



The Premier Islamic Bank

Murabaha Exercise & Calculation





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Calculation of Cost & Profit In Murabaha transactions.



Murabaha Calculation - General

Bullet Payment at the end of tenure

Ex: 1

Financing Amount : Rs 100mn (Jan 1)

Profit Rate (IRR) : 16% p.a.

Tenor : 1 year

Payment of Murabaha Price : Bullet payment

Cost : 100 mn

Profit : Rs 16mn (100 x 16%)

Contract Price : Cost + Profit

: 100 + 16

:Rs 116mn

(Murabaha Selling Price for declaration- Jan 10)

Payment of Price : Rs 116 mn (Dec 31)



Murabaha Calculation - General

Ex: 2

Payment in Installments

Financing Amount : Rs 100mn (Jan 1)

Profit Rate (IRR) : 16% p.a.

Tenor : 1 year

Murabaha Price : Four unequal installments

Cost : 100 mn

Profit : Rs 16mn (100 x 16%)

Contract Price : Cost + Profit = Rs 116mn (Jan 10)

Payment of Price : Rs 4mn ($=0.16/4*100$) March 31

Rs 4mn ($=0.16/4*100$) June 30

Rs 4mn ($=0.16/4*100$) Sept 30

Rs 104mn ($=100+4$) Dec 31.



Murabaha Calculation - General

Ex: 3

Payment in Four equal installments

Financing Amount	: Rs 100mn (Jan 1)
Profit Rate	: 16% p.a.
Tenor	: 1 year Payment of
Murabaha Price	: Four equal installments
Cost	: 100 mn
Profit	: Rs 10.2 (based on $n=4$, $r=4\%$, $PV=100$)
Contract Price	: Cost + Profit = Rs 100 + 10.2 : Rs 110.2mn (Jan 10)
Payment of Price	: Rs 27.55mn - March 31 Rs 27.55mn - June 30 Rs 27.55mn - Sept 30 Rs 27.55mn - Dec 31.



Murabaha Calculation - General

Exercise

Financing Amount : Rs 40mn (Jan 1)

Profit Rate (IRR) : 9% p.a.

Tenor : 6 months

Payment of Murabaha Price : Bullet payment

Cost :

Profit :

Contract Price : Cost + Profit

:

:

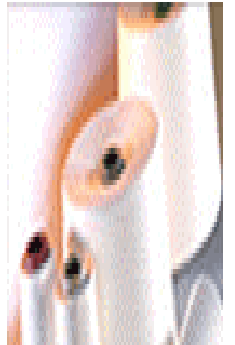
(Murabaha Selling Price for declaration- _____)

Payment of Price : ()



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Calculation, Steps & Documents sequence for Murabaha





Murabaha

Case 1-A: Local Purchase

Bank: First Islamic Bank

Clients Name: M/s ABC & Co

Purpose of Murabaha: Purchase of Raw Cotton & Yarn

Murabaha Financing Limit: Rs: 5,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 120 days

Stage 1:

MMFA / Agency Date: January 01, 2006

Order Form Date: January 09, 2006

Order Form Amount:PKR: 1,000,000/-



Murabaha

Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount: PKR 1,000,000/-

Purchase of Goods : Jan 11, 2006

Declaration submitted to bank: January 12, 2006 (with Purchase evidence – PE)

Stage 3

Cost of goods purchased: PKR 1,000,000/-

Profit Amount : PKR 32, 877/- $(1,000,000 \times [10\% / 365] \times 120)$

Contract Price : Total Cost + Profit

PKR 1,032,877/-

Declaration accepted by the bank at Contract Price: January 12, 2006

Payment of Price: PKR 1,032,877/- (At Maturity on May 9, 2006)



Murabaha

Case 1-B: Local Purchase (with purchase expenses)

Bank: First Islamic Bank

Clients Name: M/s ABC & Co

Purpose of Murabaha: Purchase of Raw Cotton & Yarn

Murabaha Financing Limit: Rs: 5,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 120 days

Stage 1:

MMFA / Agency Date: January 01, 2006

Order Form Date: January 09, 2006

Order Form Amount:PKR: 1,000,000/-



Murabaha

Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount: PKR 1,000,000/-

Purchase of Goods : Jan 11, 2006

Declaration submitted to bank: January 12, 2006

Stage 3

Cost of goods purchased: PRK 1,000,000/-

Purchase expenses (freights etc) : PKR 10,000/- (paid by Agent)

Total Cost : PRK 1,010,000/-

Profit Amount : PKR 32, 877/- $(1,000,000 \times [10\% /365] \times 120)$

Contract Price : Total Cost + Profit = PKR 1,042,877/-

Declaration accepted by the bank at Contract Price: January 12, 2006

Payment of Price: PKR 1,032,877/- $(1,042,877/- \text{ less } 10,000/-)$ - At
Maturity on May 9, 2006



Murabaha

Exercise 2: Local Purchase (step wise)

Bank: New Islamic Bank

Clients Name: M/s Faisalabad Steel

Purpose of Murabaha: Purchase of iron ore.

Murabaha Financing Limit: Rs: 3,000,000/-

Profit Rate (IRR): 12% p.a.

Tenure: 180 days

Stage 1:

MMFA / Agency Date:

Order Form Date:

Order Form Amount:PKR: 3,000,000/-



Murabaha

Stage 2

Disbursement Date: January 10, 2006

Disbursement Amount:

Purchase of Goods :

Declaration submitted to bank:

(with Purchase evidence – PE)

Stage 3

Cost of goods purchased:

Profit Amount : PKR /- ()

Contract Price : Total Cost + Profit

PKR /-

Declaration accepted by the bank at Contract Price:

Payment of Price: PKR /- (At Maturity on) 13



Murabaha

Case 2 : Plain Murabaha

Bank: ABC Bank

Client: Pak Textile & Co

Cost: Rs. 10 Million

Profit Rate: 10% P.A

Tenure: 6 months

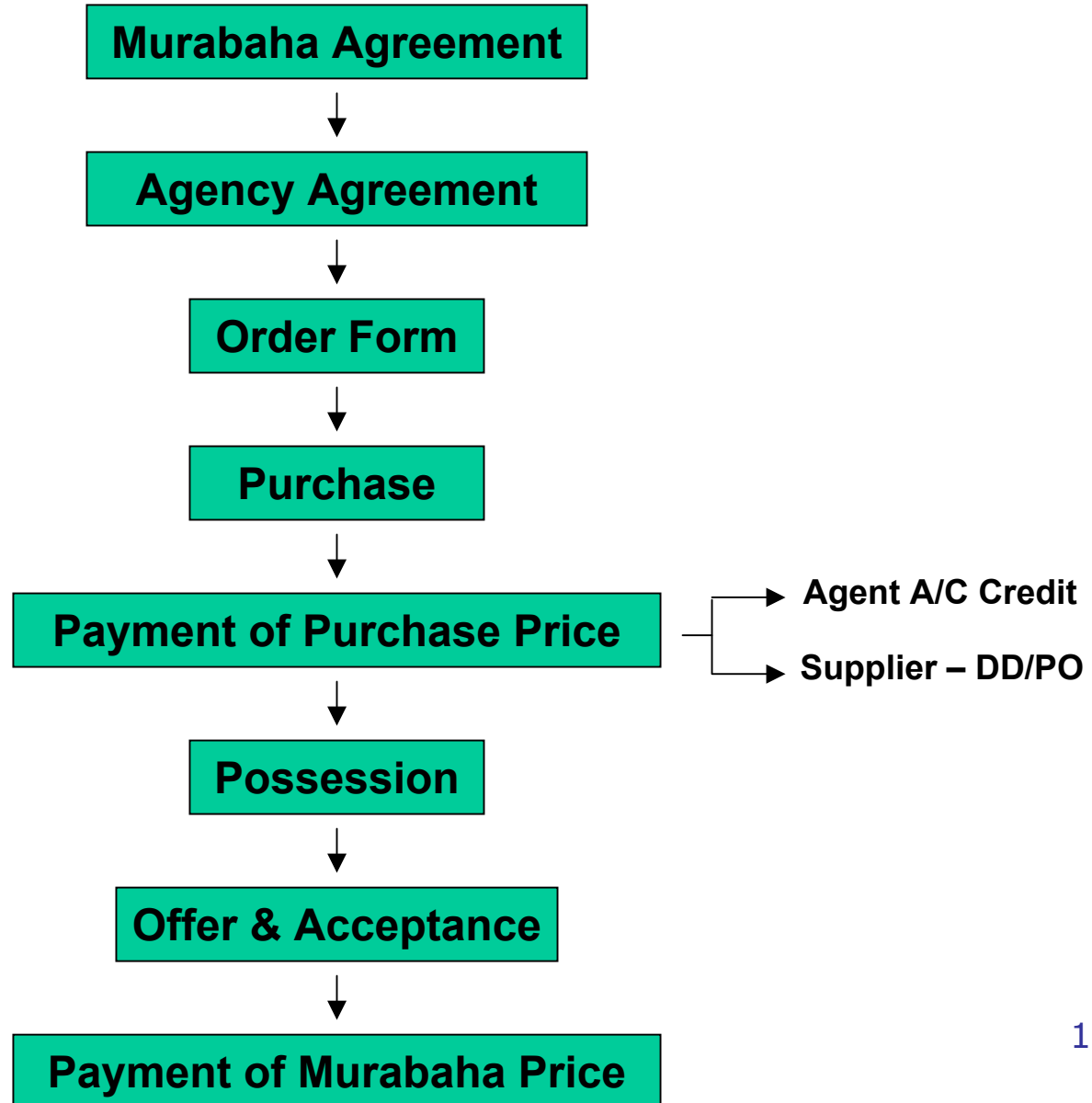
Other Expenses: Rs. 25,000

Local & Foreign
Currency



Murabaha

Case 2 Plain Murabaha





Murabaha

Case 3: Advance Payment Murabaha

Local & Foreign
Currency

Bank: ABC Bank

Client: Pak Textile & Co

Cost: Rs. 10 Million

Profit Rate: 10% P.A

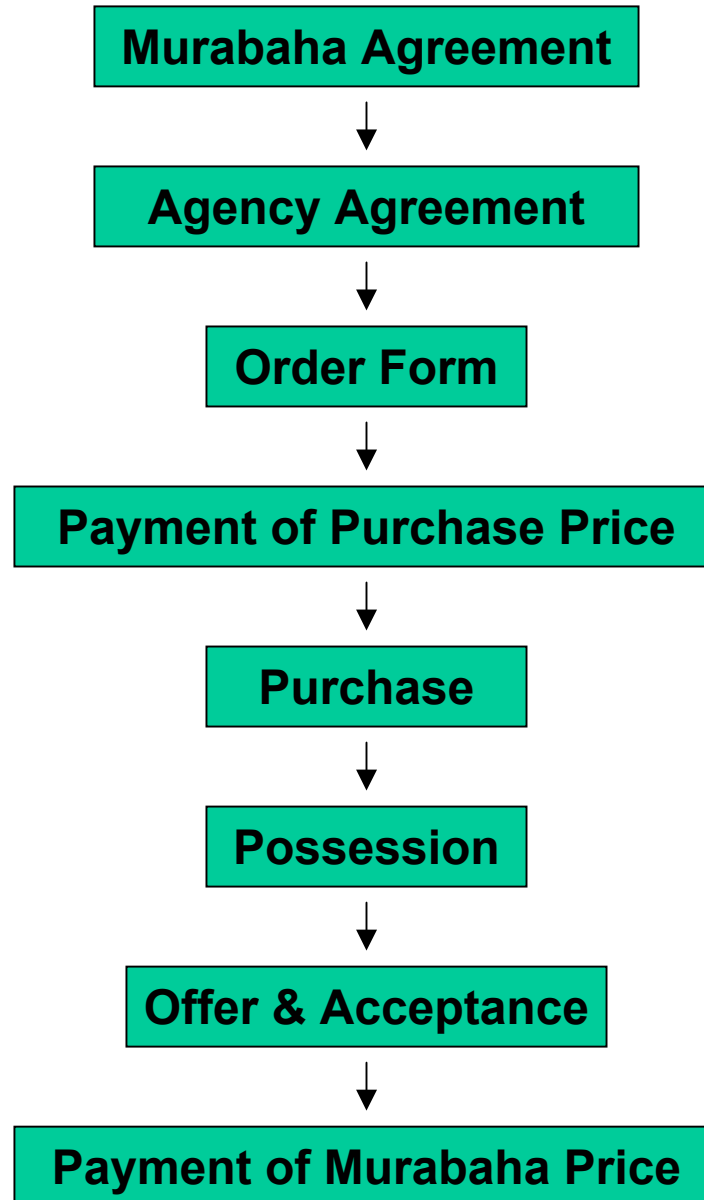
Tenure: 6 months (includes advance payment period of 2 months)

Other Expenses:none



Murabaha

Advance Payment Murabaha





Murabaha

Case 4: Suppliers Credit Murabaha

Local & Foreign
Currency

Bank: ABC Bank

Client: Pak Textile & Co

Cost: Rs. 12 Million

Profit Rate: 13 % p.a

Suppliers Credit: 2 months

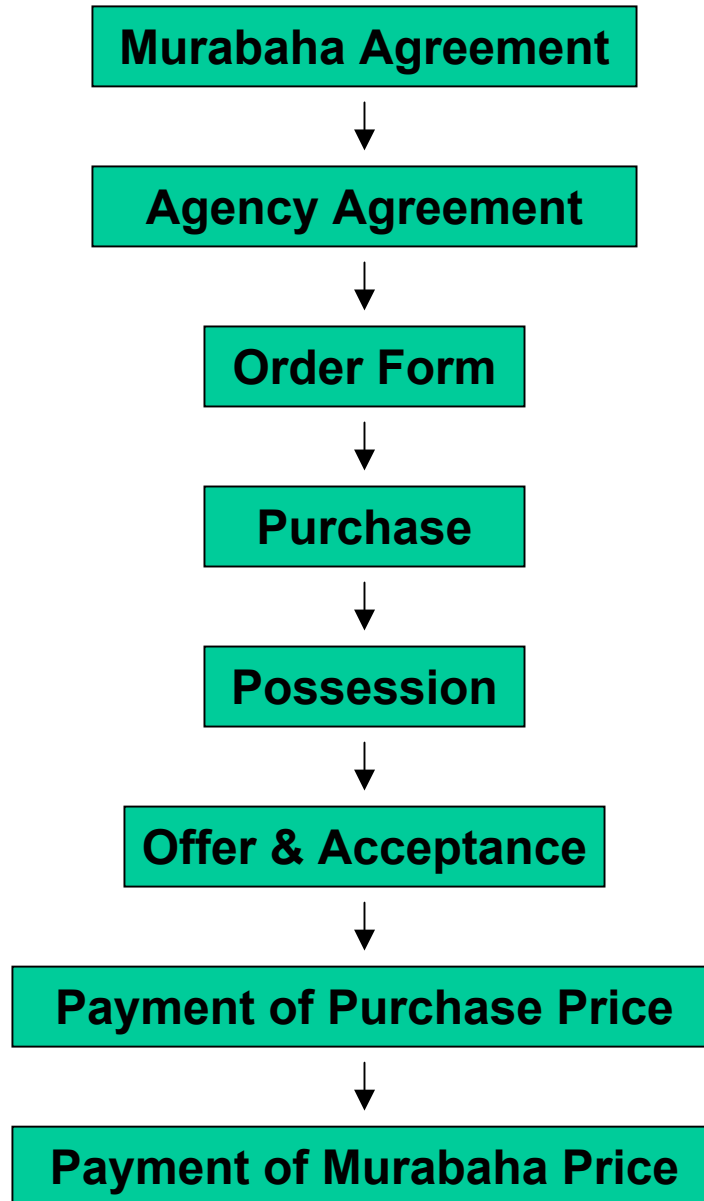
Tenure: 6 months

Other Expenses: None



Murabaha

**Suppliers Credit
Murabaha**





Murabaha

Case 5: Import Sight LC (step wise)

Bank: First Islamic Bank

Clients Name: ICI Pakistan

Purpose of Murabaha: Purchase of PTA

Murabaha Financing Limit: Rs: 100,000,000/-

Profit Rate (IRR): 10% p.a.

Tenure: 90 days

Stage 1:

MMFA / Agency Date: January 01, 2006

Order Form Date: January 09, 2006

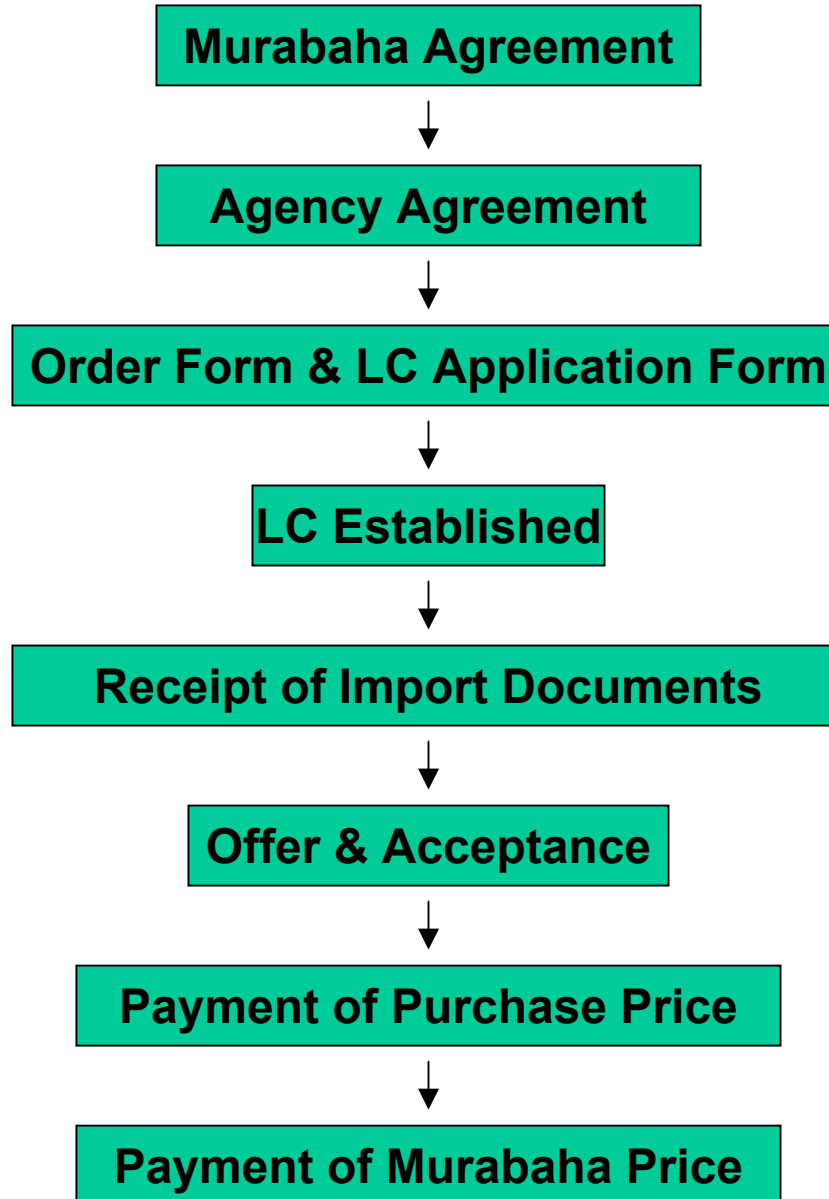
LC opening Date: January 10, 2006

LC Amount: \$ 1,000,000/-



Murabaha

Steps involved





Murabaha

Stage 2

Receipt of Import Documents : January 30, 2006

Disbursement Date: January 30, 2006

Disbursement Amount: PKR 59,000,000/- (conversion rate 1\$=59PKR)

Declaration submitted to bank: January 30, 2006

Stage 3

Cost of goods purchased: PRK 59,000,000/-

Import charges : PKR 50,000/- (paid by the agent)

Total Cost : PRK 59,050,000/-

Profit Amount : PKR 1,454,794/- (59,000,000 x [10% /365] x 90)

Contract Price : Total Cost + Profit

$$\text{PKR } 59,050,000/- + 1,454,794/- = 60,504,794/-$$

Declaration accepted by the bank at Contract Price: January 30, 2006

Payment of Price: PKR 60,504,794/- (less 50,000/-) (At Maturity)



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Conclusion



Conclusion

- Murabaha transactions are sensitive transactions and requires extreme care in execution.
- A small mistake at any stage may convert Murabaha into an interest based loan.
- It is the responsibility of each one of us to ensure that our Murabahas are executed in the best manner and the income derived is Halal in true letter and spirit.