

## Frequently Asked Questions

Q. What is Shariah?

A. Shariah lexically means a way or path. In Islam, Shariah refers to the divine guidance and laws given by the Holy Quran, the Sunnah of the Prophet Muhammad (Peace be Upon Him) and supplemented by the juristic interpretations of Islamic scholars. Shariah embodies all aspects of the Islamic faith, including beliefs and practices.

Q. What are the sources of Islamic Shariah?

A. Islamic Shariah or the divine law of Islam is derived from the following four sources:

1. The Holy Quran
2. The Sunnah of the Holy Prophet (Peace be Upon Him)
3. Ijma' (consensus of the Ummah)
4. Qiyas (Analogy)

Q. What is a Fatwa?

A. Fatwa is an authoritative legal opinion based on Shariah (Islamic law). A Fatwa is issued by a qualified person or body (e.g. Shariah Board or Shariah Advisor) with authoritative knowledge on Islamic laws and principles.

Q. What is the importance of purifying the source of income or Halal earning in Islam and how can Islamic Banking help in this manner?

A. In Shariah, Halal or purified source of income is an essential duty of every Muslim.

According to the scholars:

- On the Day of Judgement, a person will not be moved from the place where he/she stands until he/she is asked about the sources of his/her income and the ways he/she spent it
- Purifying the source of one's nourishment is one of the most important reasons for the acceptance of supplications by Allah. The main purpose of Islamic Banking is avoidance of interest/Riba, Qimar and Gharar along with other non-Shariah compliant issues which are Haram and prohibited in Shariah, thus enabling a Halal and pure earning for the Customers, employees and shareholders of an Islamic Bank

Q. What is Riba or interest?

A. The word 'Riba' means excess, increase or addition, which correctly interpreted according to Shariah terminology implies any agreed excess compensation/benefit against the loan. The meaning of Riba has been clarified in the following Hadith;

'Every loan that draws any benefit is Riba.'

According to the jurists of Islam, this definition covers the two types of Riba, namely Riba Al Nasiah and Riba Al Fadl.

Riba Al Nasiah (commonly referred as Riba or Sood) literally means increase or addition of debt and it refers to the 'premium' that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension of its maturity. This Riba is the 'addition' of 'premium or service charges or markup' that is paid to the lender in return for his/her waiting as a condition for the loan and is technically the same as interest or sood. The example of Riba Al Nasiah/interest; if A lends PKR 1000 to B (a borrower) with a condition that B shall return him/her PKR 1100 after one month. In this case, a premium shall be paid by the borrower to the lender along with a price which is Riba or interest.

Riba Al Fadl is the second classification of Riba which means excess is taken in exchange of specific homogeneous commodities and is encountered in their hand-to-hand purchase and sale.

This is explained in the following Hadith:

The Holy Prophet (Peace be Upon Him) said,

'Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, like for like, payment made hand by hand. If anyone gives more or asks for more, he has dealt in Riba. The receiver and the giver is equally guilty.'

Riba Al Fadl is an extension of Riba to trade because while trade is allowed, not everything is permitted in trade. The prohibition of Riba Al Fadl closes all means to Riba through trade, also unlawful excess in the exchange of two counter values where the excess is measurable by weight or measure.

Q. What is the basic concept about the prohibition of Riba and what are the rulings of Holy Quran about Riba?

A. The prohibition of Riba, especially Riba Al Nasiah, is due to the concentration of wealth in few hands of the society; which results in widening the distance between the rich and poor, the rich get richer and the poor get poorer. This means a concentration of wealth leads to the monopoly in the society. Therefore, Islam prohibits Riba and forbids the unequal distribution of wealth in the society.

#### Holy Quranic verses related to Riba

'So that this wealth should not become confined only to the rich amongst you.' (59:7)

Q. Is interest only prohibited in Islam ?

A. Prohibition of interest is not limited to Islam, but also in Judaism and Christianity.

(For reference see Exodus 22:25, Leviticus 25:35-36, Deuteronomy 23:19, Psalms 15:5, Proverbs 28:8, Nehemiah 5:7 and Ezekiel 18:8,13,17 and 22:12)

Q. Is there a difference between interest and usury?

A. The Holy Quran has used the word, Riba, to explain any excess taken on any type of loan. Through several Hadiths, it is also proved that any amount taken over and above the principal in a loan is Riba whether it is for commercial, productive or consumption purposes. Conventional Banking system has classified two different terms as a commercial interest for businesses and usury for consumption of loan. For example, if Mr. X takes a loan from a Bank to start a business then the amount he/she will pay to the Bank regardless of profit and loss in the business would be called interest or commercial interest. On the other hand, if he/she takes the loan to purchase a computer for his/her personal use then the amount paid over and above the principal would be usury. Therefore according to Islamic principles, both types of Riba are impermissible.

Q. What is Islamic Banking?

A. Islamic Banking is defined as a Banking system which is in consonance with the spirit, ethos and the value system of Islam and governed by the principles laid down by Islamic Shariah. Interest-free Banking is a narrow concept denoting a number of Banking instruments or operations, which avoids interest. Islamic Banking, in general term, is based not only to avoid interest-based transactions prohibited in Islamic Shariah but also to avoid unethical and un-social practices. In the practical sense, Islamic Banking is the transformation of conventional money lending into transactions based on tangible assets and real services.

Q. Can interest rate be used as a benchmark?

A. As per Shariah guidelines, following interest based benchmark does not make a transaction invalid until any other violation of Shariah is found. As Islamic Banks fall under Banking industry, they follow competitive benchmark both in liability and asset sides in order to retain their position in the market. Benchmark is used in Islamic Banking transactions only for pricing.

Q. What type of financing products are offered by Islamic Banks?

A. The financing products are as follows:

1. Musharakah - Joint investment according to the share. Profit is shared as per mutually agreed ratio and loss is shared according to equity.
2. Murabahah - To buy and sell after disclosure of cost and profit.
3. Salam - Price settled and paid in advance for goods which will be delivered in future.
4. Istisna - Sale transaction with spot or part payment for manufactured goods. An order is placed with the manufacturer to produce a specific commodity for the purchaser.
5. Ijarah (Islamic Leasing) - Paying rent for the asset acquired for specific time period.
6. Diminishing Musharakah - Joint ownership of an asset, in which one partner sells his/her share of ownership to the other, over a given period of time. Rent is also paid by the partner for using other partners share in the same asset.
7. Tijarah - Sale and agency based financing facility for Customers, who sell finished goods on the credit basis.

Q. Can the price of cash sale and deferred sale be different?

A. If a commodity is sold in exchange for money, the seller while fixing the price may take into consideration different factors including the time of payment. A seller, being the owner of a commodity may charge a higher price which may be agreed by the purchaser. Thus, at the time of the execution of the sale transaction, the seller can charge a higher price if the buyer is paying on a deferred basis. In credit sale/purchase, price once fixed cannot be changed even in the case of delay in payment.

## Deposit Product Based Frequently Asked Questions

Q. Can an Islamic Bank guarantee a fixed rate to its depositor?

A. The Islamic Banking Deposit structure is based on the model of Mudarabah, in which the profit rate is based on the actual gross income earned for the period. Therefore, Islamic Bank cannot guarantee any rate prior to earning of the gross income of the said period.

Q. Is profit rate to depositors guaranteed by announcing weightages?

A. In actual, the weightages are only preference profit ratios amongst (Rabb-ul-Maal) the different products of different categories and are announced at the beginning of the period to eliminate any chances of guaranteeing a particular profit rate. Based on the actual gross profit of the pool, the Mudarib and depositors' share will be distributed as per the announced weightages.

Q. Where are the funds from depositors, invested by the Islamic Bank?

A. All the funds received from the depositors are invested in Shariah Compliant financing modes such as Murabahah, Ijarah, Diminishing Musharakah, Salam, Istisna etc., thus returns received from this financing is Halal. Whereas in Conventional Banking, the funds received from depositors are invested in interest based transactions, thus render their income as Haram.

Q. Why does the profit rate of deposit account in Islamic and Conventional Bank look similar?

A. Alfalah Islamic Banking Group is a financial market player which is following the market norms to remain competitive. Currently, we do not have a full-fledged Islamic Banking market and therefore, we have to follow the Conventional Banking benchmarks in profit rates. Following the pricing system does not make a transaction invalid.

Q. Can we open accounts for every individual?

A. No, individuals whose whole or predominant income is from Haram sources are not eligible to open an account.

Q. What is the structure of Alfalah Islamic Current Account?

A. Alfalah Islamic Current Account is based on the structure of Qard. Alfalah Islamic Banking cannot give any profit/non-routine service to the Customer, as any incentive over the loan is Riba.

Q. Why does the Bank offer some free facilities on Current Accounts despite their Qard based nature?

A. Free facilities are offered to all accounts to facilitate the relationship that exists with Customers. Such facilities are not offered specifically on Current Accounts.

Q. Are deposits in Islamic Current Accounts treated as Amanah?

A. No, it is not treated as Amanah because Amanah cannot be used by the holder and the holder cannot be held responsible for any damage or loss suffered to Amanah without holder's negligence. In Islamic Banking, depositors permit the bank to utilise their current account balances and guarantee the principle as per Account Opening TORs. Therefore, current account deposits are treated as Qarz.

Q. What happens in the case of loss in Mudarabah Based Accounts?

A. In the case of loss, as per the Mudarabah rules, the deposit pool (pool members) bears the loss on a pro rata basis (according to their investment ratios).

Q. What happens if a Customer redeems his/her share before maturity?

A. If a Customer redeems his/her share before the time of maturity, the schedule of early redemption will be applied and all profit payment (accrued/paid) will be adjusted accordingly. Early redemption schedule is available at Bank Alfalah Islamic branches.