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# EXTENSION OF APPLICATION FINANCING IN THE FORM OF MURABAHA FORMULA WITH ORDER OF PURCHASING IN SAUDI ISLAMIC BANKS (A CASE STUDY OF AL-RAJHI BANK)

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**Abstract**

The study aimed to investigate the extension of application financing in the form of Murabaha formula with order of purchasing in Saudi Islamic banks. The problem of the study entails the extension of the impact of financing in the form of Murabaha formula in increasing the Islamic banks' profits and risks. Moreover, the study identifies Rajihi Banks 'experience in applying financing in the form of Murabaha formula. The study is based on analytical descriptive approach in dealing with the case study and analyzing the data to answer the study questions and test its hypotheses. The study reached to the following most crucial results: Murabaha formula is considered one of the most acceptable and profitable forms of dealing and the least risky, interest in capital, guarantees provided and the surrounding economic conditions. The study recommends that qualifying of the Islamic banking cadre with high ability and competence in marketing and making programs is necessary, thus, holding conferences and seminars on Islamic accounting standards should be conducted; In addition, convincing other banks with these standards in order to move from usury to halal selling, and thus, there will be a shift in the most banks to work according to Islamic system not the usurious system.

**Keywords**: Murabaha Formula, Islamic Accounting Standards, Halal Selling, Usurious System, Financing in The Form of Murabaha Formula.

## 1. INTRODUCTION

Islamic banking has witnessed great challenges represented in the social and economic developments taking place in societies and the intensification of competition between banks in providing services. Islamic Sharia and providing banking services free from suspicion of usury.

The reserachers find that Islamic financing methods have become an alternative to traditional financing based on usury, debt, and selling a person what he does not own, which led directly to the creation of the recent global financial crisis. (The development of Islamic finance in the light of the European and Anglo-American experiences, Hassan Al-Mousa - Rabat)

The form of financing by Murabaha and Murabaha for the one who orders the purchase is considered one of the Islamic formulas that found acceptance with Islamic banks because it provides banks with a financing method that enables them to stand in front of traditional banks in short-term financing, and it found acceptance from customers because it provides them with a form of buying in installments, and it is worth mentioning to us The application of Murabaha in its legal form must be in accordance with the controls set by the jurists so that it does not

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deviate from its legitimacy and become a fraud that leads to a prohibited usurious transaction. Recently, Islamic banks have sought to provide all banking services provided by conventional banks, but within the Islamic controls that necessitate refraining from usurious transactions. These banks also work to preserve money and not risk it, and there are many forms of Islamic financing such as participation, speculation, and manufacturing, and we find that The Murabaha formula is the most common and applied formula in these banks.

**The first axis: the methodological framework and previous studies**

**1.1 The Study Problem:**

The problem of the study is the extent of the influence of Murabaha financing in increasing profits in Islamic banks, and the risks that this type of financing is exposed to, as well as identifying the experience of Al Rajhi Bank in Murabaha financing formulas.

**1.2 Study Hypotheses:**

This study is based on the following hypotheses:

- Murabaha financing affects the increase in profits in Islamic banks.
- Islamic banks are exposed to significant credit risks when applying the Murabaha formula.

**1.3 The Significance of Study:**

The importance of the study is that banks face great challenges in order to provide financing methods that meet the needs of their customers and keep pace with the current renewable requirements, whether at the level of individuals or projects, and at the same time help the bank to maintain appropriate liquidity to meet its obligations towards customers.

**1.4 Objectives of the Study:**

This study aims to:

- standing on the effect of applying the Murabaha financing formula on increasing the profits of Islamic banks
- recognizing and investigating the extent of the risks that Islamic banks are exposed to when applying the Murabaha financing formula.

**1.5 Study Methodology:**

The following approaches were adopted:

- The inductive method in defining the study problem and formulating hypotheses.
- The deductive method in testing the hypotheses of the study.
- The historical approach in dealing with previous studies and the theoretical framework of the research.
- The descriptive analytical approach in dealing with case studies and data analysis.

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## 2. REVIEW OF LITERATURE

### 2.1 Previous Studies:

• **Study** (Loury, (2010)): The study aimed to clarify the customer evaluation criteria and their role in reducing the risks of Murabaha operations in Jordanian Islamic banks. To achieve the objectives of this study, a questionnaire was developed and distributed to 85 samples in the Jordan Islamic Bank and the Arab Islamic Bank. Several statistical methods were used to draw conclusions. The study reached several results, the most important of which is that personal variables have a major role in the evaluation process, Islamic banks seek to conduct the evaluation process to reduce the risks that may result from the Murabaha process, Islamic banks interest in personality and ability more than other factors, the study recommended the need to develop evidence Suitable for the risk analysis process that must be followed in Islamic banks, and this guide must be updated from time to time. In addition to the customer's personality and ability, Islamic banks must pay attention to other factors such as capital, guarantees provided, and the surrounding economic conditions.

• **Study** (Al-Amrousi, 2015): The research revealed forms of banking dealing with the Murabaha system from the perspective of Islamic jurisprudence. The methodology of the research was represented in the use of the inductive and deductive approach with the mention of the sayings of the jurists according to the chronological order of the emergence of the majority of jurists, and the research concluded a set of results, the most important of which is that it is permissible, by agreement of the jurists, to deal with the banking system by the legal Murabaha system represented in the customer's request from the bank to buy a commodity, then the customer buys it From the bank after that at a deferred price, with both the bank and the customer declaring that this is just a desire that may or may not take place, with the availability of the Sharia Murabaha conditions in terms of determining the capital, profit, etc., whatever the specific formula for the profit is in total or in detail. The results also showed that bank Murabaha may be legitimate if its legally stipulated conditions are applied in it, so it is permissible, and it may be illegal if these conditions are not observed in it, and then it is dealt with - circumvention - to reach what God has forbidden and this is forbidden.

• **Study** (Al-Tuwair A. M., 2016): The study aimed to reveal "the impact of legal suspicions on Murabaha financing in Libyan banks, an applied study on a sample of those wishing to deal in bank Murabaha." The research used the descriptive method and the inductive method. The research sample consisted of (250) Libyan bank clients. The research tools consisted of using a questionnaire to identify the opinions of the research sample members. The results of the research confirmed that the legal suspicions revolving around Murabaha financing in Libyan banks have a direct impact on the conviction of a large segment of society, and this conviction led to the reluctance of a large segment of those dealing with the bank. And that the legal suspicions revolving around financing by Murabaha in Libyan banks came from the fatwas of the nation's scholars, who are highly knowledgeable in the Sharia. The research recommended the need to make immediate adjustments to the methods used by banks in Murabaha financing to get rid of legal suspicions that revolve around the way they are dealt with in Libyan banks.

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• **Study** (Helles, 2017): The study aimed to demonstrate the extent to which financing and investment operations in Islamic banks are appropriate to the standards of the Islamic Accounting and Auditing Organization, in each of the formulas: Murabaha for the purchase orderer, Mudaraba, Istisna'a, Ijarah, and Musharaka. The researchers adopted the descriptive analytical approach, through the data of the financial statements of Islamic banks operating in Palestine for the period from 2010-2015 AD, in addition to the questionnaire that included employees of Islamic banks. The study showed that financing and investment operations in Islamic banks operating in Palestine are highly compatible with the standards of the Islamic Accounting and Auditing Organization in each of the formulas: Murabaha for the purchase order, Ijarah, Istisna'a, Musharaka, and Mudaraba. The study also showed that the rate of dealing in the Murabaha formula for the purchase orderer in Islamic banks is 92%, in contrast, other financing and investment modes occupy 8%. The study recommended the need to enhance work practice with all standards issued by the Islamic Accounting and Auditing Organization, whether legal, accounting, ethical, and governance. The necessity of qualifying an Islamic banking cadre with high ability and efficiency in marketing and making programs, products and projects that attract customers and owners of capital, in all areas of financing and investment, to activate the rest of the Islamic financing and investment formulas, and not to focus on Murabaha for the purchase order.

• **Study** (Melhem S. S., 2017): The issue of pricing products and services in Islamic banks is one of the most important administrative decisions, and a preoccupation for many Islamic banks, as it affects all aspects of the bank's activity, and determines to a large extent the value of annual revenues. Here, the research problem appears in how to determine the Murabaha price in Islamic banks and the factors affecting its determination, and what is the basis or reference that can be relied upon to determine the Murabaha price in Islamic banks? The importance of the research is evident by revealing the nature of the relationship between pricing decisions and the profitability of the bank, as the research assumes that pricing decisions directly affect the profitability of the bank because the bank's customers are the ones who pay for banking services, which leads to income generation, and directly affects the volume of sales bank. The research relies on the descriptive analytical method to reach issues related to the research problem, based on the references included in some literature related to this topic. The research concluded with the possibility of adopting the methodology of LIBOR rates for calculating Islamic financial indicators, despite the suggestion of many researchers as an alternative Islamic indicators for the interest rate, and none of these proposals have yet been converted into standard indicators that the Islamic financial services industry refers to, and therefore the necessity of having Joint Islamic banking cooperation with bodies concerned with Islamic banking issues, such as the Islamic Fiqh Academy, as well as activating the role of other bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions and central banks, to work on finding an Islamic index alternative to the interest rate index, based on foundations consistent with the provisions of and principles of Islamic law.

• **Study** (Al-Tuwaijri, 2017) The study aimed to identify Murabaha financing in the Islamic

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Bank, an original and applied study. To achieve the objective of the study, the descriptive approach based on induction and analysis was relied upon. The study was divided into three chapters, and referred to the applications of the Murabaha system in Islamic and international banks, through the experience of the Islamic Bank of Malaysia. To the ownership of assets or commodities for the beneficiaries in the short or long term, and the experience of the Saudi Al-Bilad Bank. As for the financing system in American banks, it relied on the expansion of mortgages, which are loans arising from the accumulation of many mortgages that are placed in one basket.

• **Study** (Ali, 2017): The problem of the study was represented in whether the Islamic banks operating in Sudan adhere to the requirements of the Murabaha and Murabaha standards for the purchase order issued by the Accounting and Auditing Organization for Financial and Islamic Institutions? The study aimed to know the role of the Central Bank of Sudan in supervising Islamic banks in the practice of financing by Murabaha and Murabaha for the purchase order. The study concluded that the Islamic banks operating in Sudan did not comply with all the requirements of the standard of Murabaha and Murabaha for the purchase orderer issued by the Accounting and Auditing Organization for Financial and Islamic Institutions in the financial statements clarifications, but rather they adhered to some items in the financial statements clarifications. Accordingly, the study recommended Islamic banks to apply the accounting treatments for Murabaha and Murabaha for the purchase orderer according to the Islamic accounting standard Murabaha and Murabaha for the purchase orderer.

• **Study** (Nabil, 2019): The study aimed to introduce the Accounting and Auditing Organization for Islamic Financial Institutions and the various accounting standards issued by it, and shed light on the methods and procedures of the Murabaha sale and Murabaha contracts for the purchase order, which represent the bulk of the activities of Islamic banks and the benefit they represent to banks and beneficiary customers Among these transactions, as well as investors who wish to invest in accordance with Islamic law, and try to highlight the various stages of accounting treatment of the Murabaha contract for the order to buy based on Financial Accounting Standard No. 02 issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and to highlight the extent of Faisal Islamic Bank of Sudan's commitment to the various stages of processing accounting for this standard.

• **Study** (Al-Maleh, 2020): The study aimed to identify the impact of concentration in the application of the Murabaha financing formula on the developmental role of Islamic banks. Islamic banks continued to focus on financing in the form of Murabaha to the exclusion of other forms, despite all the criticisms and legal suspicions directed at it. The second discussed the analysis of the strengths and weaknesses of the Murabaha financing formula. The third point referred to the developmental role of Islamic banks. The fourth point clarified the sources of financing economic development. The fifth point spoke about the role of Islamic banks in financing economic development. And the impact of the crisis on some indicators of private banks in Syria. And the market share of assets and deposits of private banks for the years (2010-2013). And the development of the capital of Syrian private banks during the period (2006-2017). The study concluded with several results, the most important of which is that the bulk

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of the financing provided by Islamic banks is based on the Murabaha financing formula.

**Commentary on previous studies**: The objectives of the previous studies varied and differed in dealing with the issue of the extent to which financing in the form of Murabaha is applied to order purchases in Islamic banks with different methodologies. What distinguishes the current study from previous studies is that this study dealt with the extent to which financing in the form of Murabaha is applied to the purchase order in Islamic banks in the Kingdom of Saudi Arabia by applying it to Al-Rajhi Bank, not only due to the impact of financing by Murabaha in increasing profits, but also dealt with the extent of risks that Islamic banks may be exposed to When applying the Murabaha formula. This study will present some results and recommendations that may benefit those interested in the field of Islamic finance. (Murabaha)

## 3. STUDY STRUCTURE

The first axis: the methodological framework and previous studies

The second axis: theoretical framework

The third axis: applied study

## 4. APPLICATION OF MURABAHA FORMULA IN ISLAMIC BANKS

Islamic banking in our current era has become a reality after the global financial crisis in particular and has become increasingly strong and widespread based on the foundations and rules established by Muslim scholars through studies, research and conferences, and one of the most common transactions in Islamic banks is compound Murabaha. (Afanah.a, 2009).

The researchers find that financing in all its forms is considered one of the most important pillars of investment. Therefore, they find that the development of financing tools is one of the matters that have taken a large part of the attention of bankers, financiers and investors, and Islamic financing formulas have emerged as an alternative to the forbidden usurious financing that the owners of capital who are looking for an alternative free of suspicion of usury have shied away from.

To solve this problem, Islamic banking introduced a number of financing formulas as an alternative to usurious financing, including the formula of participation, speculation, Murabaha, Istisna’a and Salam. Islamic banks started their work with the Murabaha formula, which remains until now the most widely used formula in the banking sector.

### 4.1 Murabaha Concept

It is an agreement between the bank and one of its customers in which the customer asks the bank to purchase a commodity, provided that it undertakes to repurchase it as soon as the bank acquires it on a deferred basis after adding a profit margin to the original cost. The final sale price is usually paid in installments over a specific period of time.

Islamic banks found their purpose in this formula as it is a form of financing that is in line with

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the principles of Sharia because the dealing between them and the customer falls within the framework of the sale contract and not the loan contract followed in conventional banks and because it avoids the bank the risks of falling into many practical problems related to the existence of the commodity itself and its retention in Possession and probabilities of customers turning away from the goods after the bank purchases them. (Elhamy, 2014)

And the researchers find that there is a distinct level of success achieved by Islamic banks through Murabaha, and this is new evidence of the validity of applying Islamic law in every time and place, where the needs of people were fulfilled in dealing, and this led to the revitalization of investment and development, so the owners of investment deposits benefited from operating their money In legitimate ways, the buyer also benefited from paying the sale installments over time periods in the future, as he directs the operation of his remaining money savings in other industrial, commercial, agricultural projects and the like, and that is that Islamic banks that use the Murabaha sale method associated with a promise to buy from the buyer, buy the goods according to the specifications that the customer wants, and then sells it as Murabaha to the one who promised to buy at the amount of its first price, in addition to the cost considered according to Sharia, and including a profit margin agreed upon in advance between the two parties. Knowing that most Islamic banks tended to work by obliging the promise from the customer, which was stipulated in the International Islamic Fiqh Academy Resolution No. (40-41) 1988 AD, which reads (Murabaha, 2008)

First: The Murabaha sale to the one who orders the purchase if it takes place on a commodity after it enters the property of the person ordered, and the receipt required by Shari'a is obtained. This is a permissible sale, as long as the responsibility for the damage before delivery falls on the person ordered, and the consequence of the return by secret sale and the like of the requirements for return after delivery, and the conditions of the sale are met. And his impediments disappeared.

Second: The promise, which is issued by the commander or the commanded unilaterally - is obligatory for the one who made the promise a debt except for an excuse, and he is obliged to fulfill it if it is dependent on a reason, and the promise is included in the cost as a result of the promise, and the effect of the obligation in this case is determined either by the implementation of the promise, or by compensation For damage actually caused due to non-fulfillment of the promise without excuse.

### 4.1.1 Types of Murabaha

The types of Murabaha are divided into local Murabaha and external (international) Murabaha.

• **Local Murabaha**: It is the bank buying and selling local commodities as Murabaha at the request of the customer who ordered the purchase, in which the bank buys the commodity from within and sells it as Murabaha to the customer who pays for it after a certain period, or in specific installments.

This type of Murabaha can be divided into Murabaha Personal and commercial Murabaha

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procedures are as follows:

- The offer stage, where the buyer determines the specifications of the commodity he wants and asks the seller to specify its price, so the seller sends an invoice with a specific price quote at a specific time.
- Fulfillment of the promise, whereby the person wishing to purchase issues a promise to purchase the commodity from the bank as Murabaha, at its cost, plus the agreed profit. The bank studies the required and determines the conditions and guarantees required for approval.
- Conclusion of the first sale: the bank expresses its approval to the seller to buy the commodity, and pays the price immediately or according to the agreement, then the original seller announces its approval of the sale and sends the purchase invoice.
- Receipt of the commodity: The seller sends the commodity to the agreed place of delivery. The bank or its agent receives the commodity.
- Murabaha conclusion: Murabaha is concluded between the bank and the person wishing to buy according to the agreement reached in the purchase promise.

• **International Murabaha**: It is the bank buying commodities from abroad from the source specified by the customer according to the specifications he requests, then possessing and selling them to the importing merchant at a price and a profit agreed upon in advance. The external Murabaha goes through the following steps:

- An initial agreement between the promisor and the Islamic bank to provide the commodity to the promisor. The person who promised to buy is given the power of attorney to conclude the contract with the exporting seller of the commodity, or the bank contracts directly with the seller of the commodity.
- Opening a documentary credit with the financing bank or with another bank to cover the price of the commodity.
- The financing bank receives the contract documents in its name and then endorses the shipping documents to the promisor, in order to clear the commodity from the port and receive it for itself.
- The financing bank pays the price directly to the issuing seller. And the bank's possession of the commodity by real or legal receipt (receipt of shipping documents) and insurance of the sold and bearing the risk of loss. And selling the commodity to the one who promised to buy it through Murabaha (original price and extra profit).
- And registering the sale in the name of the customer after the bank obtained guarantees such as a mortgage.

It is worth noting that Islamic banking is not a charitable act, and I do not think that

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international banks approve of it as it is free of usury. We do not expect that the success of Islamic banking applications in the world is due to its Islamic reference, but rather to its high profitability compared to traditional banking. Islamic banking differs from the traditional one in terms of the type of credit operations services provided by the Islamic bank, as there are speculation, murabaha, leasing, istisna', peace, good loan, and others.

### 4.1.2 Murabaha sale terms

There are several basic conditions for Murabaha, the most important of which are: (Melhem, 2017)

Knowledge of the first price: because knowledge of the price is an essential condition for the validity of sales, and this condition includes all trust sales. If the first price is not known, then the sale is invalid until it is known in the contract council.

- That the profit be known: that is, the profit should be a specific amount or percentage of the first price.
- That the price in the first contract be corresponding to its kind from usury money, for example: to buy measured or weighed
- For his kind, like for like, it is not permissible to sell him for profit, because the profit is with the first price and an increase, and the increase in usury money is usury, not profit.
- The first contract is valid, because the Murabaha sale is linked to the first contract
- That the capital be of the ideals * such as measures, weights, and opposite numbers, if it is valuable (i.e. not
- Proverbs for him) such as offerings, it is not permissible to sell it as a murabaha to someone who does not own the offer, because the murabaha is sold for the same price as the first with an increase in profit.

### 4.1.3 Credit risks related to Murabaha financing

There is a close relationship between Islamic banking investment and risk tolerance, and this correlation is due to the fact that the investor's risk tolerance is the most important characteristic of Islamic banking investment that distinguishes it from usurious dealing with a guaranteed return.

### 4.2 Risk Concept

In financial literature, risk refers to a situation in which both possibilities are possible. There is no doubt that the cases in which we face one possibility are cases of lack of danger and risk in the language refers to the situation of uncertainty about the occurrence of the required results and the possibility that the outcome is something that is not pleasing to the soul.

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### 4.2.1 Types of risks in Islamic banks and how to reduce them

Islamic banks are exposed to many risks, some of which are related to the nature of Islamic financing formulas, some of them are related to the customer, some are related to the internal structure of the bank, and some are related to the environmental, economic and political framework in which the Islamic bank operates. Risks that result in losses incurred by the bank or become obstacles that limit its ability to achieve its objectives.

The most important risks to which an Islamic bank is exposed are (credit risks, moral risks, market risks, liquidity risks, rate of return risks and operational risks).

Some of these risks are those that the bank can affect and are under its control, and some that result from external circumstances that the bank cannot influence. In this study, we will shed light on credit risks. Follow Favorite. (Khalidi, n.d)

Traditional banks face credit risks in almost all of their operations because the relationship between them and their customers is always a creditor-debtor relationship, regardless of the different names of contracts and transactions. Islamic banks also face this kind of risk, especially in financing formulas that depend on debt contracts. It is known that Murabaha, Istisna', and Ijarah

Salam and sale by installments are deferred sales that generate debts in the bank’s books, and the main risk in them is the credit risk.

### 4.2.2 Credit Risks of Murabaha Formula

The risks can result from the Murabaha sale from two parties, the first party is the buyer and the second party is the seller from whom the bank buys. The commodity is one of the guarantees provided by the customer in the Murabaha contract on the basis of making a promise to one of the parties, but the course of these actions impedes the work of the bank and gives a negative indication of the reluctance of new customers to deal with the bank due to the differences that occurred. There is a possibility that the buyer will fail to pay the installments and the agreed profit, as well as the possibility that the commodity will be damaged as a result of the negligence of the workers, which causes the customer to reject the commodity.

The risk may be on the part of the first seller, who refuses to return the commodity in the event that the customer refuses to buy the Murabaha transaction. Thus, the bank’s position is faced with a number of threats that the bank may lose its ability to recover its money or the profit that was agreed upon from these credit risks. Pressures are generated on the bank represented by requests Frequent liquidity from its customers at a time when the bank does not have any alternatives through which it can obtain financing (in addition to that, commercial banks that can borrow from other banks or financing companies or by issuing bonds or resorting to the Central Bank, which is considered the last resort for commercial banks), These risks cause the failure to invest these funds in the periods planned by the Islamic bank because they are not paid in their maturity periods, and this negatively affects the level of profits for the bank as well as its impact in terms of comparison with the profits of commercial banks. ((Al-Baiji, 2012)

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### 4.3 Murabaha in Saudi banks

The monetary and banking sector in the Kingdom of Saudi Arabia and in many countries of the developed and developing world witnessed huge developments that other sectors did not witness during the past quarter century. This has been achieved as a result of progress and rapid changes in several areas, including communications, information technology and computer programs, tremendous competition in providing and diversifying banking and financial services, the speed and magnitude of capital movement, the openness of markets to each other, and the adoption of international standards of control and transparency. The Saudi banking sector interacted positively with these changes, and benefited from the completion of the infrastructure of the Saudi economy, activating the role of the private sector in development, the growth and regulation of the financial market for shares and government securities, and the spread of banking awareness among individuals and institutions. The banking and monetary sector currently serves the local economy with high efficiency by providing the latest and most comprehensive services. (Al Sayari, 2003)

Saudi banks have expanded the application of the Murabaha and Tawarruq formulas, as Tawarruq occupies the first place in terms of increasing profits in the volume of Islamic financing in the Saudi market, for example, by about 183 billion riyals, at a rate of up to 67 percent of the total Islamic financing market in Saudi Arabia, while the Murabaha formula is estimated to be It is considered one of the oldest forms of Islamic finance, with about 64 billion riyals of the total volume of financing in the Saudi market, which is equivalent to 23 percent. Total Islamic financing in the Saudi market. (numbers, 2010)

## 5. THE THIRD AXIS: APPLIED STUDY

The experience of Al-Rajhi Bank in Murabaha financing formulas:

First: Funds provided by Al-Rajhi Bank in the Kingdom of Saudi Arabia:

Funding is defined as the funds provided by the bank for the purposes of granting financing through various financing and investment channels such as participation, speculation, murabaha, and others.

And through it, funds are employed for various branches of economic activity according to a policy prepared and studied by the management of Islamic banks. Therefore, these departments are keen to increase the volume of funds for customers, taking into account the balance between the two principles that characterize the banking system (liquidity and profitability) and the third goal, which is the principle of safety. Which is based on the granting of credit, in addition to the impact of the size and type of financing by some obstacles. Favorite. (Batayneh, n.d)

Table No. (1) shows the total financing provided by Al Rajhi Bank and their annual growth rates for the period (2016-2021)

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**Table 1: Total financing provided by Al Rajhi Bank and their annual growth rates for the period (2016-2022)**

| Year | Total net financing | Growth rate % | Growth rate % |
|---|---|---|---|
| 2015 | 210,217,868 | | |
| 2016 | 224,994,124 | 14,776,256 | 7% |
| 2017 | 233,535,573 | 8,541,449 | 4% |
| 2018 | 234,062,789 | 527,216 | 0% |
| 2019 | 249,682,805 | 15,620,016 | 7% |
| 2020 | 315,712,101 | 66,029,296 | 26% |
| 2021 | 452,830,657 | 137,118,556 | 43% |
| 2022 | 568,338,114 | 115,507,457 | 25% |
| **Average Annual Growth Rate %** | | 51,160,031 | 16% |

- The total amount of financing provided by Al Rajhi Bank consists of trading, installment sales, Murabaha and credit cards.
- Growth rate: It can be defined as the percentage change of certain values during a certain period of time, as this period of time may be weekly, monthly or annual and is used as a percentage to indicate the annual change in a specific value. Of which:
  - Annual growth rate
  - Constant growth rate
  - Compound growth rate

The annual growth rate is calculated by finding the difference between the two years in question and then dividing the output by the previous year according to the following equation:

- Annual growth rate = (final value - initial value) / initial value
- Annual growth rate % = (final value - initial value) / initial value, after which the output is multiplied by 100%
- Average annual growth rate = calculate the average of the annual growth rate ratios according to the period in question.

Table No (1) shows that:

1. The total financing doubled in 2021 AD compared to what it was in the year 2016 AD, and this reflects the interest and ability of the bank in developing its financing by providing financing channels that the banking sector was not familiar with before.
2. The average annual growth rate of the bank's financing for the period in question was 15%. By comparing this average with the annual growth rates achieved in Al-Rajhi Bank, we find that the annual growth rates for the years (2016-2017) are low, while the annual growth rates returned for the years (2020-2021).) is higher than the average annual growth rate, and this indicates that the years (2016-2019) are a reversal in the volume of funding provided by the bank, after the years (2020-2022) there is a clear increase in the volume of funding. This justification is due to the bank's return to The necessity and importance of Islamic finance in terms of economic and development.

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**Second: Murabaha financing share of the total financing provided by Al Rajhi Bank:**

Murabaha financing represents a financing contract under which the group buys a commodity or an asset and sells it to the customer at the price of the purchase price plus a profit known and agreed upon by the customer, which means that the customer is aware of the cost and profit separately. Murabaha financing is one of the elements of the total financing in Al Rajhi Bank, based on the clarifications of the accounting data for each year separately.

Table No. (2) Shows the share of Murabaha financing out of the total credit facilities provided by Al Rajhi Bank in the Kingdom of Saudi Arabia for the period (2016-2021).

**Table 2: The relative importance of Murabaha financing in Al Rajhi Bank to the total financing for the period (2016-2022)**

| Year | Total net financing | Murabaha financing | Relative importance |
|---|---|---|---|
| 2016 | 224,994,124 | 15,276,982 | 7% |
| 2017 | 233,535,573 | 14,011,734 | 6% |
| 2018 | 234,062,789 | 14,114,149 | 6% |
| 2019 | 249,682,805 | 17,372,860 | 7% |
| 2020 | 315,712,101 | 19,670,093 | 6% |
| 2021 | 452,830,657 | 16,599,890 | 4.2% |
| 2022 | 568,338,114 | 21,239,554 | 3.7% |
| **Materiality rate** | | | **5.7%** |

- The relative importance was calculated by dividing the Murabaha financing to the total financing provided by Al Rajhi Bank.
- The principle of materiality is one of the most important accounting principles, which are closely related to other accounting principles such as relevance and reliability, as follows:
    - The principle of relative importance is related to the appropriateness in making investors' economic decisions related to their needs.
    - The principle of relative importance is related to reliability in the event that an important part of the information is deleted or changed, which in turn will affect the right decision-making, which will affect the reliability of the information.
    - The principle of materiality is characterized by ease of use in the preparation of financial statements, which works to provide investors and shareholders with the necessary information in order to help them make decisions and protect their interests and ensure the comprehensiveness of the information that is provided.
    - Materiality helps in making decisions, their extent and relevance.
- In the years 2016-2022, the data included on the value of financing in the form of Murabaha in Al-Rajhi Bank

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It is clear from Table No. (2) the following:

1. The average relative importance of Murabaha financing formulas in Al Rajhi Bank for the period 2016-2022 was 5.7%.
2. It is noted that in the years 2016-2020, the relative importance rate for Murabaha financing for the year 2016 doubled by 1%, while it became equal to the average for the years 2017 and 2018, while it returned higher than the average relative importance rate for the year 2019, with an increase of 1%, and then decreased for the year 2020, as it reached to 6%, which is equal to the average rate of relative importance, but the percentage of Murabaha financing continued to decline to 4% for the year 2021 and 3.7 for the year 2022. Murabaha financing is less than the average for the relative importance rate by 2%, and this decline is clear compared to previous years, as the relative importance rate ranged between 6% to 7%, which is appropriate with the average relative importance rate, but the crisis that swept the country led to the exposure of many Activities to stop and go bankrupt, which is reflected on employment, the labor market, the level of investment and other economic variables.

**Third: The share of income from Murabaha financing out of the total profits from financing and investments for Al Rajhi Bank:**

Profitability is a primary goal and a necessary matter for the establishment's work and continuity, and a goal for the shareholders, which is the relationship between the profits achieved by the corporation and the financing and investments that contributed to achieving these profits. Therefore, we find a great effort directed towards the optimal use of available resources in order to achieve the best possible return for shareholders, no less its value is the return that can be achieved on financing and alternative investments that are exposed to the same degree of risk. Profitability ratios are used to assess the organization's ability to generate profits from its activities, and it is also an important tool for measuring the management's efficiency in using the resources in its possession efficiently. Profit is supportive of the development of profit-oriented businesses, whether banking, commercial, industrial, agricultural, or any other field, where the greater the profit, the greater the development of the company or project. Table No. (3) Shows the share of income from Murabaha financing out of the total profits from financing and investments provided by Al Rajhi Bank in the Kingdom of Saudi Arabia for the period (2016-2022).

**Table 3: The relative importance of income from Murabaha financing in Al Rajhi Bank to total profits from financing and investments for the period (2016-2022)**

| Year | Total profits from financing and investments | Net income from Murabaha financing | Relative importance |
|---|---|---|---|
| 2016 | 11,751,445 | 599,583 | 5.1% |
| 2017 | 12,581,004 | 691,807 | 5.5% |
| 2018 | 13,759,457 | 684,999 | 5.0% |
| 2019 | 17,377,963 | 859,641 | 4.9% |
| 2020 | 17,377,963 | 802,882 | 4.6% |
| 2021 | 21,441,506 | 686,398 | 3.2% |
| 2022 | 28,201,631 | 1,035,278 | 3.7% |
| **average materiality rating** | | | 4.7% |

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- The relative importance was calculated by dividing the income from Murabaha financing to the total profits from financing and investments in Al Rajhi Bank.
- In the years 2016-2022, the data included the value of the income generated from financing in the Murabaha format in Al-Rajhi Bank.

It is clear from Table No. (3) that:

1- The average relative importance of Murabaha financing formulas in Al Rajhi Bank for the period 2016-2022 was 4.7%.

2- It is noted that in the years 2016-2018, the relative importance rate of income resulting from Murabaha financing is greater than the average relative importance rate of 0.4%, while it was lower than the average relative importance rate for the year 2019-2020 by 0.2% and 0.1%, respectively. Then it decreased significantly for the year 2021, reaching 1.5%, then it increased by a small percentage for the year 2022, by 1%. The average relative importance rate is 1.5%, and this decrease is clear compared to previous years, as the relative importance rate ranged from 5.5% to 4.6%, which is consistent with the average materiality rate, but the crisis that swept the country led to the exposure of many activities to cessation and bankruptcy, which was reflected It depends on profits and other economic variables.

According to what was stated in the 2022 report of Al-Rajhi Bank, Mr. Abdullah bin Sulaiman Al-Rajhi, Chairman of the Board of Directors of Al-Rajhi Bank, announced that the bank achieved net profits for the year 2022 amounting to 17,151 million riyals, compared to profits amounting to 14,746 million riyals for the previous year 2021, an increase of 16%.

The Chairman of the Board praised the achievement of unprecedented records in the sukuk market, as the number of investors participating in the issuance of the first tranche sukuk, amounting to 6.5 billion riyals, exceeded more than 600 investors, which is an unprecedented number in the local sukuk market, which reflects their confidence in the bank. The number of subscribers to the first sukuk of its kind offered for public subscription to individual investors, financial institutions and companies is more than 125,000 local and foreign investors who subscribed to more than 11 million sukuk, with a total value exceeding 11 billion riyals, with a coverage rate of nearly 300%. (Al-Rajhi, 2023).

It should also be noted that the first tranche sukuk are Sharia-compliant securities that do not have a maturity date (permanent) and the bank can redeem them after five years. The purpose of issuing such sukuk is to enhance the capabilities of financial institutions to expand their business. Sukuk is characterized as one of the most important investment tools that provide fixed income on a regular basis.

## 6. CONCLUSION

Islamic banks are unique from other banks by using many ways and methods for financing and investment, and the Murabaha formula is considered among one of the most used financing methods by Islamic banks in their investments, and often the Murabaha formula is in Islamic banks, so that the customer who wants to buy a commodity or commodity To the Islamic bank, for which the specifications and quantity of the commodity are specified, with the customer's promise to the bank to buy it from him at the price at which he buys it at an increase agreed upon between the bank and the customer, provided that the customer pays the price on deferred payments, and the Murabaha formula must be on a tangible material commodity, as it is not suitable for it to be services or cash transfers. Through this research, we reached a set of results:

- Murabaha selling is considered one of the most acceptable and profitable forms of dealing and the least risky.
- Murabaha financing contributes to reducing financial risks.
- Murabaha financing is considered one of the most widely used forms of Islamic financing in Al Rajhi Bank
- Al-Rajhi Bank's commitment to the criterion of Murabaha and the purchase order helps to develop the financing service and increase profits in the Murabaha format.
- Murabaha receivables are disclosed in Al Rajhi Bank in additional tables or attached to the financial statements, which helps to determine the values of those receivables and monitor them from time to time.

**The Study's Recommendations:**

- The need to qualify an Islamic banking cadre with high ability and efficiency in marketing and making programs and products
- Providing an information system in the field of Murabaha financing.
- The need to hold conferences and seminars concerned with Islamic accounting standards and convince other banks of these standards with the aim of moving from usury to halal selling, and thus there will be a shift in most banks to work according to the Islamic system and not the usurious system.
- Islamic banks must follow up the transactions financed through Murabaha and Murabaha for the purchase orderer so that the goal of the Murabaha is not to obtain cash.

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