GLOSSARY

Followings are the glossary of islamic banking terminology:

**Amanah:** Trust, with associated meanings of trustworthiness, faithfulness and honesty. As an important secondary meaning, the term also identifies a transaction where one party keeps another’s funds or property in trust. This is in fact the most widely understood and used application of the term.

**Arbun:** Earnest money/Down payment; a pre-purchase deposit paid by the client (buyer) to the seller upon concluding a contract of sale, with the provision that the contract will be completed during the prescribed period.

**Bai' Muajjal:** Literally it means a credit sale. Technically, a financing technique adopted by Islamic banks that takes the form of Murabaha Muajjal. It is a contract in which the seller allows the buyer to pay the price of a commodity at a future date in a lump sum or in instalments. 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 al-Dayn:** (Debt financing) the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers. Bai al-Dayn is a short-term facility with a maturity of not more than a year. Only documents evidencing debts arising from bona fide commercial transactions can be traded.

**Fiqh:** Islamic jurisprudence (or Islamic law), practical rules of Shari’a derived from the detailed evidence in the textual sources. It is an important source of Islamic economics. **Fuqaha:** jurists or those well versed in fiqh.

**Fatwah:** A religious decree.

**Gharar:** It means any element of uncertainty in any business or contract about the subject of contract or its price, or mere speculative risk. It leads to undue loss to a party and unjustified enrichment of other, which is prohibited.
**Al Ghunm bil Ghurm:** This provides the rationale and the principle of profit sharing in Shirkah arrangements. Earning profit is legitimized only by engaging in an economic venture, risk sharing and thereby contributing to the economy.

**Hanafi:** name of a Sunni school of law, associated with the early religious leader (Imam) Abu Hanifa (d. 767)

**Hanbali:** name of a Sunni school of law, associated with the early religious leader (Imam) Ahmad ibn Hanbal (d. 855)

**Halal:** That which is permissible, reverse to haram (unlawful). In Islam there are activities, professions, contracts and transactions which are explicitly prohibited (haram) by the Qur'an or the Sunnah. Barring them, all other activities, professions, contracts, and transactions etc. are halal. This is one of the distinctive features of Islamic economics vis-a-vis Western economics where no such concept exists.

**Ijarah:** Letting on lease. Sale of a definite usufruct of any asset in exchange of definite reward. It refers to a contract of land leased at a fixed rent payable in cash and also to a mode of financing adopted by Islamic banks. It is an arrangement under which the Islamic banks lease equipments, buildings or other facilities to a client, against an agreed rental.

**Ijarah-wal-Iqtina**: A mode of financing adopted by Islamic banks. 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 by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The undertaking or the promise does not become an integral part of the lease contract to make it conditional. The rental as well as the purchase price are fixed in such a manner that the bank gets back its principal sum alongwith with some profit, which is usually determined in advance.

**Ijtihad:** It refers to an endeavor of a qualified jurist to derive or formulate a rule of law to determine the true ruling of the divine law in a matter on which the
revelation is not explicit or certain, on the basis of *Nass* or evidence found in the Holy Qur'an and the Sunnah.

**‘Ilāh**: determination of effective cause or rationale in Islamic legal reasoning.

**Ijma’**: Consensus of all or majority of the leading qualified jurists on a certain Shari’ah matter in a certain age.

**‘Inah** (A kind of *Bai*): Double sale by which the borrower and the lender sell and then resell an object between them, once for cash and once for a higher price on credit, with the net result a loan with interest.

**Istihsan**: juristic preference to achieve equity and avoid a harsh result, a legal method particularly associated with the *Hanafi* school of law that particularly allows exception to strict legal reasoning, or guiding choice among possible legal outcomes, when considerations of human welfare so demand.

**Istisna’a**: It is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery. Istisna’a can be used for providing the facility of financing the manufacture or construction of houses, plants, projects, building of bridges, roads and highways.

**Jahl or Jahala**: Ignorance, lack of knowledge; indefiniteness in a contract, sometime leading to Gharar.

**Ju’alal**: (Lit: stipulated price for performing any service.) Technically applied in the model of Islamic banking by some. Bank charges and commission have been interpreted to be ju’ala by the jurists and thus considered lawful.

**Kali bil-Kali**: The term Kali refers to something delayed; appears in a maxim forbidding the sale of al-Kali bil-Kali i.e. the exchange of a delayed counter value for another delayed counter value.

**Al- Kafalah (Suretyship)**: Literally, Kafalah means responsibility, amenability or suretyship, Legally in Kafalah a third party become surety for the payment of debt. It is a pledge given to a creditor that the debtor will pay the debt, fine etc.
**Kharaj bi-al-Daman:** Gain accompanies liability for loss; a Hadith forming a legal maxim and a basic principle – see also Al-Ghunm bil Ghurm.

**Khiyar:** Option or a power annul to or cancel a contract.

**Khiyar al-Majlis:** Option of the contracting session; the power to annul a contract possessed by both contracting parties as long as they do not separate.

**Khiyar al-Shart:** A right, stipulated by one or both of the parties to a contract, to cancel the contract for any reason for a fixed period of time.

**Maisir:** An ancient Arabian game of chance played with arrows without heads and feathering, for stakes of slaughtered and quartered camels. It came to be identified with all types of hazard and gambling.

**Makruh:** an act considered repugnant under Islamic law.

**Maliki:** name of a Sunni school of law, associated with the early religious leader Malik ibn Anas (d. 796)

**Maqasid-e shariah:** hierarchy of legal aims or objectives of Islamic law.

**Mu'amalat:** sphere of Islamic law governing human or social relationships such as most property rights, as distinct from ibadat, matters relating to worship.

**Mubah:** an act considered permissible under Islamic law.

**Mudarabah:** A form of partnership where one party provides the funds while the other provides expertise and management. The latter is referred to as the Mudarib. Any profits accrued are shared between the two parties on a pre-agreed basis, while loss is borne by the provider of the capital.

**Murabaha:** Literally it means a sale on mutually agreed profit. Technically, it is a contract of sale in which the seller declares his cost and profit. This has been adopted by Islamic banks as a mode of financing. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him. The bank does that for a definite profit over the cost which is settled in advance.
**Musawamah:** Musawamah is a general kind of sale in which price of the commodity to be traded is bargained between seller and the purchaser without any reference to the price paid or cost incurred by the former.

**Musharakah:** Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business. It is an agreement under which the Islamic bank provides funds which are mixed with the funds of the business enterprise and others. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.

**Qimar:** Qimar means gambling. Technically, it is an arrangement in which possession of a property is contingent upon the happening of an uncertain event. By implication it applies to a situation in which there is a loss for one party and a gain for the other without specifying which party will lose and which will gain.

**Qiyas:** Literally it means measure, example, comparison or analogy. Technically, it means a derivation of the law on the analogy of an existing law if the basis ('illah) of the two is the same. It is one of the sources of Islamic law.

**Riba:** An excess or increase. Technically, it means an increase over principal in a loan transaction or in exchange for a commodity accrued to the owner (lender) without giving an equivalent counter-value or recompense ('iwad) in return to the other party; every increase which is without an 'iwad or equal counter-value.

**Al- Rahn:** Pledge, Collateral; legally, Rahn means to pledge or lodge a real or corporeal property of material value, in accordance with the law, as security, for a debt or pecuniary obligation so as to make it possible for the creditor to recover the debt or some portion of the goods or property.

**Al-Sarf:** Basically, in pre-Islamic times it was exchange of gold for gold, silver for silver and gold for silver or vice versa. In Islamic law such exchange is regarded as 'sale of price for price' (Bai al Thaman bil Thaman), and each price is
consideration of the other. It also means sale of monetary value for monetary value – currency exchange.

**Shafi’i**: name of a Sunni school of law, associated with the early religious leader Muhammed al-Shafii (d. 820)

**Shariah**: The term Shariah refers to divine guidance as given by the Holy Qur’an and the Sunnah of the Prophet Muhammad (PBUH) and embodies all aspects of the Islamic faith, including beliefs and practice.

**Shari’ah advisor**: A professional, usually a classically trained Islamic legal scholar that advises an Islamic bank on the compliance of its products and services with the Shari’ah, or Islamic law.

**Sukuk**: Arabic name for a financial certificate but can be seen as an Islamic equivalent of bond. Sukuk are securities that comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. It is a certificate of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or investment activity.

**Sunnah or (Hadith)**: Custom, habit or way of life. Technically, it refers to the utterances of the Prophet Muhammad (PBUH) other than the Holy Qur’an known as Hadith, or his personal acts, or sayings of others, tacitly approved by the Prophet.

**Takaful**: mutual responsibility, mutual guarantee, Islamic insurance.

**Talifq**: the legal method of 'patchwork' combining approaches or principles from different Islamic schools of law.

**Tawarruq**: Reverse murabahah. As used in personal financing, a customer with a genuine need buys something on credit from the bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the customer can obtain cash without taking an interest-based.

**ulama/ulema**: clerics or Sharia’h scholars.
'urfor 'urf wa adah: custom and usage, a general or local model of behaviour, social understanding, or mode of expression, that is generally accepted by the population and does not contract a definitive rule of Islamic law (Shari'a).

usul al-Fiqh: methodology applied to the Qur'an and Sunna to deduce the rules of fiqh, or substantive law.

Zakat: general charitable payment, levied on property such as gold, silver, merchandise and income producing animals, as well as land, required of all Muslims to purify both themselves and their wealth.