-ajr al-mithl

It refers to the prevailing average or normal consideration for a given service.

## Arbun

It refers to down payment; a nonrefundable deposit paid by the buyer to the seller and thereby retaining a right to confirm or cancel the sale during the prescribed period.

## Ayah

The term refers to a passage from the Holy Qur'an.

## Bai

It means a sale transaction by way of an agreement between the seller and the buyer which results in transfer of ownership and risk of the sold item from the seller to the buyer in exchange for a specified price paid by the buyer to the seller.

## Bai al-bithaman ajil

It refers to a deferred-payment sale or credit sale.

## Bai al-kali bi-kali

It refers to sale of a debt for a debt.

## Bai al-dayan

It refers to sale of debt or receivables.

## Bai Inaah

A sale in which a purchaser buys merchandise from a seller for a stipulated price on deferred payment basis and then sells the same merchandise back to the original seller for a price lower than the original purchase price.

## **Bai Istijrar**

In this type of sale, the supplier agrees to deliver the identified goods to the buyer at an agreed price and mode of payment on a regular basis.

## **Bai Muajjal**

Literally, it means a credit sale. Technically, it is a contract in which the seller earns a profit margin on his purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in installments. He has to expressly mention cost of the commodity and the margin of profit is mutually agreed. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price.

## **Bai Salam**

Salam is an exceptional contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a specified future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute.

## **Bai Al-Sarf**

It refers to currency exchange. In pre-Islamic times, when there was metallic standard used as a medium of exchange, it was exchange of gold for gold, silver for silver and gold for silver etc. It is also known as Bai al Thaman bil Thaman.

## **Bai Wafa**

It refers to a sale and buy-back transaction.

## **Batil**

It conveys the meaning of invalidity or being null or void. It is opposite in meaning to 'Sahih' which means valid.

## **Bayatan Fi Bai**

It refers to the situation in which two sales are combined in one. It is prohibited as per Islamic law.

## Bayt al-mal

It is the public treasury of the Muslim Community. It was developed as an institution by the early pious Caliphs. Amwal-e-Zakat, Amwal-e-Sadqat and Amwal-e-Ghanimah were contained in the bayt al-mal and were meant to be spent on the needs of the Ummah.

## Daman

It is a contract of guarantee, security or collateral. It entails responsibility for financial coverage in the case of destruction or damage.

## Darura

It refers to an urgent and important necessity.

## Dayn or Debt

A Dayn comes into existence as a result of any other contract or credit transaction. It comes into existence either by way of rent, sale or purchase or in any other manner which leaves it as a debt to another. Deyun (debts) have to be returned without any profit.

## Dhimmah

Dhimmah refers to liability such as an obligation to repay someone the amount borrowed.

## Diminishing Musharakah

It refers to Musharakah in asset/property. It is based on the concept of Shirkat-ul-Milk. In this, joint ownership is created between the bank and the customer. Customer uses whole of the property/asset while being owner of only a portion of the asset/property. The share of the bank in asset/property is divided into units. These units are purchased by the customer periodically until he has purchased all units and become the sole owner of the asset/property. The customer pays rent of the units owned by the bank which the customer uses and it also keeps purchasing units owned by the bank. It can be used in commercial as well as consumer financing.

## Dinar

It refers to a gold coin used by Muslims as a medium of exchange during early Muslim civilization. The standard mass of the dinar was 1 mithqal approximately 4.25 grams gold.

## Dirham

It refers to silver coins used as a medium of exchange in early Muslim civilization. Some Muslim countries still use the name today for their currencies, for example Morocco and the UAE. But, in Modern times, currency notes are fiduciary money.

## Faqih

It means a qualified Muslim jurist who is an expert in Fiqh and is adept at understanding the rules of the Shariah and is qualified to interpret the rules to devise more rules based on analogical deduction. Plural: Fuqaha

## Faqir

It refers to a poor and needy person. Plural: Fuqara. Fuqara are one of the recipients of the Zakah.

## Faskh

It denotes cancellation or abandonment. In the context of contracts, Faskh refers to the dissolution of a contract or agreement. A contract can be cancelled voluntarily by the contracting parties or due to reasons such as destruction of item of sale in a sale agreement before sale is executed or dissolution of partnerships upon the death of one of the partners etc.

## Fatwa

It refers to a legal opinion issued by an expert faqih or mufti in response to a question (Istiftah) about a certain Shariah matter.

## Fiqh

It refers to Islamic law of jurisprudence. It is an important source of guidance for enacting laws and rules in Islamic economics.

## Fiqh al-mu'amalat

It refers to Islamic commercial jurisprudence, or the rules of conducting commercial and financial transactions in compliance with the rules of Shariah.

## Fuduli

It refers to a person or party who transacts in the asset without being its owner or owner's agent or wali of the owner.

## Gharar

It is an element of excessive uncertainty in any business or a contract about the subject of contract, quantity and quality of the subject matter or its price, or about the delivery and payment etc. It also involves contractual ambiguity as to the consideration and the terms of the contract. Such ambiguity will render most contracts void.

## Gharim

It represents a debtor who does not possess the funds with which to repay his debt. As per Hanafi School, a person whose net worth goes below nisab if he repays his debt is considered Gharim. Gharimeen are one of the recipients of the proceeds of Zakat.

## Ghasb

It refers to the wrongful appropriation of a thing/property/wealth of someone by force, coercion or undue influence.

## Hadith

It refers to report of sayings, acts, affirmation or accounts of life of Prophet Muhammad (PBUH). It is an important source of law in Islam. Plural: Ahadith.

## Hamish Jiddiyah

It refers to the Security deposit. In Ijraha or in Murabaha, an amount of money upon request of the Lessor or seller may be paid by Lessee or Buyer to safeguard the interests of the Lessor or Seller incase damage or loss is caused to the asset which is recovered from this amount.

## Hanbali

It refers to one of the four major Islamic schools of jurisprudence. Imam Ahmad Ibn Hanbal is regarded as the founder of this school.

## Hanifite

It refers to one of the four major Islamic schools of jurisprudence. Imam Abu Hanifa is regarded as the founder of this school.

## Haqq

It means truth. In commercial parlance, it signifies a right which a party has, for example, the creditor's right for repayment.

## Heela

It refers to an arrangement which provides permissibility for an action or transaction and is to be used with extreme care and in cases of necessity so that it does not become a norm.

## Hisbah

Hisbah is a regulatory mechanism to monitor and inspect the market place and maintain fair and competitive environment in the marketplace by an authority known as Muhtasib.

## Hukm

It refers to the prescribed Shariah ruling about a matter as to whether it is obligatory, recommendable, neutral, reprehensible, or forbidden. Plural: Ahkam.

## Halal

It includes anything permitted by the Shariah.

## Haram

It includes anything prohibited by the Shariah.

## Hawalah

Literally, it means transfer. Technically, it is an agreement of assignment of debt. It also refers to the document by which the transfer or assignment takes place.

## Hibah

It means Gift. It is a voluntary give away to some one without any consideration.

## Ihtikar

It refers to Hoarding. It is the prohibited practice of purchasing essential commodities, such as food and storing them in anticipation of an increase in price.

## Ijaab

It refers to an Offer in a contract.

## Ijarah

It is sale of usufruct of any asset in exchange of a definite reward. By using Ijara, Islamic banks lease equipments, buildings or other facilities to a client, against an agreed rental. In asset lease done in Islamic finance, it refers to a lease agreement whereby a bank (Lessor) buys an asset for a customer (Lessee) and then leases it to him for a specific period. During the lease period, the asset remains in the ownership of the Bank (Lessor), but the lessee uses it and pays rent for the usufruct.

## Ijarah-wal-Iqtina

It is a contract under which the Islamic bank finances equipment, building or other facilities for the client against an agreed rental together with a unilateral undertaking whereby the client undertakes to purchase the asset at the end of the lease period. Undertaking or the promise does not become an integral part of the lease contract to make it conditional.

## Ijma

It refers to consensus of all or majority of the leading qualified jurists on a certain Shariah matter.

## Ijtihad

It refers to an opinion of a qualified jurist to derive or formulate a rule of law to determine the true ruling in a matter on which the revelation is not explicit.

## Ikhtilaf

It refers to difference of opinions among jurists.

## Iktinaz

It refers to hoarding of wealth by not paying Zakah on it.

## Illah

It is the attribute of an event that entails a particular divine ruling in all such similar events possessing that attribute. 'Illah is the basis for applying analogy to determine ruling about any act or transaction.

## Iman

It denotes faith and belief in some comprehensive doctrine. In Islam, Iman implies belief in oneness of Allah, His Books, His Messengers, His Angels and the life after death.



## Infaq

It means spending in the way of Allah. Allah praises spending on one's family, spending in preparation for jihad and feeding and clothing orphans and other underprivileged individuals.

## Iqtisad

It denotes moderation and economy. In Arabic, it denotes the subject of economics.

## Islam

It means submission to Allah and worship of Him alone. Islam obliges its adherents to believe that there is no god but Allah and that Muhammad is the Messenger of Allah, establishing Salah five times a day, paying Zakah out of wealth and production, fast in the month of Ramadan and performing Hajj once in lifetime.

## Islah

It means Reform or improvement in a concept or practice.

## Islamic banking

It characterizes commercial banking services that meet the requirements of the Islamic principles. Islamic banking products are designed to meet the specific financial requirements of Muslims within the purview of Islam and also catered for non-Muslim customers who want to avoid indulging in interest based transactions.

## Istihsan

It allows exception to strict legal reasoning for the sake of providing ease for human welfare within the bound of Islamic principles.

## Israaf

It refers to exaggeration and squander in spending and consumption.

## Istisna

It is a contractual agreement for manufacturing goods in which there is a natural delay in delivery due to the fact that asset or building needs to be manufactured or built. A manufacturer or builder agrees to produce or build a well described good or building at a given price on a given date (maximum expected date of delivery needs to be mentioned). Price can be paid in installments or a via a bullet payment in advance or

after delivery. Istisna can be used for financing the construction of houses, plants, railway tracks, bridges, underpass, dam, roads and highways etc.

## **Jahala**

It refers to ignorance, lack of knowledge; vagueness in a contract, which can lead to Gharar.

## **Juaalah**

It includes in its meaning wages, pay, stipend, compensation and reward. It is a contract for performing a given task for a specified fee in a given period.

## **Kafalah**

It means assuming responsibility and providing surety for debt repayment of some other party. In Kafalah, a third party becomes surety for the payment of debt. The kafil (surety) agrees to assume responsibility for the debts of the makful `anhu (debtor) for the contentment of creditor by way of giving a pledge.

## **Khiyar**

It refers to an option or a power to annul or cancel a contract. In sale transactions, it refers to an option extended to the buyer to rescind the sale, upon the appearance of a defect. Types of Khiyar include Khiyar al-ruyah, Khiyar al-ayb, Khiyar al-shart and Khiyar al-majlis.

## **Khiyar al-Majlis**

It refers to an option to annul a contract possessed by both contracting parties as long as they do not separate.

## **Khiyar al-Shart**

It refers to an option stipulated by one or both parties to a contract, to annul the contract for any reason for a fixed period of time.

## **Maal**

It includes in its meaning wealth, money, property or any valuable thing which can be possessed.

## **Maaliki**

It refers to one of the four major Islamic schools of jurisprudence. Imam Malik is regarded as the founder of this school.

## Maal-e-Mutaqawam

It refers to assets/commodities, the use of which is lawful under the Islamic Shariah. It also includes wealth that has a commercial value. Legal tenders that carry monetary value are also included in Mal-e-Mutaqawam.

## Madhhab

In Islamic Fiqh, it refers to represent a fiqh school with distinctive methods of deduction of laws from principle sources of Shariah. Four famous madhahib among Muslims are Hanafi, Maliki, Shafi`i and Hanbali.

## Maisir

It refers to an ancient Arabian game of chance played with arrows without heads and feathering, for the award/distribution of meat of camels. Now, it includes all types of hazard and gambling. Gambling is prohibited in Islam. It is the basis of prohibition of some contemporary financial practices such as conventional insurance, convertible securities and derivatives.

## Makruh

In Islamic Fiqh, it is an action which one is recommended to avoid. For a Makruh action, there is reward for avoidance but no punishment for committing it.

## Manfaah

It refers to the benefit associated with a given property/asset or its usage, especially in leasing transactions.

## Maqasid

It refers to the general objectives of Islamic law.

## Mithli (Fungible goods)

It refers to Goods that can be returned in kind, i.e. gold for gold, bronze for bronze, PKR for PKR, rice for rice etc.

## Mubah

It refers to object/use of object/activity that is lawful.

## Mudarabah

A form of partnership in which one party provides the investment capital (known as Rabb-ul-Maal) while the other provides expertise and management (known as Mudarib). Profits earned are shared between them on the basis of profit sharing ratio, while loss (if any) is borne by Rabb-ul-Maal.

## Mudarib

The Mudarib is the working partner in a Mudarabah contract who invests the funds provided by Rabb-ul-Maal. He shares in profits, but is not liable to share losses with the Rabb-ul-Maal.

## Murabaha

It is a sale in which seller discloses cost and profit margin to the buyer. While it was originally not a mode of financing, Islamic banks nowadays use it as a mode of financing. In a Murabaha transaction, the client requests the bank to purchase a certain item for him. The bank appoints client as agent who purchases the asset on bank's behalf, take constructive possession and delivery and then declares that asset has been purchased by him and that he now wants to buy it from the bank. Bank accepts the offer and the client pays the price in either lump sum or in installments.

## Musaqah

A type of partnership in which the owner of an orchard agrees to share a stipulated portion of the produce of the orchard's trees with a worker, in exchange for the latter's services to irrigate the garden.

## Musawamah

Musawamah is a bargain sale which is more common than Murabaha. In Musawamah, price is bargained between the seller and the purchaser without any reference to the cost incurred by the seller.

## Musharakah

It is a form of partnership in which the partners agree to share profit and losses in the business of partnership. All providers of capital can participate in management, but they can also delegate their right of participation in management to one or particular more able partners. Profits earned are shared between partners on the basis of profit sharing ratio, while loss (if any) is allocated with respect to capital contribution ratio. Loss to any partner can not exceed capital contributed by that partner.

## Muzara`ah

It refers to the contract of share-cropping. It is an agreement between two parties in which one agrees to allow a portion of his land to be used for cultivation by the other in exchange for a part of the produce of the land.

## Najash

It refers to the forbidden practice of misleading and rousing a potential buyer by bidding higher and higher prices with no intention to purchase the asset.

## Nisab

It denotes the exemption limit for the payment of Zakah. A Muslim who owns wealth below the nisab amount is exempted from paying Zakah. The nisab is different for different types of wealth and production.

## PLS

It is an abbreviation of Profit and Loss Sharing. It refers to the interest free deposit schemes offered by Islamic depository institutions. In these schemes, there is no stipulated rate of profit; rather the profit is distributed if it actually accrues with the provision that loss will also have to be borne if it incurs.

## Qabul

It refers to an Acceptance in a contract.

## Qabza

It refers to taking possession of the commodity in a transaction. It can be constructive or physical.

## Qard (Loan of fungible objects)

Qard means to give anything having value to the other with the condition that same or similar amount of that thing would be paid back on demand or at the settled time. It is that loan which a person gives to another as a help, charity or advance for a certain time. The repayment of loan is obligatory.

## Qimar

Qimar means gambling. It is an arrangement in which benefit of an activity is contingent upon the happening of an uncertain event.

## Qirad

Qirad is a synonym for mudarabah.

## Qiyas

A source of Islamic law used in Derivation or deduction of the rules based on the analogy of an existing law if the basis i.e. Illah of the two is the same.

## Qur'an

It refers to the Holy book revealed to Prophet Muhammad (Peace Be Upon Him) during a period of 23 years. It is a principle source of guidance in Islam.

## Rabb-ul-maal

In Mudarabah, it refers to the person who provides capital or investment in the partnership. Rabb-ul-maal shares in profit based on profit sharing ratio agreed between Rabb-ul-Maal and Mudarib. In case of loss, being the provider of Capital, Rabb-ul-Maal has to bear all the loss.

## Ra's al-mal

It refers to Capital in the form of asset or cash invested in a profitable business enterprise. In the context of loan transactions, it refers to the principal amount.

## Riba

It refers to an excess or increase. It means an increase paid or charged over the principal amount in a loan transaction.

## Riba Al-Fadl

Riba Al-Fadl (excess) is the premium in exchange of homogenous goods or exchange of heterogeneous goods in credit sale e.g. dates for dates, wheat for wheat, etc. – an excess in the exchange of Ribawi goods within a single genus.

## Riba Al-Nasiah

Riba Al-Nasiah is an excess or increase paid or charged over the principal amount of a loan. When money is lent for a period of time on the understanding that the borrower would return to the lender at the end of the period the amount originally lent together with an increase on it, the increase or excess paid over the original amount lent is Riba Al Nasiah.

## Ribawi

It refers to commodities which are subject to Fiqh rules on Riba Al Fadl. Following are Ribawi goods mentioned in Hadith: gold, silver, dates, wheat, salt and barley. The classification is made on various criterions by different Islamic schools of jurisprudence i.e. weight, measurability, edibility etc.

## Rishwah

It refers to bribery or kickbacks.

## Sadaqah

It refers to charitable spending. Zakah is an obligatory Sadaqah. Plural: Sadaqaat.

## Sahih

In the context of contracts, it refers to a valid contract. In principles of Hadith, it refers to maximum level of authentication about a Khabaar (Hadith).

## Salaf

A loan which draws no profit over the amount lent for the creditor. Unlike in Qard, amount given as Salaf can not be called back before the due date.

## Salah

It is a prayer which is obligatory on every Muslim five times a day.

## Shahadah

It refers to Imaan. It implies belief in oneness of Allah, His Books, His Messengers, His Angels and the life after death.

## Shariah

It refers to Islamic law embodied in the Quran and the Sunnah (Way) of Prophet Muhammad (PBUH).

## Shariah Advisor

It refers to an exceptionally well trained Islamic legal scholar who advises an Islamic financial institution in product design and application in executing transactions to facilitate strict compliance with Islamic principles.

## Shariah Compliant

It refers to an instrument, transaction or contract which complies with Islamic principles.

## Shart

It refers to a necessary condition in a contract. It needs to exist, performed or fulfilled for the contract or transaction to be valid.

## Sukuk

It refers to an instrument which represents proportionate beneficial ownership in the underlying asset. The underlying physical asset can be financed using Islamic modes like Ijara, diminishing Musharakah, Istisna etc. The funding for the asset comes from issuing participation certificates called Sukuks to the investors.

## Shariah

It refers to the divine guidance as taken from the Holy Qur'an and the Sunnah (way) of the Prophet Muhammad (PBUH) and includes all aspects of the Islamic faith, including beliefs and practices.

## Shirkah

It refers to the contract between two or more persons who undertake a business jointly for earning profits.

## Shirkat-ul-Inaan

It is a form of partnership in which each partner contributes capital and has a right to work for the business, but not necessarily equally. Each partner is investing as well as a working partner.

## Sunnah

It is a source of law in Islam and refers to the acts and sayings of the Prophet Muhammad (PBUH) other than the Holy Quran.

## Tabarru

It is a voluntary donation or gift given for seeking the pleasure of Allah. In Takaful, contributors/mutual insurers contribute in the fund in the form of Tabarru.



## Tabzir

Spending wastefully on things, spending on which is not allowed in Islam.

## Takaful

It denotes Islamic insurance. It is based on the concept of mutual insurance. It avoids Qimar, Riba and Gharar which are present in a conventional insurance scheme. Takaful Operator manages the contribution into the Waqf (fund) by participants who contribute donation for the fund i.e. Tabarru. It is structured using Waqf and Mudarabah model.

## Tawarruq

It refers to Reverse Murabaha. It is used in personal financing as well as in treasury placements and financing. In Tawarruq, the party who needs funds buys something on credit on a deferred payment basis at a higher price and then resells it for cash to a third party at a lower price.

## Ulema

It refers to a religious scholar who has expert understanding of Quran, Sunnah, Hadith and Fiqh.

## Ummah

It refers to the Muslim community as a whole.

## Usul al-fiqh

It refers to the principles and fundamentals of Islamic legal thought.

## Wadiah

It refers to the deposited property/funds. An Islamic bank acts as the trustee of depositors' funds. It guarantees to return the deposited property on demand. The bank may hibah any part of benefit it received from the deposited property.

## Wakalah

It refers to an agency contract in which one person 'the principal' appoints someone else as 'an agent' to perform a certain task on his behalf for a certain fee. It is used in cases where a party cannot personally perform a given task; therefore, it appoints an agent who is well versed to perform that task in an appropriate manner to execute it on its behalf.

## Waqf

It refers to the charitable trust or the property which is dedicated for some purpose, usually for collective social benefit. Plural: Awqaf.

## Zakah

It is an obligation upon every Muslim who owns wealth up to the Nisab to pay a part of wealth. According to a Hadith, Zakat purifies wealth of a Muslim. Zakat is levied on cash, cattle, agricultural produce, minerals, stocks, financial instruments, receivables etc. Zakat rates are different for different types of wealth and production.