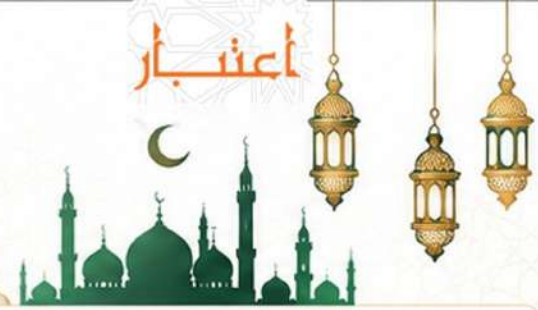


ISLAMIC BANKING TERMINOLOGIES

Shariah Compliant • Ethical • Transparent • Inclusive



Mudarabah

A partnership where one party (mostly customer/depositor) provides capital and the other (mostly the bank) manages the business. The profit is shared as per agreed ratio whereas, losses are borne as per investment ratio. In banking industry this mode is commonly used for saving/term deposits.



Murabaha

It is a special sale where seller discloses the cost of goods and the profit charged on it. In this mode, the bank purchase goods and sells to the customer at cost plus profit basis. Payment is usually made on deferred basis in lumpsum form or in instalments.



Salam

A deferred delivery sale where full payment is made in advance for future delivery of goods. Common in agricultural financing and other industries that involve processing.



Istisna

An order to manufacture or construct contract where disbursements are at agreed stages. Delivery of the asset/commodity is made after completion of manufacturing/construction. Common usage of this mode is in export-based industries, construction industry, etc.



Musharakah

A joint investment partnership where all partners contribute capital. Profit is shared as per agreed ratio whereas, losses are borne as per investment ratio. The common use of this mode is running/business musharakah mostly extended with blue-chip/public limited companies.



Diminishing Musharakah

A partnership to own an asset, where one party (usually the customer) gradually buys out the equity share from another party (usually the bank) and untimely becomes sole owner of the asset. The asset is utilized by customer and the bank charges rent on it. Common in Islamic home financing, plant/machinery/equipment financing.



Ijara

A leasing contract where the bank owns the asset and leases it to the customer. The customer pays rent for using the asset. At the end of Ijara tenure the bank sells the asset to customer against security deposit. This mode is used for plant, machinery, equipment, vehicle financing.



Sukuk

Asset-backed Islamic certificates similar to bonds but compliant with Shariah. Returns are earned from asset performance, not interest.



Takaful

A cooperative insurance system designed on Waqf model where members contribute to a shared pool. Funds are utilized to support participants facing loss.



Riba

Interest or any guaranteed profit on loans, strictly prohibited in Islam. Islamic banking operates without interest.



Gharar

Excessive uncertainty or ambiguity in contracts. Islamic finance requires transparency and clarity in all transactions.



Qard al Hasan

An interest-free loan given for welfare purposes. Only the principal amount is repaid without any extra charge.



Wakala

An agency agreement where one party acts on behalf of another for an agreed afee. Often used in investment services and interbank placement/obtaining of funds.



Bai' Muajjal

A sale with deferred payment where goods are delivered immediately. The price includes an agreed profit. This term is mostly used in conjunction with different modes like Musawamah under Bai-Muajjal.



Bai' al-Inah

A sale and buy-back arrangement involving the same asset and usually same parties. It is controversial due to its similarity to interest-based transactions.



Kafalah

A guarantee where a third party assures payment or performance. Widely used in trade and banking guarantees.



Rahn

A collateral agreement where an asset is pledged as security. The lender can claim it if the borrower defaults.



Ujrah

A fee charged for providing services in a Shariah-compliant way. It replaces interest-based service earnings.



Tawarruq

A method of generating cash/liquidity through commodity trading. It is used as a liquidity tool but its permissibility is debated among Shariah scholars.



SGF (Shariah Governance Framework)

A structured set of guidelines, processes, and oversight mechanisms issued by State Bank of Pakistan to ensure that Islamic Financial Institutions comply with Shariah (Islamic laws) in all aspects of banking and operations. It defines roles for the Board of Directors, executive management, and Shariah Board to ensure transparency, credibility, product integrity, Shariah compliance, etc.



Shariah Board

A group of Shariah scholars supervising all banking and financial/operational activities. They ensure compliance with Islamic laws.

ABL SHARIAH BOARD

- Mufti Tayyab Amin
Chairperson Shariah Board
- Dr. Mufti Mahmood Ahmad
Member Shariah Board
- Mufti Muhammad Awais Masood
Resident Shariah Board Member



SCAN TO EXPLORE
ISLAMIC BANKING TERMS ONLINE

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