

BRIAN KETTELL

**ISLAMIC
FINANCE
IN A NUTSHELL**

A Guide for Non-Specialists

Islamic Finance in a Nutshell

Praise for *Islamic Finance in a Nutshell*

“This book provides an overview of Islamic banking as it’s being practiced, enabling the reader to understand the contours of the main instruments of Islamic banking. The first two chapters offer a concise and reader friendly description of the main contracts used by Islamic banks. In the third and fourth chapters, the author describes the sources of Shari’ah and the framework in which Islamic financial institutions are working.”

Muhammad Ayub, Director Research and Training, Riphah Center of Islamic Business, Riphah International University, Islamabad

“Brian Kettell has written a timely and important primer to Islamic finance. With conventional finance still groping towards a new paradigm in the wake of the financial crisis, Islamic finance presents, in many ways, a path to sounder banking practice. This book will arm newcomers to Islamic finance with the knowledge to ask the right questions and a key understanding of the fastest growing financial services sector in the world.”

Robin Amlôt, Managing Editor, *Islamic Business & Finance*

Islamic Finance in a Nutshell

A Guide for Non-Specialists

Brian Kettell



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Introduction

The ongoing turbulence in the global financial markets has drawn attention to an alternative system of financial intermediation, Islamic banking and finance. This sector has so far remained on the sidelines of the unrest. The sector has grown rapidly in recent years and this new found prominence has raised many questions as to what exactly is Islamic banking and how does it work. This short text, a nutshell, is designed to provide readers with an understanding of the central tenets of the industry.

Islam is not only concerned with the relationship between man and God but it is also a system of beliefs, justice, equity, fairness and morality, these being the values that underpin the entire Islamic way of life. These beliefs are governed by the body of Islamic principles generally referred to as *Shari'ah*, which is, not surprisingly, the basis for the creation of Islamic financial products.

Since the inception of Islamic banking, about three decades ago, the number and reach of Islamic financial institutions worldwide has risen significantly. Institutions offering Islamic financial services constitute a significant and growing share of the financial system in several countries. For example, the entire banking system of Iran is based on Islamic principles. Although Islamic banks are concentrated in the Middle East and South-east Asia, there are also niche players in Europe and the United States. Islamic banking assets and assets under management are currently standing at over \$800 billion. According to a recent



The value of Islamic banking assets and assets under management is expected to reach US\$1 trillion by 2010



study by a global management consulting firm, McKinsey, ‘The World Islamic Banking Competitiveness Report 2007/08: Capturing the Trillion Dollar Opportunity’, the value of Islamic banking assets and assets under management is expected to reach US\$1 trillion by 2010, with Islamic banks growing more rapidly than the average banking sector in many countries.

The Islamic banking industry is in the midst of a phenomenal expansionary phase, exhibiting average annual growth rates of about 15 per cent in recent years. This rapid growth has been fuelled not only by surging demand for *Sharia*-compliant products from financiers from the Middle East and other Muslim countries, but also by investors around the world, thus rendering the expansion of Islamic finance a global phenomenon. Besides its wide geographical scope, the rapid expansion of Islamic finance is also taking place across the whole spectrum of financial activities, ranging from retail banking to insurance and capital market investments. But perhaps the most striking was the fast growth of *sukuk* (Islamic bonds), the most popular form of securitised credit finance within the industry. *Sukuk* issuance soared over the period 2001–2007 although it has fallen back more recently.

What is Islamic banking?

Sharia-compliant banking provides and uses financial services and products that conform to Islamic religious practices and laws which, in particular, prohibit the payment and receipt of interest. In practice, this means that instead of loans, Islamic banks use profit-and-loss sharing (PLS) arrangements, purchase and resale of goods and services, and the provision of services for fees. These principles all form the basis of *Sharia*-compliant contracts. In PLS modes, the rate of return on financial assets is not known or fixed prior to undertaking the transaction. In purchase-sale transactions, a mark-up is based on a benchmark rate of return, typically a return determined in international markets such as LIBOR (London Interbank Offered Rate, an internationally recognised reference interest rate).

Islamic banks also determine the return on deposits differently. In a commercial bank, the rate of return is set contractually (fixed in advance or tied to a reference rate) and does not directly depend on the bank's lending performance. In an Islamic bank, the rate of return on a deposit is directly linked to the quality of the bank's investment decisions. If the bank records profits then the depositor benefits. If, however, the bank records losses as a result of bad investments, depositors may lose some (or all) of their deposits. The contractual agreement between depositors and Islamic banks does not predetermine any rates of return, it only sets the ratio according to which profits and losses are distributed between the parties to the deposit contract.

The fact that the Islamic banking model is different from the conventional model does not mean it is without risks. A majority of the relevant literature suggests that the risks posed by Islamic banks to the financial system differ in many ways from those posed by conventional banks. Risks unique to Islamic banks arise from the specific features of Islamic contracts, and the overall legal, governance, and liquidity infrastructure of Islamic finance. For example, PLS financing shifts the direct credit risk from banks to their investment depositors. But it also increases the overall degree of risk on the asset side of banks' balance sheets, because it makes Islamic banks vulnerable to risks normally borne by equity investors rather than holders of debt.

In addition, because of their compliance with *Sharia'a*, Islamic banks can use fewer risk-hedging techniques and instruments (such as derivatives and swaps) than conventional banks. Moreover, most Islamic banks have operated in environments with less developed or non-existent interbank and money markets and government securities, and with limited availability of and access to lender-of-last-resort facilities operated by central banks. These differences have been reduced somewhat because of recent developments in Islamic money market instruments and Islamic lender-of-last-resort modes, and the more recent implicit commitment to provide liquidity support to all banks during exceptional circumstances in most countries.



In an Islamic bank, the rate of return on a deposit is directly linked to the quality of the bank's investment decisions



Risks unique to Islamic banks arise from the specific features of Islamic contracts




In some ways, Islamic banks should be less risky than conventional banks. For example, Islamic banks are able to pass through a negative shock from the asset side (such as a worsened economic situation that causes lower cash flow from PLS transactions) to the investment depositors. The risk-sharing arrangements on the deposit side thus arguably provide another layer of protection to the bank, in addition to its book capital. Also, it could be argued that the need to provide a stable and competitive return to investors, the shareholders' responsibility for negligence or misconduct (operational risk) and the more difficult access to liquidity put pressures on Islamic banks to be more conservative. Furthermore, because investors (depositors) share in the risks (and typically do not have deposit insurance), they have more incentive to exercise tight oversight over bank management. Finally, Islamic banks have traditionally held a larger proportion of their assets than commercial banks in reserve accounts with central banks or in correspondent accounts with other banks. So, even if Islamic investments are more risky than conventional investments, from a financial stability perspective, the question is whether or not these higher risks are offset by bigger buffers.

Trends in Islamic banking in Europe

The UK has taken a major lead in Europe in promoting and encouraging Islamic banking activities but this has mainly focused on retail banking and only more recently on investment banking.

The Financial Services Authority (FSA), the UK banking regulator, has only authorised one Islamic retail bank, the Islamic Bank of Britain (IBB). Although other investors have looked into the retail banking arena, no other dedicated competitors have so far entered the retail market, mainly due to the level of investment required to acquire the critical mass of customers that are needed to ensure a retail bank is profitable.

The major hurdle for IBB and any new Islamic retail bank in the UK and Europe is creating banking products that are competitive with conventional products offered by other retail banks. Also, competitive product development provides oppor-

tunities for potential new entrants into the market to differentiate themselves and add competitive advantage against existing banks in the market.

More recently in the UK, there have been new Islamic investment banks authorised by the FSA including the European Islamic Investment Bank and the most recent entry, Gatehouse Bank. In total, there are five Islamic investment banks in the UK focusing on institutional investors in Europe and also looking to gain institutional funding from organisations in the Middle East. The Islamic investment banking sector in the UK has flourished enormously with other potential new entrants in the pipeline.

While Islamic finance grows rapidly in the GCC and Asia, what is its prognosis in Europe?

A considerable demand exists for Islamic banking products in Europe but to date, for a number of reasons including risk-aversion and conservatism, this need has gone largely unfulfilled.

The Islamic banking market continues to flourish around the world with current estimates suggesting that assets managed by Islamic banks are in excess of \$800 billion – predominantly concentrated in the Middle East.

It is certainly a fact that there are sufficient Muslim investors and borrowers in both Islamic and non-Islamic countries to warrant the attention of traditional banks that seek to serve such clients and capture a potentially profitable slice of a still relatively untapped market. This is corroborated by the growth of Islamic finance in the US, which has a population of over 7 million Muslims.

The challenge for European financial institutions is how to leverage their banking knowledge and expertise in developing sufficient products and services that fulfil the requirements of their Islamic customer base whilst being compliant with Islamic finance principles.

The European market size and scope

There are more than 15 million Muslims in Europe, of which 1.8 million are resident in the UK plus an additional 72 million



There are five Islamic investment banks in the UK focusing on institutional investors in Europe



in Turkey. There are 360,000 Muslim households in the UK alone.

The following table illustrates the potential market size in mainland Europe for an Islamic bank, as well as highlights the potential for extra-European expansion in countries such as Turkey.

Country	Population (millions)	Muslim Population (millions)	Percentage
France	61.00	6.10	10.00%
UK	60.00	1.80	3.00%
Germany	83.60	3.25	3.89%
Italy	56.00	1.39	2.50%
Spain	42.10	0.60	1.43%
Belgium	10.70	0.39	3.65%
Sweden	9.30	0.31	3.33%
Austria	8.50	0.22	2.60%
Denmark	5.60	0.19	3.40%
Cyprus	0.95	0.24	25.26%
Turkey	72.10	72.00	99.89%
Switzerland	7.80	0.25	3.20%

Source: OECD World Fact Book 2005

Islamic banking in Europe will inevitably focus on both the retail and institutional customers as these are the two major dominant players in the market. As the table clearly illustrates there is a significant retail market opportunity in Europe for new retail banks, but in terms of sheer volume of transactions the institutional market provides the more lucrative opportunity for the Islamic banks.

Customer segmentation in retail Islamic banking

Developing *Sharia*-compliant retail financial products can be complex, with a multitude of options available. Before embarking on such a route, it is paramount that the target customer base for the product is clearly defined and their needs and priorities are understood. As in European banking, where there

is no 'one size fits all' approach to product development, the same can be said of Islamic banking, with an array of customer segments each with different product and service requirements as well as brand criteria.

In terms of products, a key differentiator between Islamic banking customer segments is the interpretation of what constitutes acceptable levels of *Sharia'a* compliance. The scale is divided between the more traditional and conservative customers on the one side, and those who seek higher levels of Islamic assurance on the other. Certain customer segments are willing to pay a premium for the most compliant *Sharia'a* products, whereas others will be more attracted to products that are only part *Sharia'a* compliant but offer a more competitive rate. Prior to designing a *Sharia'a*-compliant product concept, the requirements of the target customer segment should be clearly understood, and the resulting costs and benefits weighed.

In addition to the products, service requirement is another area that will differ between customer segments. Characteristics such as a customer's age, education, lifestyle and desired relationship with the bank will determine these criteria. Delivering against these is a key element in the Islamic banking proposition and will differentiate banks, which otherwise might offer similar *Sharia'a*-compliant products.

Brand recognition is also a key factor that will differ between customer segments. Certain customer segments will only bank with brands that have a strong history and presence in Islamic countries, whereas other customer segments will be more willing to accept European brands with the right product and service propositions.

As with any new product development, prior to taking a *Sharia'a*-compliant product to market, the customer segments which form that market must be understood, their product, service and brand criteria defined, and the economic, technical and regulatory feasibility of delivering against them assessed. Only by doing this will banks be able to develop compelling propositions that provide the desired level of return.



A key differentiator between Islamic banking customer segments is the interpretation of what constitutes acceptable levels of Sharia'a compliance



Certain customer segments will only bank with brands that have a strong history and presence in Islamic countries



Islamic banks: The way forward

In the wider context, Islamic finance faces the perpetual challenge that it operates as a subset of conventional finance which is based on fundamentally different premisses. While this may be a limiting facet (in that Islamic financial institutions, for reasons of competitiveness, must model their products after conventional models) Islamic financial institutions (IFIs) also have the capacity to innovate within this space. In a sense, the constraints can become boundaries that Islamic finance pushes against. Certainly, in the current context of well branded financial institutions failing the world over, IFIs should be able to showcase their own equitable forms of financing and risk sharing. This in turn may allow IFIs to influence the development of financial systems the world over.

In Europe, the UK is leading the charge to enact laws that embrace Islamic banking

In Europe, the UK is leading the charge to enact laws that embrace Islamic banking. It abolished double stamp duties that until recently hindered the purchase of a property under Islamic principles. The UK Government is reviewing other laws in order to soften the establishment and offering of Islamic banking products and naturally this has opened the doors for European banks to further their focus in this market.

In 2005, Lloyds TSB launched services that provided *Sharia*-compliant banking products to its existing retail customer base but, many argued, these products were merely white labelling an existing limited product range, and thus not competitive compared to conventional retail banking offerings in the UK. This was the first major activity from a European bank in this market and has encouraged other banks to evaluate their strategy and to take a closer look at the potential for this market.

European banks need to incorporate various aspects of traditional banking with Islamic banking concepts in order to fully capture the Islamic market in Europe. While being compliant with Islamic principles may initially be seen as a hurdle, the potential return and increase in customer base will inevitably outweigh any financial investments and commitments made by the bank.

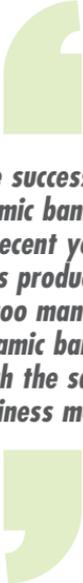
Islamic banks going forward: challenges

The continuing rapid growth of demand for Islamic financial services is clearly good news for Islamic banks. At the same time, it also presents a variety of challenges. The banks need to invest in upgrading their credit risk management capabilities in line with the more complex and larger projects into which they are entering.

Despite the rapid growth, business models and products of Islamic banks are still rather homogeneous, while *Sharia'a* compliance amplifies risks stemming from product configuration and process implementation. The success of Islamic banking in recent years has produced too many Islamic banks with the same business model.

In addition, there is a large and diverse set of accounting standard differences across different jurisdictions. The development and setting of simple standard legal contracts is necessary in order to overcome the complexity and heterogeneity of current contracts. Furthermore, the deployment of IT systems that help monitor the fulfilment and visibility of processes on an end-to-end basis is crucial to facilitate the continuous monitoring of activities by *Sharia'a* scholars while eliminating the possibilities of non-compliance, which in some cases might render transactions invalid.

Liquidity risk management of Islamic banks is an important challenge and is constrained due to limited availability of tradable Islamic money market instruments and weak systemic liquidity infrastructure. At the moment, there is no *Sharia'a*-compliant short-term Islamic money market (less than one week maturity) in local currency or in US dollars, and Islamic repo markets have not yet developed. Islamic money markets with longer maturities, which are based on commodity *Mura-baha* transactions (mark-up financing), sometimes suffer from unreliable brokers with low creditworthiness. Islamic banks also have a competitive disadvantage with conventional banks, as they deposit their overnight money with their domestic central bank interest free. The lack of liquidity and viable alternatives, combined with the competitive disadvantage,



The success of Islamic banking in recent years has produced too many Islamic banks with the same business model

hamper the local Islamic banks and can even create a liquidity crisis.

Islamic banks going forward: solutions and opportunities

Both risk managers and regulators are working to address the above challenges. To overcome the shortcomings of the Islamic money market, many investment banks are currently designing new complex products, compliant with *Sharia'a* law. It remains to be seen whether these new solutions will obtain widespread *Sharia'a*-compliant status in the Islamic finance community, and generate enough demand for a functional Islamic money market to develop.

Rapid developments are likely to continue. Financial institutions in countries such as Bahrain, the UAE and Malaysia have been gearing up for more *Sharia'a*-compliant financial instruments and structured finance – on both the asset and liability sides. At the same time, the leading financial centres, such as London, New York and Singapore, are making significant progress in establishing the legal and prudential foundations to accommodate Islamic finance side-by-side with the conventional financial system. Many of the largest Western banks, through their Islamic windows, have become active and sometimes leading players in financial innovation, through new *Sharia'a*-compliant financial instruments that attempt to alleviate many of the current constraints such as a weak systemic liquidity infrastructure. More conventional banks are expected to offer Islamic products, enticed by enormous profit opportunities, especially across the Middle East.

New product innovation is also driven by domestic banks' interest in risk diversification. With a large number of new Islamic banks across the Middle East and Asia especially, diversification of products enables banks to offer a differentiated product mix to more sophisticated clients. A few banks are already active across different jurisdictions, and this trend is certainly going to continue in the near future, possibly with some consolidation.

On the regulatory front, the Islamic Financial Services Board (IFSB), an international standard-setting organisation based in

Malaysia, has moved ahead with its efforts aimed at fostering the soundness and stability of the Islamic financial services industry through more standardised regulation. Globally accepted prudential standards have been adopted by the IFSB. These are designed to smoothly integrate Islamic finance with the conventional financial system. For instance, the adoption of the IFSB standards (somewhat akin to Basel II), which take into account the specificities of Islamic finance, ensures a level playing field between Islamic and conventional banks.

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What is Islamic Banking?

Conventional bankers and Islamic banking

Ask a conventional banker exactly what is Islamic banking. He will mumble something about religion. He will then say well they cannot charge interest but they use something else which is the same thing. This ‘something else’, incidentally, is never defined. He will then move on to describe Islamic banking as being about smoke and mirrors. To conclude he will then profoundly announce that, with a few tweaks, it is what he does every day anyway. And that is the end of it.

If you push him to actually describe an Islamic financial instrument, and even worse if you actually use some Islamic terminology, Murabaha, Mudaraba etc, then his eyes will start to glaze over.

Frankly this stereotyped image is all too prevalent within the conventional banking world. In an endeavour to both enlighten conventional bankers and to broaden the understanding of Islamic banking principles this chapter will go back to basics and will highlight the key characteristics of Islamic banking which differentiate it from conventional banking.

As you will learn, Islamic banking is not about smoke and mirrors. It is in fact about banking based on Islamically-ethical principles which are, in many ways, very different indeed from conventional banking principles.



***Islamic banking
is not about
smoke and
mirrors***



So what exactly is Islamic banking all about?

Islamic financial institutions are those that are based, in their objectives and operations, on Qur’anic principles. They are thus set apart from ‘conventional’ institutions, which have no such religious preoccupations. Islamic banks provide commercial services which comply with the religious injunctions of Islam. Islamic banks provide services to their customers free from interest (the Arabic term for which is *riba*), and the giving and taking of interest is prohibited in all transactions. This prohibition makes an Islamic banking system differ fundamentally from a conventional banking system.

Technically, *riba* refers to the addition in the amount of the principal of a loan according to the time for which it is loaned

and the amount of the loan. In earlier historical times there was a fierce debate as to whether *riba* relates to interest or usury, although there now appears to be a consensus of opinion among Islamic scholars that the term extends to all forms of interest.

The term *riba*, in Islamic law (the *Sharia'a*), means an addition, however slight, over and above the principal. According to the Federal Sharia'a Court of Pakistan, this means that the concept covers both usury and interest; that it applies to all forms of interest, whether large or small, simple or compound, doubled or redoubled; and that the Islamic injunction is not only against exorbitant or excessive interest, but also against even a minimal rate of interest. Financial systems based on Islamic tenets are therefore dedicated to the elimination of the payment and receipt of interest in all forms. It is this taboo that makes Islamic banks and other financial institutions different, in principle, from their Western conventional counterparts.

There are a range of modern interpretations of why *riba* is considered *haram* (forbidden) but these are strictly secondary to the religious underpinnings.

The fundamental sources of Islam are the Holy Qur'an and the *Sunnah*, a term which in Ancient Arabia meant 'ancestral precedent' or the 'custom of the tribe', but which is now synonymous with the teachings and traditions of the Prophet Muhammad as transmitted by the relaters of authentic tradition (*hadith*). Both of these sources treat interest as an act of exploitation and injustice and, as such, it is inconsistent with Islamic notions of fairness and property rights. While it is often claimed that there is more than this to Islamic banking, such as its contribution towards economic development and a more equitable distribution of income and wealth, its increased equity participation in the economy, etc, Islamic banking nevertheless derives its specific *raison d'être* from the fact that there is no place for the institution of interest in the Islamic order.

This rejection of interest poses the central question of what replaces the interest rate mechanism in an Islamic framework. Financial intermediation is at the heart of modern financial systems. If the paying and receiving of interest is



Financial systems based on Islamic tenets are therefore dedicated to the elimination of the payment and receipt of interest in all forms



An Islamic bank does not charge interest but rather participates in the yield resulting from the use of funds

prohibited, how do Islamic banks operate? Here profit-and-loss sharing (PLS) principles come in, substituting profit-and-loss sharing for interest as a method of resource allocation and financial intermediation.

The basic idea underlying Islamic banking can be stated simply. The operations of Islamic financial institutions primarily are based on a profit-and-loss-sharing (PLS) principle. An Islamic bank does not charge interest but rather participates in the yield resulting from the use of funds. The depositors also share in the profits of the bank according to a predetermined ratio. There is thus a partnership between the Islamic bank and its depositors, on the one side, and between the bank and its investment clients, on the other side, as a manager of depositors' resources in productive uses. This is in contrast with a conventional bank, which mainly borrows funds, paying interest on one side of the balance sheet, and lends funds, charging interest, on the other. The complexity of Islamic banking comes from the variety (and nomenclature) of the instruments employed, and in understanding the underpinnings of Islamic law.

Six key principles drive the activities of Islamic banks. These are:

1. *the prohibition of predetermined loan repayments as interest (riba);*
2. *profit-and-loss sharing is at the heart of the Islamic system;*
3. *making money out of money is unacceptable. All financial transactions must be asset-backed;*
4. *prohibition of speculative behaviour;*
5. *only Sharia'a-approved contracts are acceptable;*
6. *the sanctity of contracts.*

These principles, as applied to Islamic banking and finance, are set out below.

1 Predetermined payments are prohibited

Any predetermined payment over and above the actual amount of principal is prohibited. Islam allows only one kind of loan and that is *qard al hassan* (literally 'good loan') whereby the lender does not charge any interest or additional amount over the money lent. Traditional Muslim jurists have construed this principle so strictly that, according to one Islamic scholar, "the prohibition applies to any advantage or benefits that the lender might secure out of the *qard* (loan) such as riding the borrower's mule, eating at his table, or even taking advantage of the shade of his wall". The principle derived from the quotation emphasises that any associated or indirect benefits which could potentially accrue to the lender are also prohibited.

2 Profit-and-loss sharing

The principle here is that the lender must share in the profits or losses arising out of the enterprise for which the money was lent. Islam encourages Muslims to invest their money and to become partners in order to share profits and risks in the business, instead of becoming creditors. Islamic finance is based on the belief that the provider of capital and the user of capital should equally share the risk of business ventures, whether these are manufacturing industries, service companies or simple trade deals. Translated into banking terms, the depositor, the bank and the borrower should all share the risks and the rewards of financing business ventures.

This is unlike the interest-based commercial banking system, where all the pressure is on the borrower: he must pay back his loan, with the agreed interest, regardless of the success or failure of his venture.

The principle, which thereby emerges, is that in order to try and ensure investments are made into productive enterprises Islam encourages these types of investments in order that the community may ultimately benefit. However, Islam is not willing to allow a loophole to exist for those who do not wish to invest and take risks but rather are intent on hoarding money or depositing money in a bank in return for receiving interest

(*riba*) on these funds for no risk (other than the bank becoming insolvent).

Accordingly, under Islam, either people invest with risk or suffer loss by keeping their money idle. Islam encourages the notion of higher risks and higher returns and promotes it by leaving no other avenue available to investors. The objective here is that high-risk investments provide a stimulus to the economy and encourage entrepreneurs to maximise their efforts to make them succeed, with appropriate benefits to the community.

Risk-sharing

As mentioned above one of the most important features of Islamic banking is that it promotes risk-sharing between the providers of funds (investors) and the user of funds (entrepreneurs). By contrast, under conventional banking, the investor is assured of a predetermined rate of interest.

In conventional banking, all the risk is borne by the entrepreneur. Whether the project succeeds and produces a profit or fails and produces a loss, the owner of capital is still rewarded with a predetermined return. In Islam, this kind of unjust distribution is not allowed. In pure Islamic banking both the investor and the entrepreneur share the results of the project in an equitable way. In the case of profit, both share this in pre-agreed proportions. In the case of loss, all financial loss is borne by the capital supplier with the entrepreneur being penalised by receiving no return (wages or salary) for his endeavours.

Emphasis on productivity as compared to creditworthiness

Under conventional banking, almost all that matters to a bank is that its loan and the interest thereon are paid on time. Therefore, in granting loans, the dominant consideration is the creditworthiness of the borrower. Under profit-and-loss sharing (PLS) banking, the bank will receive a return only if the project succeeds and produces a profit. Therefore, it is reasoned, an Islamic bank will be more concerned with the soundness of the project and the business acumen and managerial competence of the entrepreneur.

3 Making money out of money is not acceptable

Making money from money is not Islamically acceptable. Money, in Islam, is only a medium of exchange, a way of defining the value of a thing. It has no value in itself, and therefore should not be allowed to generate more money, via fixed interest payments, simply by being put in a bank or lent to someone else.

The human effort, initiative, and risk involved in a productive venture are more important than the money used to finance it. Muslim jurists consider money as potential capital rather than capital, meaning that money becomes capital only when it is invested in business. Accordingly, money advanced to a business as a loan is regarded as a debt of the business and not capital and, as such, it is not entitled to any return (i.e. interest).

Muslims are encouraged to spend and/or invest in productive investments and are discouraged from keeping money idle. Hoarding money is regarded as being Islamically unacceptable. In Islam, money represents purchasing power, which is considered to be the only proper use of money. This purchasing power (money) cannot be used to make more purchasing power (money) without undergoing the intermediate step of being used for the purchase of goods and services.

4 Uncertainty is prohibited

Gharar (uncertainty, risk or speculation) is also prohibited.

Under this prohibition any transaction entered into should be free from uncertainty, risk and speculation. Contracting parties should have perfect knowledge of the counter values (goods received and/or prices paid) intended to be exchanged as a result of their transactions. Also, parties cannot predetermine a guaranteed profit. This is based on the principle of 'uncertain gains' which, on a strict interpretation, does not even allow an undertaking from the customer to repay the borrowed principal plus an amount designed to take into account inflation. The rationale behind the prohibition is the wish to protect the weak from exploitation. Therefore, options and futures are

considered as un-Islamic and so are forward foreign exchange transactions, given that forward exchange rates are determined by interest rate differentials.

5 Only Sharia'a-approved contracts are acceptable

Conventional banking is secular in its orientation. In contrast, in the Islamic system, all economic agents have to work within the moral value system of Islam. Islamic banks are no exception. As such, they cannot finance any project which conflicts with the moral value system of Islam. For example, Islamic banks are not allowed to finance a distillery, a casino, a night club or any other activity which is prohibited by Islam or is *known* to be harmful to society.

6 Sanctity of contracts

Many verses in the Holy Qur'an encourage trade and commerce, and the attitude of Islam is that there should be no impediment to honest and legitimate trade and business. It is a duty for Muslims to earn a living, support their families and give charity to those less fortunate.

Just as Islam regulates and influences all other spheres of life, so it also governs the conduct of business and commerce. Muslims have a moral obligation to conduct their business activities in accordance with the requirements of their religion. They should be fair, honest and just towards others. A special obligation exists upon vendors as there is no doctrine of *caveat emptor* in Islam. Monopolies and price-fixing are prohibited.

The basic principles of commercial *Sharia'a* law are laid down in four root transactions:

1. sales (*bai*), transfer of the ownership or corpus of property for a consideration;
2. hire (*ijara*), transfer of the usufruct (right to use) of property for a consideration;
3. gift (*hiba*), gratuitous transfer of the corpus of property; and
4. loan (*ariyah*), gratuitous transfer of the usufruct of property.

These basic principles are then applied to the various specific transactions of, for example, pledge, deposit, guarantee, agency, assignment, land tenancy, *waqf* foundations (religious or charitable bodies) and partnerships.

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard. This is potentially a major problem for Islamic banks, and is discussed below.

What is asymmetric information?

This can be defined as information that is known to one party in a transaction but not to the other.

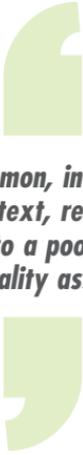
The classical issue here is that some sellers with inside information about the quality of an asset will be unwilling to accept the terms offered by a less informed buyer. This may cause the market to break down, or at least force the sale of an asset at a price lower than it would command if all buyers and sellers had full information. This is known as the ‘lemon market’ problem in valuation. A lemon, in this context, refers to a poor quality asset.

This concept has been applied to both equity and debt finance.

For equity finance, shareholders demand a premium to purchase shares of relatively good firms to offset the losses arising from funding lemons. This premium raises the cost of new equity finance faced by managers of relatively high-quality firms above the opportunity cost of internal finance faced by existing shareholders.

In the debt market, a borrower who takes out a loan usually has better information about the potential returns and risk associated with the investment projects for which the funds are earmarked. The lender on the other side does not have as much information concerning the borrowers that he would like.

Lack of enough information creates problems before and after the transaction is entered into. This is potentially a major problem with Islamic profit-sharing financial contracts. The



A lemon, in this context, refers to a poor quality asset

presence of asymmetric information normally leads to adverse selection and moral hazard problems.

Information asymmetry comes in two versions.

1. Adverse Selection

This refers to a situation in which sellers have relevant information that buyers lack (or vice versa) about some aspect of product quality. This is the problem created by asymmetric information before the transaction occurs. It occurs with potential borrowers who are the most likely to produce an undesirable (adverse) outcome. Bad credit risks are the ones who most actively seek out a loan and are thus most likely to be selected. Again this is potentially a problem with Islamic profit-sharing financial contracts.

In the simplest case, lenders cannot price discriminate (i.e. vary interest rates) between good and bad borrowers in loan contracts, because the riskiness of projects is unobservable. Thus, when interest rates increase, relatively good borrowers drop out of the market, increasing the probability of default and possibly decreasing lenders' expected profits. In equilibrium, lenders may set an interest rate that leaves an excess demand for loans. Some borrowers receive loans, while other, observationally equivalent borrowers, are rationed.

2. Moral Hazard

Moral hazard is the consequence of asymmetric information after the transaction occurs. The lender runs the risk that the borrower will engage in activities, described below, that are undesirable from the lender's point of view because they make it less likely that the loan will be paid back.

The conventional debt contract is a contractual agreement by the borrower to pay the lender a fixed amount of money at periodic intervals. When the firm has high profits, the lender receives the contractual payments and the lender does not need to know the exact profits of the borrower. If the managers are pursuing activities that do not increase the profitability of the firm, the lender does not care as long as the activities do not

interfere with the ability of the firm to make its debt payments on time. Only when the firm cannot meet its debt payments, thereby being in a state of default, is there a need for the lender to verify the state of the firm's profits.

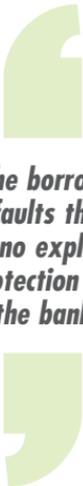
But if debt interest payments are not being made, as would occur under Islamic financing principles, the moral hazard problem is embedded within the system.

Where does asymmetric risk come from with Islamic banking? The principle of profit-and-loss sharing (PLS) stipulates that the partners are free to determine the extent of their profit-sharing ratio regardless of their capital contributions, with the *Mudaraba* contract. (This is described in more detail in Chapter 2.) Losses, on the other hand, are to be shared strictly in proportion to their capital contributions. Collateral cannot be provided with PLS activities in the event that the project fails due to business risk. So in the event of the project failing the Islamic bank is exposed to financial loss. This results in Islamic banks being subject to asymmetric risk.

To ensure timely payment of the loan plus the institution's share of the profits (if any), a fine could be imposed on those borrowers who do not pay on time. To conform with the principles of the *Sharia'a* these fines must be deposited with a charity, rather than being given to individual financial institutions. So if the borrower defaults there is no explicit protection for the bank. Again this is asymmetric risk.

Adverse selection refers to the possibility that potential borrowers who are the most likely to produce an undesirable outcome are the ones who more actively seek out a loan, and are thus the most likely to be selected. Moral hazard occurs when the borrower engages in activities undesirable from the lender's perspective, after the loan has been granted.

Since the profit-and-loss sharing mechanism emphasises distribution of both risk and profits between the lender and the borrower when a loan is made, the lending institution should, in an ideal world, need only worry about the profitability of the proposed project for which the loan is requested rather than



If the borrower defaults there is no explicit protection for the bank

the creditworthiness of the firm to which they are lending. This should lead to more conservative decisions being made by the lender and to the need for more careful monitoring of the borrower.

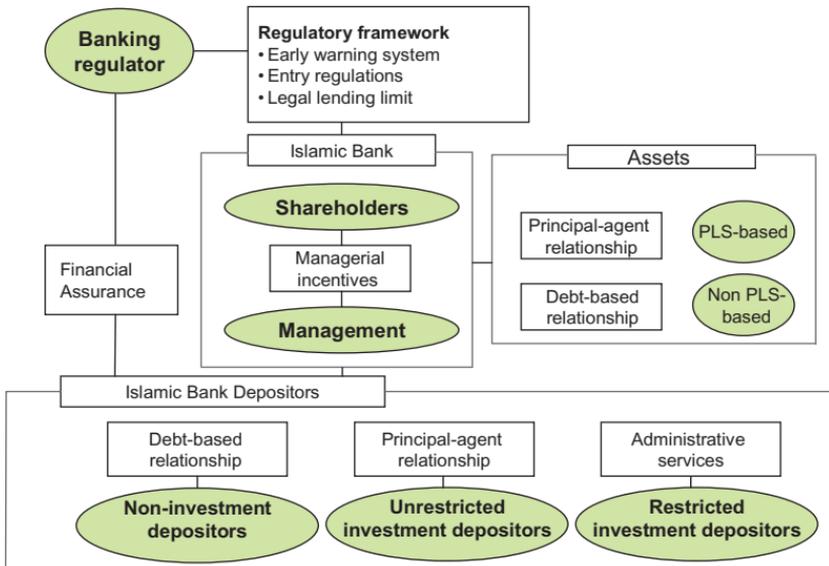
In the conventional banking model bank regulation and the availability of deposit insurance have replaced the need for monitoring bank activities by depositors.

Consequently, as far as small depositors are concerned, deposits in one bank are very similar to deposits in another bank, and hence there is less need to monitor bank activities.

The Islamic, interest-free system, on the other hand, imposes the burden on depositors of gathering information about the safety, soundness, riskiness, and profitability of the bank. Again asymmetric risk is a problem. *Figure 1.1* illustrates the relationships within an Islamic banking system.

Figure 1.1. Relationships within an Islamic banking system

Source: Dar, H.A. and J.R. Presley (1999), "Islamic finance: a Western perspective", International Journal of Financial Services.



Riba in the Qur'an and Sunnah/hadith

The Islamic prohibition of interest (*riba*) is so central to the Islamic banking system that it is essential to understand why this is and what the implications are.

Riba is of two major kinds:

1. **Riba Al-Nasih** – *Interest on borrowed money.*
2. **Riba Al-Fadl** – *Taking a superior thing of the same kind of goods by giving more of the same kind of goods of inferior quality, e.g. dates of superior quality for dates of inferior quality.*

The literal meaning of interest or *riba*, as it is used in Arabic, means an excess or increase. In the Islamic terminology interest means effortless profit. *Riba* has been described as a loan with the condition that the borrower will return to the lender more than the amount borrowed.

One of the main concerns of Muslims, when it comes to financial transactions, is to avoid *riba* in any of its forms. This is despite the fact that the basic foundation of modern business and finance involves interest-based transactions.

The Prophet Mohammed foretold of a time when the spread of *riba* would be so overwhelming that it would be extremely difficult for Muslims to avoid it. This situation calls for Muslims to be extra cautious before deciding on what financial methods to use in any personal or business transaction.

To understand why the ban on interest is so central to Islamic finance it is necessary to examine the textual evidence.

*What is the textual evidence for the ban on interest?**The Qur'an – Al-Baqarah Sura 275–281*

275. Those who eat Riba will not stand (on the Day of Resurrection) except like the standing of a person beaten by Shaitān (Satan) leading him to insanity. That is because they say: "Trading is only like Riba," whereas Allah has permitted trading and forbidden Riba. So whoever receives an admonition from his Lord and stops eating Riba shall not be punished for the past; his case is for Allah (to judge); but whoever returns [to Riba], such are the dwellers of the Fire – they will abide therein.



The Prophet Mohammed foretold of a time when the spread of *riba* would be so overwhelming that it would be extremely difficult for Muslims to avoid it



276. Allah will destroy Riba and will give increase for Sadaqāt (deeds of charity, alms, etc.) And Allah likes not the disbelievers, sinners.

277. Truly those who believe, and do deeds of righteousness, and perform As-Salat (Prayer), and give Zakat (an obligatory religious tax), they will have their reward with their Lord. On them shall be no fear, nor shall they grieve.

278. O you who believe! Be afraid of Allah and give up what remains (due to you) from Riba (from now onward), if you are (really) believers.

279. And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums).

280. And if the debtor is in a hard time (i.e. has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know.

281. And be afraid of the Day when you shall be brought back to Allah. Then every person shall be paid what he earned, and they shall not be dealt with unjustly.

The Qur'an – Al-Imran Sura 3:130

O you who believe! Eat not Riba doubled and multiplied, but fear Allah that you may be successful.

Hadith – Sahih Bukhari, Volume 3, No. 299; Narrated by 'Aun bin Abu Juhaifah, r.a.

My father bought a slave who practised the profession of cupping (*defined below*). My father broke the servant's instruments of cupping. I asked my father why he had done so. He replied, "The Prophet forbade the acceptance of the price of a dog or blood, and also forbade the profession of tattooing, or getting tattooed and receiving or giving Riba, and cursed the picture makers."

(Cupping means letting out bad blood that lies just beneath the skin. It is a kind of medical treatment.)

Hadith – Sahih Bukhari, 2.468, Narrated by Samura bin Jundab, r.a.

He speaks of in a dream related to the Prophet that there is a river of blood and a man was in it, and another man was standing at its bank with stones in front of him, facing the man

standing in the river. Whenever the man in the river wanted to come out, the other one threw a stone at his mouth and caused him to retreat back into his original position. The Prophet was told that these people, in this river of blood, were people who dealt in Riba.

Hadith – Mishkat-ul-Masabih

The following three ahadith have been taken from *Mishkat-ul-Masabih* under the section of interest. The English translation has been taken from its English version written by Al Hajj Moulana Fazl Karim (218–227 vol.11).

- Hazrat Jabir has reported that the Messenger of Allah cursed the devourer of usury, its payer, its scribe and its two witnesses. He also said that they were equal (in sin).
- Hazrat Abu Hurairah reported that the Prophet said: A time will certainly come over the people when none will remain who will not devour usury. If he does not devour it, its vapour will overtake him. [Ahmed, Abu Dawood, Nisai, Ibn Majah]
- Hazrat Abu Hurairah reported that the Messenger of Allah said: I came across some people in the night in which I was taken to the heavens. Their stomachs were like houses wherein there were serpents, which could be seen from the front of the stomachs. I asked: O Gabriel! Who are these people? He replied these are those who devoured usury. [Ahmed, Ibn Majah]

Hadith – Hazrat Al-Khudri reported that the Prophet said: Gold in exchange for gold, silver in exchange for silver, wheat in exchange for wheat, barley in exchange for barley, dates in exchange for dates, salt in exchange for salt is in the same category and (should be exchanged) hand to hand, so whoever adds or demands increase he has practised usury. The giver and taker are the same.

Conclusion on the textual evidence

It is evident from the textual evidence that interest is *haram* (prohibited) for Muslims. Allah has declared war on the user. Islam encourages men to earn their own provision and provide for their families on condition that the earnings are in accord with the *Shari'ah*.

While the basic source of the ban on the use of interest is the divine authority of the Qur'an, somewhat surprisingly, no explicit rationale was provided for why this was the case. It is this issue to which I now turn.

What is the Islamic rationale for banning interest (riba)?

One of the main features that distinguishes Islamic financial institutions from their conventional banking counterparts is that Islamic institutions adhere closely to the Islamic creed (*aqidah*). Since those institutions are first and foremost Muslim institutions, they share the fundamental Islamic drive to avoid what Allah has forbidden. In this regard, the Qur'an contains clear and eternal prohibitions of all kinds of *riba*, whether sales or loan related.

In this context we read, as mentioned earlier: "But indeed Allah has permitted trade and forbidden *riba*" (Sura 2:275). The Qur'an also states that Allah has ordered Muslims to abandon and liquidate all remaining *riba* (regardless of how large or small): "O you who believe, fear Allah and give up what remains of *riba*, if you are indeed believers" (Sura 2:278), and declare war on those who devour it: "If you do not, take notice of a war from Allah and his Messenger; but if you turn back then you shall have your principals without inflicting or receiving injustice" (Sura 2:279).

To deserve such a declaration of war is the severest punishment in all of Islam, providing further proof that *riba* is one of the most severely forbidden of transgressions.

There is no ambiguity about the impermissibility of riba within the Islamic financial system

The primary rationale for abolishing interest and for introducing Islamic banking principles is a religious one, and it is therefore difficult to evaluate the reasoning in purely secular terms. Nevertheless, Islamic scholars have sought to provide a theoretical basis for the prohibition in terms of morality and economics.

Five reasons have been put forward, by Islamic scholars, for the prohibition of *riba*:

1. *It is unjust.*
2. *It corrupts society.*

3. *It implies improper appropriation of other people's property.*
4. *Ultimately it results in negative economic growth.*
5. *It demeans and diminishes human personality.*

1. Interest is unjust

Among the most important reasons that have been emphasised by most Islamic scholars is that interest is prohibited because it is unjust (*zulm*). A contract based on interest involves injustice to one of the parties, sometimes to the lender and sometimes to the borrower.

Sura 2:279 clearly states that taking an amount in excess of the principal would be unjust. It also recognises the right of the lender/creditor to the principal without any decrease as that too would be unjust. The Qur'an does not rationalise, however, as to why it is unfair to take an excess in the case of a loan. Presumably it relies on the notions of equality and reciprocity inherent in the Islamic concept of justice.

The unacceptability of injustice and unfairness was never in dispute between the Qur'an and its audience. What is not immediately understandable, to non-Muslims, is the Qur'anic stand that taking anything in excess of the principal amounts to injustice.

The *riba* contract is deemed to be unjust to the borrower because if somebody takes a loan and uses it in his business he may earn a profit or he may end up with a loss. In the case of a loss the entrepreneur will have received no return for his time and work. In addition to this loss he has to pay interest and capital to the lender. The lender, or the financier, in spite of the fact that the business has ended up making a loss, gets his capital returned as well as his interest. It is in this context that *riba* is deemed unjust.

The Qur'an makes clear that individuals having difficulty paying their debts should have their obligations made easier for them and not more difficult. Such individuals may actually deserve charity and it is a morally offensive practice to

start demanding that they be punished for their failure to pay on time.

Riba, derived from this rationalisation in the Prophet's last sermon, is the crime of a party which is owed money demanding an 'increase in a debt' owed to them as a compensation for late payment. The reason for this delay may be that the lender has suffered some financial problem but, Islamic scholars argue, a judge must consider the debtor's situation first. If payment is late without good reason and there was no difficulty in making the payment, then demands of payment of additional damages may be legitimate, but this is a matter of judgement for a judge and it is not for one party to be able to impose their desired punishment on the other. Automatic penalties built into contracts are also unjust for the same reason. For damages to be legitimate, it is argued, they must be based on the claim of wilful breach of contract and decided by a judge. Failure to pay may be due to difficulty of circumstances and therefore, it is argued, not something simply willed by the debtor.

There are thus two related aspects to the practice of *riba* as referred to by the Prophet and the Qur'an that make it unjust:

1. *punishing someone for default is unjust; and*
2. *it should be a judge who decides what any compensation should be for a default, not the party to whom the debt is owed.*

The latter aspect is crucial, it is argued, because once a jurisdiction allows for contracts to impose punishments for default, then the law itself becomes nothing but the slave of such contracts and any crime may be legitimised as a form of punishment of the 'debt-slave'. The relationship of one party imposing punishment on another is that of a master and slave. The relationship of one party buying something from another should be one of a relationship of equals.

2. *Interest corrupts society*

The argument here is that there is an association between charging interest with *fasad*, loosely translated as the corruption of

society. This argument is revealed from Sura 30, Ar-Rum, along with some of the preceding and following verses. These read:

“That which you give in usury in order that it may increase in other people’s property has no increase with Allah; but that which you give in charity, seeking Allah’s countenance, has increased manifold. Allah is He Who created you and then sustained you, then causes you to die, then gives life to you again. Is there any of your (so called) partners (of Allah) that does aught of that? Praised and exalted be He above what they associate with him. Corruption does appear on land and sea because of (the evil) which men’s hands have done, that He may make them taste a part of that which they have done, in order that they may return.” (Sura 30: 37–41).

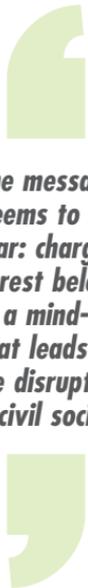
Within the framework of the general message that *fasad* in society results from men’s own (wrong) behaviour, we can clearly read the sub-message that charging interest is one of those facets of wrong behaviour that corrupt society. In fact this may have been the first time, chronologically speaking, that *riba* is mentioned in the Qur’an. It was in the fitness of things to highlight its negative social role long before the practice of charging interest was banned.

3. Interest implies unlawful appropriation of other people’s property

The reasoning here is indicated in the verse from Sura 4, ‘al-Nisa’. In that verse the Jews are admonished for “taking usury when they were forbidden it, and of their devouring people’s wealth by false pretences” (Sura 4: 161). Significantly, the Qur’an relates the tendency to appropriate other people’s wealth without any justification to some more serious crimes. In (Sura 9: 34) *riba* is associated with hoarding and (Sura 4: 29) seems to put it at par with murder.

Considering the serious dimensions of *fasad* to which *riba* has been related, the message seems to be clear: charging interest belongs to a mind-set that leads to the disruption of civil society.

The argument here is that interest on money is regarded as representing an unjustified creation of instantaneous property



The message seems to be clear: charging interest belongs to a mind-set that leads to the disruption of civil society

rights. It is unjustified, because interest is a property right claimed outside the legitimate framework of recognised property rights. It is instantaneous, because as soon as the contract for lending upon interest is concluded, a right to the borrower's property is created for the lender. This is what the provision of collateral is all about.

4. Ultimate effect of interest-based systems is negative growth

The fourth reason is implied in the declaration that *riba* is subject to destruction (*mahq*) (Sura 2: 276) which means decrease after decrease, a continuous process of diminishing. That sounds a little odd as it runs counter to the commonly observed fact of people growing rich by applying the power of compound interest. Once we leave out the improbable interpretation of individual wealth amassed through *riba* business being subject to continuous decrease, we have to turn to an alternative interpretation, namely to its effect on social wealth.

Riba, even when it is increasing in numerical terms, it is argued, fails to spur growth in social wealth. That role is played by charitable giving mentioned in the next half of Sura 2: 276. Charitable giving transfers purchasing power to the poor and the needy who are dependent upon it. The destination of interest earnings is not that certain.

Interest, it is argued, also has many adverse consequences for the economy. It results in an inefficient allocation of society's resources, and can contribute to the instability of the system. In an interest-based system the major criteria for the distribution of credit is the creditworthiness of the borrower. In an Islamic finance sharing system the productivity of the project is more important, thereby encouraging finance to go to more productive projects. In this way, instead of resources going to low-return projects for borrowers with better creditworthiness, bank lending is more likely to flow to high-return projects even if the creditworthiness of the borrower is somewhat lower. Therefore, it is argued, the Islamic sharing system is more efficient in allocating resources.

It is also deemed to be more efficient because the return to the bank is now linked to the success of the project. In the

interest-based system banks do not have to care as much about project evaluation, it is argued, since they obtain a return on their loans irrespective of the success of the project.

Also in conventional banking if security is provided then a return is guaranteed (or at least part guaranteed) even if the project is a disaster. While conventional banks, of course, make losses, the argument is that interest-based systems force borrowers to continue to repay loans even when their circumstances are ill-suited to making such repayments, ultimately exacerbating the problem and resulting in default. Interest-based banking systems, again it is argued, may accentuate downturns in the business cycle.

5. Interest demeans and diminishes human personality

The fifth reason behind the prohibition of *riba* is inferred from Sura 2: 275 quoted above. This verse draws a picture of 'those who devour usury' as well as stating the reason why they got into that pitiable mould, as Muslims would see it. That reason is their being trapped into the false economics that equates trade – the act of selling and buying – with the practice of charging interest.

In many cases, the charging of interest is also demeaning. For example, if the loan is for procuring things necessary for survival, charging interest violates the nature of social life which requires cooperation, care and help for the needy by those who can spare the money.

One may legitimately ask how earning interest can affect your personality? A plausible answer lies in the generally rising level of anxiety in modern interest-based societies. The fact of the matter is that in the complex modern economy the relationship between the one who pays interest and the one who receives interest is not as direct and visible as in the primitive agricultural societies or merchant communities of old. It is mediated by numerous agencies and institutions, which makes it impersonal, potentially raising anxiety levels.

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*If Islamic Banks
Cannot Charge
Interest*

HOW DO
THEY MAKE
MONEY?

Simple.

They use the Shari'a-compliant contracts which do not permit interest to be charged but do encourage trade and investment via alternative financing mechanisms.

There are several ways to classify Islamic finance modes of finance. In this context the contracts are broken down into two groups. These are:

1 Islamically-permissible deferred sales contracts

The first group is what are known as “deferred sale contracts”. Jurists have ruled it valid to sell an object immediately, with a deferred price, possibly paid in instalments, greater than its cash price. All the major *Madhabs* (Schools of Islamic jurisprudence), *Shafi'i's*, *Hanafi's*, *Maliki's* and *Hanbali's* have agreed to this. The rationale for this ruling is that the seller of an object for a price to be paid in instalments, in the future, is sacrificing a benefit in order to make the object available to the person who is buying it with a deferred payment.

This sacrifice is based on the fact that the seller gets paid at a later date. Thus the seller is making a sacrifice in that he is not able to get paid today and thereby to purchase something else or simply have the cash today. Thus, the increase in the deferred price may be viewed as compensation to the seller. The jurists ruled these sales valid as long as the contract is independently specified and contains no ignorance (*jahala*).

There are four deferred sale contracts:

- ★ **Murabaha.** Sale with a known profit. The object of sale is delivered at the contract time but the price becomes due as debt in the future.
- ★ **Salam sale.** The price is paid at the time of contract but the object of sale becomes due as debt-in-kind.
- ★ **Istisna'a sale.** The price is paid at the time of contract and the object of sale is to be manufactured and delivered later.
- ★ **Ijara.** Sale of the use of the rights of assets where assets are delivered to the user, who in turn pays periodical rentals later.

2 Profit-and-loss share (PLS) contracts

The second group of Islamically-acceptable contracts is profit-and-loss share contracts. A PLS contract means that the

outcome is sharing based and cannot be predetermined. Shareholders are only repaid if profits are made and if no profits are made then no payouts take place.

There are two types of PLS contracts:

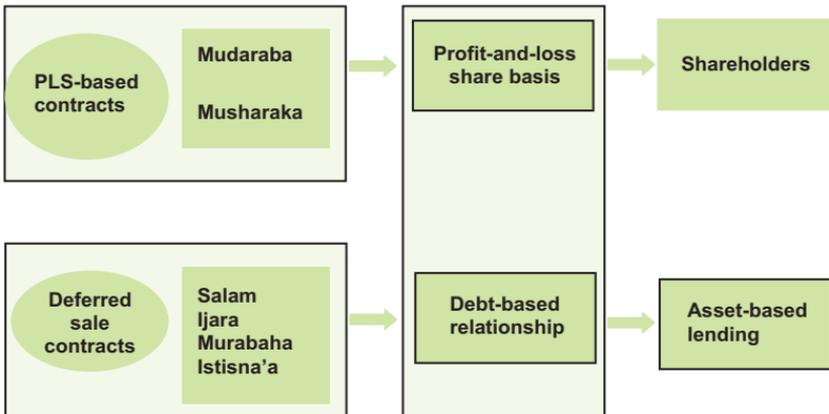
2.1. Mudaraba PLS contracts

The *Mudaraba* contract is a contract between two parties: an Islamic bank as an investor (*Rab ul-Maal*) who provides a second party, the entrepreneur (*Mudarib*) with financial resources to finance a particular project. Profits are shared between the parties in a proportion agreed in advance. Losses are the liability of the Islamic bank and the *Mudarib* sacrifices only its efforts and expected share in the profits.

2.2. Musharaka PLS contracts

The *Musharaka* PLS contract is an equity participation contract. The bank is not the sole provider of capital to finance a project. Two or more partners contribute to the joint capital of an investment. Profits are shared between the parties in a proportion agreed in advance. Losses are shared strictly in relation to the respective capital contributions. *Figure 2.1* illustrates these modes of finance.

Figure 2.1. Islamic modes of finance



The six contracts (more accurately called 'nominated' contracts) described in this chapter are:

1. *Murabaha*;
2. *Mudaraba*;
3. *Musharaka*;
4. *Ijara*;
5. *Istisna'ā*;
6. *Salam*.

1 *Murabaha* as a mode of Islamic finance

The *Murabaha* contract refers to the sale of goods with a pre-agreed profit mark-up on the cost. *Murabaha* sales are of two types. In the first type, the Islamic bank purchases the goods and makes them available for sale without any prior promise from a customer to purchase them. In the second type, the Islamic bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Islamic bank purchases the goods only after a customer has made a promise to purchase them from the bank.

Murabaha to the purchase orderer

The *Murabaha* contract which involves the customer's promise to purchase the item from the institution is

called *Murabaha* to the purchase orderer. By this it is distinguished from the normal type of *Murabaha* which does not involve such a promise by the customer. The *Murabaha* to the purchase orderer is the sale of an item by the institution to a customer (the purchase orderer) for a pre-agreed selling price, which includes a pre-agreed profit mark-up over its cost price. This element has been specified in the customer's promise to purchase. Normally, a *Murabaha* to the purchase orderer transaction involves the institution granting the customer a *Murabaha* credit facility.

Source:

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

***Murabaha* transactions**

Murabaha is a term of Islamic *Fiqh* (Islamic jurisprudence). If a seller agrees with his purchaser to provide him with a specific commodity with a certain profit being added to his cost, it is called a *Murabaha* transaction. The basic ingredient of *Murabaha* is that the seller discloses the actual cost he has incurred in acquiring the commodity, and then adds some profit thereon. This profit may be in a lump sum form or may be based on a percentage.

Murabaha is sometimes referred to as '*Murabaha* to the purchase orderer'. In this version the seller (the bank) doesn't buy and stock goods, but rather waits for buyers to 'order' him to buy goods and then sells them these goods on a *Murabaha* basis.

Murabaha to the purchase orderer could be defined as an: ‘arrangement wherein two parties negotiate, agree to specific terms of a sale contract and promise each other to consummate it’. According to this contract one party ‘orders’ another to buy a specific commodity and then sells it to him on a *Murabaha* basis. There are four elements to this contract, as follows:

1. *An order by a prospective buyer to a seller to buy a specific commodity promising to buy it for a profit. Sharia’a scholars consider this order as an invitation to do business. It is not a commitment.*
2. *If the seller accepts this invitation he is bound to ensure he can locate the commodity, buy and own it via a true and legitimate contract.*
3. *The seller then makes an offer to the prospective buyer after the commodity has been bought and owned by the seller.*
4. *The prospective buyer has the option to buy the commodity or renege on his promise. If he agrees to buy, then a Murabaha contract is formed.*

The validity of a *Murabaha* contract depends on various conditions which should be duly observed to make them acceptable in the *Sharia’a*.

In order to understand these conditions correctly, one should, in the first instance, appreciate that *Murabaha* is a sale with all its implications, and that all the basic ingredients of a valid sale, under the *Sharia’a* should also be present in *Murabaha*.

What makes *Murabaha Sharia’a* compliant?

In a *Murabaha* transaction, the bank finances the purchase of a good or asset by buying the item on behalf of its client and adding a mark-up before selling the item to the client, on a cost plus profit basis contract.

It may appear, at first glance, that the mark-up is just another term for interest as charged by conventional banks. Interest, it could be argued, is thus being admitted through the back door. Yet the legality of the traditional type of *Murabaha* is not questioned by any of the schools of *Sharia’a* law.

What makes the traditional *Murabaha* transaction in the *fiqh* literature Islamically legitimate is that the bank first acquires the asset for sale at profit, so that a commodity is sold for money and the operation is not a mere exchange of money for money. In the process the bank assumes certain risks between purchase and sale: for example, a sudden fall in price could see the client refusing to accept the goods at the agreed higher price. That is, the bank takes responsibility for the goods before it is safely delivered to the client. The services rendered by the Islamic bank are therefore regarded as quite different from those of a conventional bank which simply lends money to the client to buy the goods.

Understanding the Islamic position involves stepping back from conventional Western thinking regarding the trading of commodities and money in normal commercial transactions. In the conventional financial system, when it comes to matters of trading, money and commodities are both flexibly interchangeable. Both can be traded. Both can be sold at whatever price the parties agree upon. One can sell one dollar for two dollars on the spot as well as in the future, just as one can sell a commodity valuing one dollar for two dollars. The only condition is that the transaction should be with mutual consent.

Islamic economic principles, however, do not subscribe to this form of thinking. According to Islamic principles, money and commodities have different characteristics and therefore they are treated differently. The basic points of difference between money and commodities, as set out by Usmani (1999) are as follows:

1. *Money has no intrinsic utility. It cannot be utilised for fulfilling human needs directly. It can only be used for acquiring goods or services. Commodities, on the other hand, have intrinsic utility. They can be utilised directly without exchanging them for something else.*
2. *Commodities can be of different qualities, while money has no other quality except that it is a measure of value or a medium of exchange. Therefore, all the units of money, of the same denomination, are 100% equal to each other. An*



According to Islamic principles, money and commodities have different characteristics and therefore they are treated differently



old and dirty bank note of US\$1,000 has the same value as a brand new bank note of US\$1,000, unlike commodities which may have different qualities. Obviously an old and used car may be worth much less in value than a brand new car.

3. *When it comes to commodities the transaction of sale and purchase is effected on a particular individual commodity, or at least, on the commodities having particular specifications. If "A" has purchased a particular car by pinpointing it and the seller has agreed, the buyer expects to receive the same car. The seller cannot compel him to take the delivery of another car, even though of the same type or quality.*
4. *Money, on the contrary, cannot be pinpointed in an exchange transaction. If "A" has purchased a commodity from "B" by showing him a particular bank note of US\$1,000 he can still pay him with another bank note of the same denomination, while "B" cannot insist that he will only accept the same bank note as was shown to him.*

Islam treats money and commodities differently

Keeping these differences in mind, Islam has treated money and commodities differently. Since money has no intrinsic utility, but is only a medium of exchange, the exchange of a unit of money for another unit of the same denomination cannot be effected except at par value. If a currency bank note of US\$1,000 is exchanged for another bank note of US dollars, it must be of the value of US\$1,000. The price of the former bank note can neither be increased nor decreased from US\$1,000 even in a spot transaction, because the currency bank note has no intrinsic utility nor a different quality (recognised legally).

Therefore any excess on either side is without consideration. Hence it is not allowed in the *Sharia'a*. As this is true in a spot exchange transaction, it is also true in a credit transaction where there is money on both sides, because if some excess is claimed in a credit transaction (where money is exchanged for money) it will be against nothing but the time value of money. Charging for the time value of money is deemed to be *riba* and is not acceptable Islamically.

Charging for the time value of money is deemed to be *riba* and is not acceptable Islamically

The position when trading commodities is different, from an Islamic perspective. Since commodities have intrinsic utility and have different qualities, the owner is at liberty to sell them at whatever price he wants, subject to the forces of supply and demand. If the seller does not commit fraud or a misrepresentation, he can sell a commodity at a price higher than the market rate with the consent of the purchaser. If the purchaser accepts to buy it at that increased price, the excess charged by the seller is quite permissible Islamically for the seller. When he can sell his commodity at a higher price in a cash transaction, he can also charge a higher price in a credit sale, subject only to the condition that he neither deceives the purchaser, nor compels him to purchase, and the buyer agrees to pay the price under his own free will.

Commodity transactions with credit can involve an excess

The upshot of this discussion is that when money is exchanged for money, from an Islamic perspective, no excess is allowed, either in cash or credit transactions. However, where a commodity is sold for money, the price agreed upon by the parties may be higher than the market price, both in cash and credit transactions. The time of payment may act as an ancillary factor to determine the price of a commodity, but it cannot act as an exclusive basis for it nor can it be the sole consideration for an excess claimed in exchange of money for money.

This position is accepted unanimously by all the four schools of *Sharia'a* law and the majority of the Muslim jurists. The unanimous view is that if a seller of a commodity determines two different prices for cash and credit sales, the price of the credit sale being higher than the cash price, it is allowed in the *Sharia'a*.

Sharia'a* rules concerning *Murabaha

Murabaha is not a loan provided in exchange for the charging of interest but is the sale of a commodity. Therefore it has to fulfil all the conditions necessary for a valid *Sharia'a* sale.

Sale is defined in the *Sharia'a* as the exchange of a thing of value with another thing of value with mutual consent. Islamic

jurisprudence has laid down a large number of rules governing the contract of sale. Although there are many rules regarding contract of sale, the following three rules, set out by Usmani (1999), are the most important ones deemed necessary to make any sale valid:

1. **The subject of sale must exist at the time of sale.** *An item which has not yet come into existence cannot be sold. If a non-existent item has been sold, even though by mutual consent, the sale is void according to the Sharia'a. For example: "A" sells the unborn calf of his cow to "B". This sale is void.*
2. **The subject of sale must be owned by the seller at the time of sale.** *Thus, what is not owned by the seller cannot be sold. If the seller sells something before acquiring its ownership, the sale is void. For example: "A" sells to "B" a car which is presently owned by "C", but "A" is hopeful that he will buy it from "C" and will deliver it to "B" subsequently. This sale is void because the car was not owned by "A" at the time of sale.*
3. **The subject of sale must be in the physical or constructive possession of the seller when he sells it to another person.**

'Constructive possession' means a situation where the possessor has not taken the physical delivery of the commodity, but the commodity has come into his control, and all the rights and liabilities of the commodity are passed on to him, including the risk of its destruction.

Reasoning behind the *Sharia'a* rules

The gist of the *Sharia'a* rules, mentioned above, is that a person cannot sell a commodity unless:

- *it has come into existence;*
- *it is owned by the seller;*
- *it is in the physical or constructive possession of the seller.*

There is a vast difference between an actual sale and a mere promise to sell. The actual sale cannot be effected unless the

There is a vast difference between an actual sale and a mere promise to sell

above three conditions are fulfilled. However, one can promise to sell something which is not yet owned or possessed by one. This promise initially creates only a moral obligation on the promisor to fulfil his promise, which is normally not enforceable in law.

Nevertheless, in certain situations, especially where such promise has burdened the promisee with some liability, it can be enforceable through the *Sharia'a*-based courts of law. In such cases the court may force the promisor to fulfil his promise, i.e. to effect the sale and, if he fails to do so, the court may order him to pay the promisee the actual damages he has incurred due to the default of the promisor.

Important exceptions to *Sharia'a* rules

The *Sharia'a* rules, mentioned above, are relaxed with respect to two types of sale, namely:

- *Salam sale*
- *Istisna'a sale*

Practical examples of the application of *Murabaha*

Practical examples of the application of *Murabaha* help to illustrate clearly this mode of finance. The following examples are outlined:

- *mortgages;*
- *working capital;*
- *syndicated credits;*
- *GSM licences;*
- *letters of credit;*
- *car purchase.*

1 Mortgages

Murabaha has been used on the retail level as a technique for financing home sales in accordance with *Sharia'a* requirements. A British bank recently joined with an Islamic bank from the Gulf to organise a facility that would enable clients of the Islamic institution to finance the purchase of homes in the UK. Generally, the facility involves the purchase of a designated residence at a specified price by the British bank which, in turn, resells the property to the consumer, with the purchase price (including a profit component) to be paid in instalments over time.

2 Provides working capital

ABC Islamic Bank and Emirates Islamic Bank, in 2005, were given the joint mandate for 70 million Iranian riyals, three-year *Murabaha* financing facility for Esfahan Steel Company (ESCO) in Iran.

The proceeds of the facility are to be utilised for financing ESCO's purchases of raw materials, machinery and equipment for the completion of its coking coal production expansion project. The facility was guaranteed by the Iranian Mines and Mining Industries Development and the Renovation Organization of Iran.

3 *Murabaha* and syndicated credits

Murabaha is mainly used in the context of trade financing. However, it was used by Islamic and conventional banks to provide a short-term facility to an independent power project in Pakistan called the Hub River project. Using *Murabaha*, several Islamic and conventional banks, including Citibank, formed a syndicate to provide a six-month US\$110 million facility to the Hub River Power Company. The facility was used by the company to finance, on a deferred basis, the purchase of equipment needed for the project.

4 Financing of GSM licences

When a consortium led by Emirates Telecommunications Corporation (Etisalat), the United Arab Emirates telecoms

operator, in 2007, emerged as the winning bidder in an auction of a second GSM licence in Saudi Arabia, it chose to use Islamic finance facilities to part fund the licence fee and subsequent roll out of the network. Given the size of the transaction, this decision is viewed as having a significant impact on the future growth of Islamic financing.

The size of the bid was SR 12.2 billion (approximately US\$3.2 billion) for the GSM licence. The bid also covered a separate licence to operate Saudi Arabia's first 3G network valued at SR 753.8 million (US\$201 million). Besides Etisalat, the winning consortium included Saudi Arabian partners the General Organization for Social Insurance (GOSI), AI-Jomaih Holding, Abdul-Aziz al-Saghyir Commercial Investment, Rana Investment, Abdullah & Said Binzagr and Riyadh Cables Group.

The Etisalat Consortium, requiring bank finance to fund its licence payment, ran a competition for the arranger role between two sets of regional and international banks. The favoured group of mandated lead arrangers was chosen and comprised Samba Financial Group, National Commercial Bank, Citigroup, Emirates Bank International, Abu Dhabi Islamic Bank, AI-Rajhi Banking & Investment Corporation, Bank al-Jazira, Dubai Islamic Bank and Kuwait Finance House.

The facilities to be put in place were split into two tranches – tranche A was for an amount of US\$1.6 billion to be used for the part-financing of the licence while tranche B, worth US\$750 million, was to be used to acquire equipment for the roll out of the network. Both tranches are *Murabaha* facilities and, in each case, National Commercial Bank is the *Mudarib*.

5 *Murabaha* used with letters of credit

An interesting application of *Murabaha* is in the issuing of a letter of credit (L/C). At the Dubai Islamic Bank, L/Cs are opened in the following manner:

1. *The customer requests the bank to open an L/C to import goods from abroad through an application enclosing a pro-forma invoice and providing all the necessary details and information.*

2. After securing the necessary guarantee and scrutinising the application, the bank opens an L/C in favour of the client and sends copies to the correspondent bank abroad and to the exporter.
3. The customer endorses a 'Promise to Buy' the merchandise. They negotiate the cost of the goods and the conditions of delivery.
4. The exporter makes arrangements to export the goods and delivers the documents to the correspondent bank abroad. The shipment of the goods takes place and the correspondent bank advises the bank and sends the documents.
5. After the confirmation of the bank's ownership of the goods in question through the acquisition of related documents, it signs an Agreement of Sale with the client.

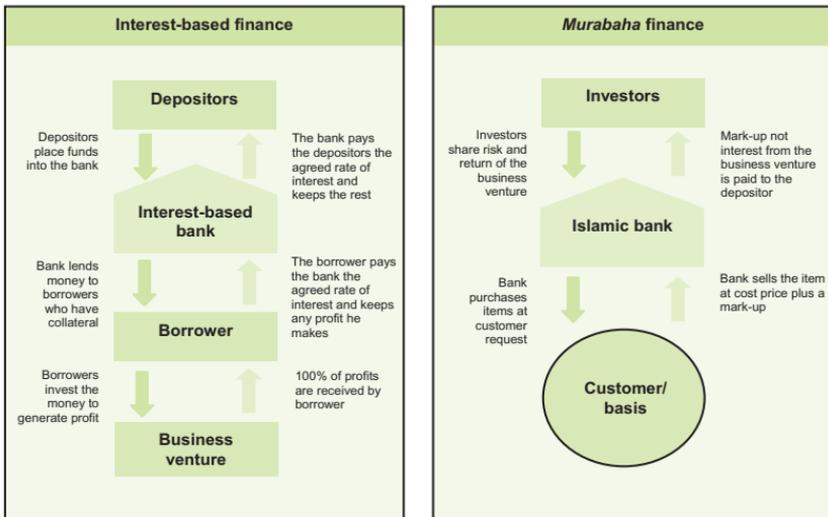
6 Murabaha used for car and house purchase

At many of the GCC banks *Murabaha* is used to finance the purchase of goods, such as cars, that are subject to mortgage. The individual submits an application to the bank requesting the purchase of a car. He promises to buy it at a later stage. The bank issues an invoice to the seller who registers the car in the name of the bank. The seller submits the required document to the bank and receives his payment. The bank sells the car to the purchaser, with the registration in the name of the purchaser, on a deferred payment basis after getting an appropriate guarantee. The guarantee condition may stipulate the mortgage of the car to the bank. *Murabaha* is also applied to the purchase of land and buildings in a similar manner. Meezan Bank, in Pakistan, has similar schemes.

Comparison of *Murabaha* with interest-based finance

One way of illustrating this issue is to observe the working mechanics of a conventional bank and its relationship with depositors and borrowers, as in *Figure 2.2*, and to then compare this with *Murabaha* finance in an Islamic bank.

Figure 2.2. Conventional interest-based finance as compared with *Murabaha* finance



2 *Mudaraba* as a mode of Islamic finance

Mudaraba is a partnership in profit between capital and work. It is conducted between investment account holders, as owners of capital, and the Islamic bank as a *Mudarib*.

The Islamic bank announces its willingness to accept the funds of investment account holders, the sharing of profits being as agreed between the two parties, and the losses being borne by the owner of funds, unless they were due to misconduct, negligence

or violation of the conditions agreed upon by the Islamic bank.

A *Mudaraba* contract may also be concluded between the Islamic bank, as a provider of capital on behalf of itself or on behalf of investment account holders, and business owners.

Source:

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

Definition of *Mudaraba*

The term refers to a form of business contract in which one party brings capital and the other brings personal effort and time to a business transaction. The proportionate share in profit from the business deal is determined by mutual agreement. But a loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known as *Rab-ul-Maal* and the entrepreneur as *Mudarib*.

As a financing technique adopted by Islamic banks *Mudaraba* is a contract in which all the capital is provided by the Islamic bank while the other party manages the business. The profit is shared in pre-agreed ratios, and any loss, unless caused by negligence or violation of terms of the contract by the *Mudarib*, is borne by the Islamic bank. The bank passes on this loss to the bank depositors, known as investment account holders.

To repeat, there is no loss sharing in a *Mudaraba* contract. Profit-and-loss sharing is what takes place with the *Musharaka* contract. The *Mudaraba* contract may better be represented as being a profit sharing contract. So *Mudaraba* is an Islamic contract in which one party supplies the finance and the other party provides management expertise in order to undertake a specific business transaction. The party supplying the capital is called the owner of the capital. The other party is referred to as the worker or agent who actually runs the business. Under the rules of Islamic jurisprudence, different duties and responsibilities have been assigned to each of these two parties.

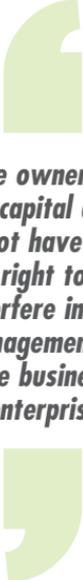
As a matter of principle the owner of the capital does not have a right to interfere in the management of the business enterprise. This is the sole responsibility of the agent. However, he has every right to specify such conditions that would ensure better management of his money. That is why *Mudaraba* is sometimes referred to as a sleeping partnership.

An important characteristic of *Mudaraba* is the arrangement of profit sharing. The profits in a *Mudaraba* agreement may be shared in any proportion agreed between the parties beforehand. However, the loss is to be completely borne by the owner of the capital. In the case of loss, the capital owner must bear the monetary loss and the agent sacrifices the reward for all his effort. **Box 2.1** overleaf illustrates the terminology used when discussing *Mudaraba*.

Types of *Mudaraba*

There are two types of *Mudaraba* namely:

1. *Mudaraba Al Muqayyadah* (restricted *Mudaraba*). Under this scheme the Rab-ul-Maal may specify a particular choice of business or a particular place of business



The owner of the capital does not have a right to interfere in the management of the business enterprise

Box 2.1. Mudaraba terminology

<i>Mudarib:</i>	Working partner (brings effort)
<i>Ras-ul-Maal:</i>	Investment
<i>Rab-ul-Maal:</i>	Investor (brings capital)
<i>Wakeef:</i>	Agent
<i>Ameer:</i>	Trustee
<i>Kafeef:</i>	Guarantor

for the *Mudarib*, in which case he must invest the money in that particular business or place.

2. *Mudaraba Al Mutlaqah (unrestricted Mudaraba)*. Under this scheme the *Rab-ul-Maal* gives full freedom to the *Mudarib* to undertake whatever business he deems fit. However, the *Mudarib* cannot, without the consent of the *Rab-ul-Maal*, invest money wherever he wants to. The *Mudarib* is authorised to do whatever is normally done in the course of business. However if they want to undertake something which is beyond the normal routine of the business, they cannot do so without express permission from the *Rab-ul-Maal*.

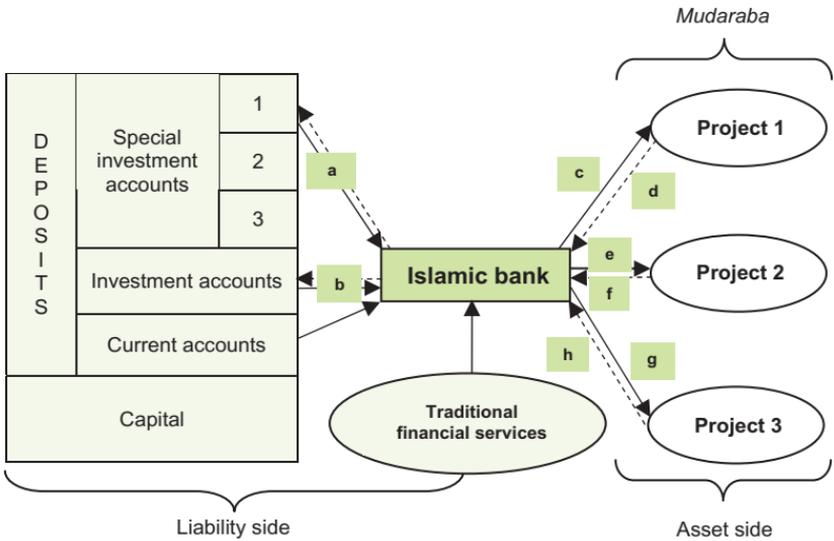
The *Mudarib* is also not authorised to:

- keep another *Mudarib* or a partner;
- mix their investment in that particular *Mudaraba* without the consent of the *Rab-ul-Maal*. To further clarify *Mudaraba*, it is best depicted in the flow chart in *Figure 2.3* opposite.

Two-tier *Mudaraba* and the asset and liability structure of an Islamic bank

Islamic bankers have adapted and refined the *Mudaraba* concept to form what is known as the ‘Two-tier *Mudaraba*’. In this arrangement, the *Mudaraba* contract has been extended to include three parties: the depositors as financiers, the bank as an intermediary, and the entrepreneur who requires funds. The bank acts as an entrepreneur or *Mudarib* when it receives funds

Figure 2.3. *Mudaraba* flow chart



Two tier *mudaraba* model

This figure represents Islamic banks' assets/liabilities structure based on a two tier model.

Key:

- a = P&L – management fees
- b = P&L – management fees
- c = X% ownership
- d = X% (P&L)
- e = Y% ownership
- f = Y% (P&L)
- g = Z% ownership
- h = Z% (P&L)

from depositors, and as a financier (*Rab-ul-Maal*) when it provides the funds to entrepreneurs.

The main conditions associated with a *Mudaraba* contract are as follows:

1. The bank receives funds from the public on the basis of unrestricted *Mudaraba*. These funds are also called unrestricted investment accounts. There are no constraints imposed on the bank concerning the kind of activity, duration, and

location of the enterprise wherein it invests the capital provided. However, a Mudaraba contract cannot be applied to finance haram activities which are forbidden by Islam. Such a contract would be considered null and void.

2. *The bank has the right to aggregate and pool the profit from different investments, and share the net profit (after deducting administrative costs, capital depreciation and Islamic tax) with depositors, according to a specified formula. In the event of losses, the depositors lose a proportional share or the entire amount of their funds. The return to the financier has to be strictly maintained as a share of profits.*
3. *The bank applies the restricted form of Mudaraba when funds are provided to specified entrepreneurs. The bank has the right to determine the kind of activities, the duration, and the location of the projects and monitor the investments. However, these restrictions may not be formulated in a way so as to harm the performance of the entrepreneur. When a project is undertaken, the bank cannot interfere with the management of the investment nor take part in the daily operation of the business. Thus loan covenants and other such constraints, considered usual in conventional bank lending, are not allowed in PLS-based Islamic banking.*
4. *Under a Mudaraba, the Rab-ul-Maal cannot demand any guarantee from the Mudarib such as insisting on a return of the capital with a fixed profit, since the relationship between the investor and the Mudarib is a fiduciary one, i.e. a legal relationship between the parties. The Mudarib is deemed to be a trustworthy person. Accordingly, the bank cannot require any guarantee such as security and collateral from the entrepreneur in order to insure its capital against the possibility of an eventual loss. Such a condition would make the Mudarib's contract null and void. But it is allowable for there to be a guarantee from an independent third party.*
5. *The Mudaraba contract should assign a profit rate for each party. The rate should be a ratio (e.g. 70%/30%), and not a fixed amount. Assigning a fixed amount to either party invalidates the Mudaraba due to the possibility that the ultimate profit realised may not equal the sum so stipulated. Before arriving at a profit figure the assets of the Mudaraba venture should be converted to money and the capital should be set aside. The Mudarib is entitled to deduct all business-related expenses from the Mudaraba capital.*

6. *The liability of the financier is limited exclusively to the capital provided. On the other hand, the liability of the entrepreneur is also restricted, but in this case solely to his labour and effort. Nevertheless, if negligence or mismanagement can be proven, the entrepreneur may be liable for any financial loss and be obliged to remunerate the financier accordingly.*
7. *The entrepreneur shares the profit with the bank according to a previously agreed profit division. Until the investment yields a profit, the bank is able to pay a salary to the entrepreneur. This salary is determined on the basis of the ruling market salary rates.*

What makes *Mudaraba Sharia'a* compliant?

In order to establish what makes *Mudaraba Sharia'a* compliant, it is important first to examine the origin of the term, before continuing to investigate how it complies with the *Sharia'a*.

Origin of the term *Mudaraba*

The word *Mudaraba* is derived from the Arabic term *darb fi al-ard*, which means those 'who journey through the earth (*yadribuna fi al-ard*) seeking the bounty of Allah' (Al-Muzzamil Sura 73: 20). Because of his work and travel, the *Mudarib* becomes entitled to part of the profits of the venture. In terms of the *Sunnah*, jurists rely on the precedent of the contract of *Mudaraba* concluded by the Prophet Mohammed with Khadija prior to his marriage to her, as a result of which he travelled to Syria. Thus the legal evidence employed in support of the *Mudaraba* mode of finance comes from both the *Qur'an* and the *Sunnah*.

Sharia'a* rules concerning *Mudaraba

The *Sharia'a* rules have been set out by Usmani (1999):

1. *It is a condition in *Mudaraba* that capital must be specific given that its return to the owner is mandatory at the settlement of the *Mudaraba*. So its amount must be known at the outset of the contract. Uncertainty about the amount of capital necessarily leads to uncertainty about the amount of profit.*
2. *It is a condition that capital must be the normal currency in circulation. However, it can be merchandise, under the condition that it is valued at the outset of the contract, and the agreed upon value becomes the capital of the *Mudaraba*.*

3. *It is a condition that the capital must not be a liability or debt on the Mudarib. The Mudarib is a trustee.*
4. *It is permissible for a Mudarib to mix its own private capital with the capital of the Mudaraba. Thus it becomes a partner, and its disposal of capital on the basis of Mudaraba is permissible.*
5. *It is a condition that the capital of Mudaraba must be delivered to the Mudarib because not delivering it imposes constraints on the Mudarib and restricts its power of disposal. Some of the jurists permit the capital owner to withhold capital and to release it gradually, according to the needs of the Mudarib.*
6. *If two or more Islamic banks are involved, the distributable profits are divided between them and the owner, proportionate to the amount of capital provided by each.*
7. *It is permissible to impose restrictions on the Mudarib if the restriction is beneficial and does not constitute a constraint on the agent achieving the profit required and is not counterproductive to the purpose of the Mudaraba.*
8. *It is permissible for the Mudarib to hire an assistant.*
9. *The disposal of the Mudarib is confined to what is conducive to the Mudaraba. It must lend or donate nothing of the Mudaraba capital. The Mudarib is also not allowed to purchase, for the Mudaraba, with more than its capital, nor is it allowed to go into partnership with others using the Mudaraba capital. However, all of the above is permissible if the capital owner consents and authorises the agent to use its discretion.*
10. *No security on the Mudarib shall be stated in the Mudaraba contract except in case of negligence or trespass, because the Mudarib is a trustee on what is under its control. Capital is judged as a deposit. It is permissible to take a surety or mortgage from the Mudarib to guarantee the payment in case of negligence or trespass or violation of the conditions. But it is impermissible to take that as a guarantee for capital or profit, because it is impermissible for the Mudarib to guarantee capital or profit.*
11. *It is a condition that profit should be specific because it is the subject of the contract and being unknown abrogates the contract. The contracting parties*

should stipulate, in the contract, the profit shares in a percentage form for each party. It is impermissible to stipulate a lump sum as profit to either party.

12. Profit in Mudaraba is distributed according to the agreement of the two contracting parties. They may agree on specific ratios, whatever they consensually agree. It is a condition that the capital owner alone bears any monetary loss. The Mudarib bears none of the loss because a loss is a decrease in capital and the capital belongs to the owner.
13. The Mudarib collects its share of the profit only after obtaining the permission of the capital owner. Also the Mudarib is entitled to collect its share of profit only after the capital is recovered, because the Sharia'a principle states, "profit is protection to capital".
14. The ownership of the Mudarib becomes secure after the liquidation of the Mudaraba and the capital owner has recovered its capital. Some of the jurists hold the view that auditing is like division and possession. If two parties reach a final settlement after the liquidation of the assets and then leave the Mudaraba, it is considered to be a new Mudaraba and neither one makes good the loss of the other.
15. The Mudaraba is terminated if one of the two parties rescinds it; given that it is an optional and not a binding contract. Some of the jurists hold the view that Mudaraba is binding and it cannot be rescinded if the Mudarib has commenced work.

Practical examples of Mudaraba

Mudaraba is considered to be the essential mode accredited by the Islamic banks in their relationship with the depositors who tender their moneys to the bank as capital owners to be invested by the bank as *Mudarib*. This is on the basis of profit sharing according to specific ratios agreed upon. See **Box 2.2** for an illustration of a standard Mudaraba transaction.

Islamic banks use the same mode with businesses seeking finance whether they are dentists, doctors, engineers, traders or whatever. The bank provides the necessary finance as a capital owner in exchange for a share in the profit to be agreed upon.



Islamic banks use the same mode with businesses seeking finance whether they are dentists, doctors, engineers, traders or whatever



Box 2.2. Standard *Mudaraba* transaction*Assume the following:*

Main contract value	US \$250,000
<i>Mudaraba</i> value	US \$180,000
Profit sharing is 50–50	50% – 50%
Profit target	11%
11% profit based on the calculation	US \$12,986
Award to the contractor for good performance	95%

The profit amounts are calculated as follows:

Main contract value	US \$250,000
<i>Mudaraba</i> value	US \$180,000
Net profit	US \$70,000
Bank's profit	US \$35,000
Contractor's profit	US \$35,000

The bank will award the contractor:

$$\text{US\$35,000} - \text{US\$12,986} = \text{US\$22,014}$$

$$\text{Bank's share over 11\%} = \text{US \$1,101}$$

Bank's overall profit

$$\text{US\$12,986} + \text{US\$1,101} = \text{US\$14,087}$$

Contractor's overall profit

$$\text{US\$35,000} + \text{US\$20,913} = \text{US\$55,913}$$

Bank's overall profit percentage	20.2%
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Contractor's overall profit percentage	79.8%
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Source: Qatar Islamic Bank

It is worth noting that this mode is a high risk for the bank because the bank delivers capital to the *Mudarib* who undertakes the work and management and the *Mudarib* is only a guarantor in case of negligence and trespass. Islamic banks usually take the necessary precautions to decrease the risk. As mentioned in Chapter 1 we are in a world of asymmetric risk here.

In Iran, *Mudaraba* is considered a short-term commercial partnership between a bank and an entrepreneur. All financial requirements of the project are provided by the bank and the

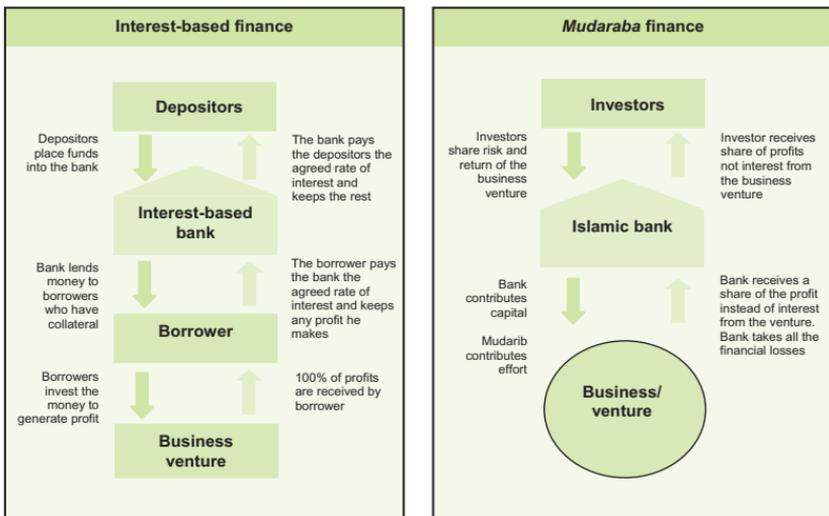
managerial input is provided by the entrepreneur. Both parties of the *Mudaraba* agreement share in the net profits of the project in an agreed proportion. Iranian banks are directed by the monetary authorities to give priority in their *Mudaraba* activities to co-operatives.

Furthermore, commercial banks in Iran are not allowed to engage in the *Mudaraba* financing of imports by the private sector. Article 9 of the Law of Usury Free Banking provides for banks to expand their commercial activities through *Mudaraba*, within the overall framework of the commercial policy of the government.

Comparison of *Mudaraba* with the conventional banking equivalent

One way of illustrating this issue is to observe the working mechanics of a conventional bank and its relationship with depositors and borrowers, as in *Figure 2.4*, and to then compare this with *Mudaraba* finance in an Islamic bank. Although profit-sharing and interest-based lending may seem alike, the

Figure 2.4. Conventional interest-based finance as compared with *Mudaraba* finance



differences are clearly more than semantic ones. The yield is not guaranteed in the profit-sharing mode. In addition in interest-based lending, the loan is not contingent on the profit or loss outcome, and is usually secured, so that the debtor has to repay the borrowed capital plus the fixed (or predetermined) interest amount regardless of the resulting yield of the capital. Thus, with interest-based lending, the financial losses fall most directly upon the borrower.

Under *Mudaraba*, financial losses are borne completely by the lender. The entrepreneur, as such, sacrifices his time and effort invested in the enterprise and the reward for his labour. This distribution effectively treats human capital equally with financial capital.

3 *Musharaka* as a mode of Islamic finance

Musharaka is a form of partnership between an Islamic bank and its clients whereby each party contributes to the partnership capital, in equal or varying degrees, to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and is owed his due share of profits. However losses are shared in proportion to the contributed capital. It is not permissible to stipulate otherwise.

Constant Musharaka

This is a *Musharaka* in which the partners' shares in the capital remain constant throughout the period, as specified in the contract.

Diminishing Musharaka

This is a *Musharaka* in which an Islamic bank agrees to transfer gradually to the other partner its (the Islamic bank's) share in the *Musharaka*, with the effect that the Islamic bank's share declines and the other partner's share increases until the latter becomes the sole proprietor of the venture.

Source:

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

Definition of *Musharaka*

Musharaka (from the Arabic *sharikah*) implies partnership in a venture, and can be defined as a form of partnership whereby two or more persons combine either their capital or labour

together, to share the profits, enjoying similar rights and liabilities. It can take the form of a *mufawada*, meaning an unlimited, unrestricted and equal partnership in which the partners enjoy complete equality regarding the areas of capital, management and right of disposition. Each partner is both the agent and the guarantor of the other.

A more limited investment partnership is known as an *'inan* (*shirkah al'inan*). This type of partnership occurs when two or more parties contribute to a capital fund, either with money, contributions in kind or labour. Each partner is only the agent and not the guarantor of his partner. An *'inan Musharaka* is limited in scope to the specific undertaking. This version is the most common form of *Musharaka*.

For both versions of *Musharaka* the partners share profits in an agreed manner and bear losses in proportion to their capital contributions.

Such contractual partnerships are considered proper because the parties concerned have willingly entered into a contractual agreement for joint investment and the sharing of profits and risks. As in *Mudaraba*, the profits can be shared in any equitably agreed proportion. The bases for entitlement to the profits of a *Musharaka* are capital, active participation in the *Musharaka* business and responsibility.

Profits must be distributed among the partners in the business on the basis of proportions agreed by them in advance. The profit share of every party must be determined as a proportion or percentage. Losses must, however, be shared in proportion to the capital contribution. On this point all the jurists are unanimous.

As mentioned, the word *Musharaka* means sharing, and is used to describe those joint business enterprises in which the partners share the profit or loss of the venture. Unlike an interest-based product, there is no guaranteed rate of return on the investment, as income is based on the profit earned by the joint venture, and may possibly result in losses.

This type of investment is seen as distributing the risks, and the profits, more equitably between the investors than a simple interest-based loan. Thus rather than receiving a fixed rate of

say, 20%, whether the profits on the enterprise are 2% or 300%, the investor will benefit in relation to the success of the venture. This type of financial product is therefore seen as favouring the ordinary depositors in a bank (unrestricted account holders) rather than giving all the benefits of the profit to the borrower.

The basic principles of *Musharaka* (as agreed by the majority of scholars) are:

- *Financing through Musharaka never implies lending money; rather it means active participation in the business.*
- *The investor or financier must share both profits and losses incurred by the business, to the extent of their financing.*
- *Partners are at liberty to determine the ratio of profit allocated to each one of them. This may be different from the ratio of capital investment. However, the partner who excludes himself from the management of the business cannot claim more than the ratio of his capital investment.*
- *Losses suffered by each partner must be exactly in proportion to his capital contribution.*

Sharia'a rules concerning Musharaka

The *Sharia'a* rules concerning *Musharaka* have been clearly set out by Usmani (1999):

1. *It is a condition of Musharaka that the capital of the company is specific, existent and immediately available. It is invalid to establish a company on non-existent funds or debt. The purpose of the company is to generate profit that can be disposed of and this cannot take effect in the event of the existence of debt or non-existent capital.*
2. *It is not a condition that partners have equal shares in capital. Though variation in shares is permissible, it is subject to agreement.*
3. *It is a condition that the capital of the company is money and tangible assets.*

4. *It is impermissible to impose conditions forbidding one of the partners from work, because each partner implicitly permits and gives power of attorney to the other partner to dispose of and work with the capital. It is permissible for one partner to singly work in the company with the mandate of the other partners.*
5. *A partner is a trustee of the funds received from the company and he provides guarantees only in cases of trespass or negligence. It is permissible to take a mortgage or a guarantee against trespass and negligence but it is impermissible to take security for profit or capital.*
6. *It is a condition that profit for each partner must be known in order to avoid uncertainty. It must be a pro rata ratio for all partners and must not be a lump sum because this contravenes the Sharia'a requirements relating to partnership.*
7. *In principle profit must be divided among partners in ratios proportionate to their shares in capital, but some of the jurists permit variation in profit shares whereupon it is determined by agreement. One of the partners may have more business acumen than the others so some variation in profit share may become necessary.*
8. *Each partner bears losses proportionate to its ratio of capital invested in the company and it is impermissible to impose conditions to the contrary.*
9. *In principle, partnership is a permissible and not a binding contract, so it is admissible for any partner to rescind the contract whenever it wishes provided that this occurs with the knowledge of the other partner or partners. Rescinding the contract without the knowledge of other partners prejudices their interests. Some of the jurists are of the view that the partnership contract is binding up to the liquidation of capital or the accomplishment of the project accepted at the contract inception.*

Practical examples of *Musharaka*

Although a *Musharaka* partnership structure can be, and is, used for carrying on ordinary commercial activities, the basic concept of a *Musharaka* has also been used as a technique for Islamic financial institutions to provide finance to commercial enterprises. For example, the concept of *Musharaka* can be used to structure a working capital facility for a company, where that company has had a record of profitability.

A *Musharaka* working capital facility would operate much like a conventional working capital facility. The Islamic financial institution would provide the funds to its customer, usually by the deposit of the funds to the customer's account with the financial institution. The customer would access those funds in the ordinary course of its business. The difference, however, is that instead of debiting the customer's account with a predetermined rate of interest, the Islamic institution would periodically debit the customer's account for an amount equal to a predetermined rate of profit, subject to adjustment on a regular basis, usually quarterly.

At the end of the financial year, the profits are calculated. If the amount due to the Islamic financial institution exceeds the provisional profit already debited from the account, the amount not paid to the Islamic institution will be credited to a special reserve account which the company will create in its books. Conversely, if the amount due to the financial institution is less than the provisional profit already collected by the Islamic institution, the special reserve account will be reduced by the amount of the excess payment to the Islamic institution. Upon the termination of the *Musharaka* financing, a final profit and loss account is prepared and, at that time, any balance in the special reserve account is shared by the financial institution and the customer in accordance with the ratio they have agreed upon at the inception of the contract.

If, during a financial year, the company generates losses, the special reserve account is reduced by the amount of those losses. If the balance of the special reserve account is insufficient to make good such losses, the customer may ask the Islamic financial institution for a refund (in whole or in part) of the provisional profits previously paid to the Islamic institution. The agreement between the financial institution and its customer lays down a time limit for this refund request.

Application of diminishing *Musharaka*

Usmani (1999) has provided several examples of the applications of diminishing *Musharaka*.

According to this concept, a financier and his client participate either in the joint ownership of property or equipment, or in a joint commercial enterprise. The share of the financier is further divided into a number of units and it is understood that the client will purchase the units of the share of the financier, one by one, periodically. This thereby increases the client's own share until all the units of the financier are purchased by the client thereby making the client the sole owner of the property, or the commercial enterprise, as the case may be. Diminishing *Musharaka*, based on the above concept, has taken different shapes in different transactions. Some examples are given below.

- **House purchase.** *Diminishing Musharaka has been used mostly in house financing. Say a client wants to purchase a house for which he does not have adequate funds. He approaches the financier who agrees to participate with him in purchasing the designated house. The client pays say a total of 20% of the price and the financier pays 80% of the price. Thus the financier owns 80% of the house while the client owns 20%. After purchasing the property jointly, the client uses the house for his residential requirements and pays rent to the financier for using his share in the property. At the same time the share of the financier is further divided into eight equal units, each unit representing a 10% ownership of the house.*

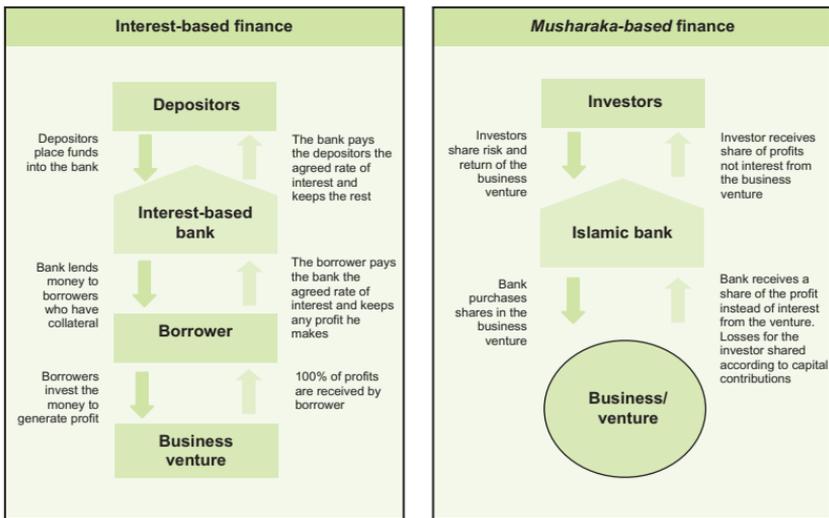
The client promises the financier that he will purchase one unit every three months. Accordingly, after the first term of three months, he purchases one unit of the share of the financier by paying a tenth of the price of the house. This reduces the share of the financier from 80% to 70%. Hence, the rent payable to the financier is also reduced to that extent. At the end of the second term, he purchases another unit thereby increasing his share in the property to 40% and reducing the share of the financier to 60% and consequentially reducing the rent to that proportion. This process goes on in the same fashion until, after the end of two years, the client purchases the whole share of the financier thereby reducing the share of the financier to zero and increasing his own share to 100%. This arrangement allows the financier to claim rent according to his proportion of ownership in the property and at the same time allows him a periodical return of a part of his principal through purchases of the units of his share.

- **Service sector applications.** Say “A” wants to purchase a taxi for offering transport services to passengers and to earn the income through fares recovered from them, but he is short of funds. “B” agrees to participate in the purchase of the taxi. They agree to purchase a taxi jointly. “B” pays 80% of the price and “A” pays 20% of the price. After the taxi is purchased, it is employed to provide taxi rides whereby the net income of say US\$1000 is earned on a daily basis. Since “B” has an 80% share in the taxi it is agreed that 80% of the fare will be given to him and the remaining 20% will be retained by “A” who has a 20% share in the taxi. This means that US\$800 is earned by “B” and US\$200 by “A” on a daily basis. At the same time the share of “B” is further divided into eight units. Every three months “A” purchases one unit from the share of “B”. Consequently the share of “B” is reduced to 70% and the share of “A” is increased to 30% meaning thereby that, as from that date, “A” will be entitled to US\$300 from the daily income of the taxi and “B” will earn US\$700. This process will go on until, after the expiry of two years, “A” will own the whole taxi and “B” will have been repaid his original investment, along with the income earned by him.
- **Small business applications.** Say “A” wishes to start the business of ready-made garments but lacks the required funds. “B” agrees to participate with him for a specified period, say two years. “A” contributes 40% of the investment and “B” contributes 60%. Both start the business on the basis of Diminishing Musharaka. The proportion of the profit allocated for each one of them is expressly agreed upon. But at the same time “B’s” share in the business is divided into six equal units and “A” keeps purchasing these units on a gradual basis until after the end of the two years “B” exits the business, leaving its exclusive ownership to “A”. Apart from periodical profits earned by “B”, he is repaid the price of the units of his share which, in practical terms, repays him the original amount invested by him.
- **Commercial and real estate applications.** Diminishing Musharaka has been successfully applied by Jordan Islamic Bank mainly to finance real estate projects and the construction of commercial buildings and housing projects. The bank finances the projects, fully or partially, on the basis that the bank obtains a proportion of the net profits as a partner and receives another payment toward the final payment of the principal advanced. When the original amount is fully repaid, the ownership is fully transferred to the partner and the bank relinquishes its claim. Jordan Islamic Bank has financed the construction of a commercial market in Irbid, a community college in Jerash and a hospital in Zerqa, using this method of financing.

Comparison of *Musharaka* with the conventional banking equivalent

One way of illustrating this issue is to observe the working mechanics of a conventional bank and its relationship with depositors and borrowers as in *Figure 2.5*, and to then compare this with *Musharaka* finance in an Islamic bank.

Figure 2.5. Conventional interest-based finance as compared with *Musharaka* finance



4 *Ijara* as a mode of Islamic finance

Ijara

Ijara is the transfer of ownership of a service for an agreed upon consideration. According to the *fugaha* (the Muslim jurists) the elements are as follows:

- a form, which includes an offer and consent.
- two parties: a lessor (the owner of the leased asset), and a lessee (the party who reaps the services of the leased asset).
- the object of the (*Ijara*) contract, which includes the rental amount and the service (transferred to the lessee).

Ijara Muntahia Bittamleek

Ijara contracts that end up with the transfer of ownership of leased assets to the lessee. *Ijara Muntahia Bittamleek* may take one of the following forms:

- (a) *Ijara Muntahia Bittamleek* that transfers the ownership of leased assets to the lessee, if the lessee so desires, for a price represented by the rental payments made by the lessee over

the lease term. At the end of the lease term, and after the last instalment is paid, legal title of the leased assets passes automatically to the lessee on the basis of a new contract.

- (b) *Ijara Muntahia Bittamleek* that gives the lessee the right of ownership of leased assets at the end of the lease term on the basis of a new contract for a specified price, which may be a token price.
- (c) *Ijara* agreements that gives the lessee one of three options that he may exercise at the end of the lease term:
- purchasing the leased asset for a price that is determined based on rental payments made by the lessee,
 - renewal of *Ijara* for another term, or
 - returning the leased asset to the lessor (owner).

Source:

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

Definition of *Ijara*

Ijara is a term of Islamic *fiqh* (Islamic jurisprudence). Lexically, it means to give something for rent. In Islamic jurisprudence, the term *Ijara* is used for two different situations.

The first and most common type of *Ijara* relates to the usage (usufructs) of assets and properties. *Ijara* in this sense means to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him. In this case, the term *Ijara* is analogous to the English term 'leasing'. Here the lessor, in Arabic, is called *Mu'jir*, the lessee is called *musta'jir* and the rent payable to the lessor is called *ujrah*.

The second meaning of *Ijara* is to employ the services of a person for wages paid to him as a consideration for his hired services. In other words it refers to the services of human beings. The employer, in Arabic, is called *musta'jir* while the employee is called *ajir*.

For example if “A” has employed “B” in his office as a manager on a monthly salary, “A” is a *mustajir*, and “B” is an *ajir*. Similarly, if “A” has hired the services of a taxi to take his baggage to the airport, “A” is a *mustajir* while the taxi-driver is an *ajir*. In both cases the transaction between the parties is termed an *Ijara*. This type of *Ijara* includes every transaction where the services of a person are hired by someone else. This person may be a doctor, lawyer, teacher, accountant or any person who can render some services which have a market value.

Usufruct: a definition

This term is used throughout all discussions regarding *Ijara*. Usufruct is the right of enjoying a thing, the property of which is vested in another, and to draw from the same all the profit, utility and advantage which it may produce, provided it be without altering the substance of the thing.

Ijara and *Ijara wa Iqtina* (*Ijara Muntahia Bittamleek*)

Ijara and *Ijara wa Iqtina* are unanimously considered by the Islamic scholars as permissible modes of finance under the *Sharia'a*, applying the leasing mode of finance.

The Islamic Development Bank (IDB), the largest trade financing institution in the Islamic world, defines leasing as a “medium-term mode of financing, which involves purchasing, and subsequently transferring, the right of use of equipment and machinery to the beneficiary for a specific period of time, during which time the IDB retains the ownership of the asset”.

Under the *Ijara* mode of financing the bank would buy the equipment or machinery and lease it out to their clients who may opt to buy the items eventually. In the latter case the monthly payments will consist of two components. These are, firstly, rental for the use of the equipment and, secondly, instalments towards the purchase price. The original amount of the rent for the leased assets should be fixed in advance. However, benchmarking against LIBOR is permitted.

The Western counterparts for these Islamic instruments would be operating leases and financial leases. An *Ijara*, or operating lease, is based on a contract between the lessor and lessee for the use of a specific asset. The lessor retains the

ownership of the asset and the lessee has possession and use of the asset on payment of specified rentals over a specified period. The rentals are insufficient to enable the lessor to fully recover the initial capital outlay. The residual is later recovered through disposal or re-leasing the equipment to other users.

An *Ijara wa Iqtina*, sometimes known as *Ijara Muntahia Bittamleek*, on the other hand, is more like a conventional financial lease. The rentals during the term of the lease are sufficient to amortise the leasing company's investment and provide an element of profit. The profit element in an *Ijara Wa Iqtina* is Islamically permissible, despite its similarity to an interest charge.

Under the *Ijara* scheme of financing, the bank purchases a real asset (the bank may purchase the asset as per the specifications provided by the prospective client) and leases it to the client. The period of lease, which may be from three months to five years or more, is determined by mutual agreement, according to the nature of the asset.

During the period of lease, the asset remains under the ownership of the bank but the physical possession of the asset and the right of use are transferred to the lessee, hence the term usufruct. After the leasing period expires the asset reverts to the lessor. The bank and the lessee agree upon a lease payment schedule based on the amount and terms of financing.

Definition of an *Ijara Muntahia Bittamleek*

Ijara wa Iqtina, sometimes known as *Ijara Muntahia Bittamleek*, is a form of leasing where a property (building or villa) is leased by the lessor to the lessee in a way that, at the end of an agreed lease period, the lessee becomes the owner of the property by purchasing it from the lessor during or at the end of the lease period at an agreed sale price.

Given the client's promise to lease from the bank, the bank will purchase, for the client and in the bank's name, a property specified in the client's promise and then lease it to the client on similar terms to a conventional financial lease. The lease rental is structured in such a way that at the end of the lease period, the purchasing cost and profit is recovered and the bank transfers the ownership of the property to the client for a

nominal sale price, or as a gift by a separate sale or gift contract at the end of the lease period.

What makes *Ijara Sharia'a* compliant?

The *Sharia'a* allows a fixed charge relating to tangible assets as opposed to financial assets because, by converting financial capital into tangible assets, the financier has assumed risks for which compensation is permissible. This is one of the key elements making a transaction Islamically acceptable.

Under this mode of finance the bank bears the risk of an economic recession or reduced demand for the assets.

Leasing also has been justified on the grounds that by retaining ownership the bank runs the risk of premature obsolescence. The rental equipment is often used in a transient manner and the lessor is charged with the responsibility for maintenance. In the case of rental the lessor is also charged with the responsibility for coping with the product's obsolescence, so that it may be regarded as a service-oriented business. This element of risk is a key component in making *Ijara* acceptable within the *Sharia'a*.

Practicalities of implementing *Ijara*

The points below describe how to practically implement *Ijara*:

1. *The contract of Ijara financing can be utilised by an Islamic bank to provide the customers with short- to medium-term financing to lease items. These items may include:*
 - *equipment;*
 - *machinery;*
 - *consumer goods;*
 - *computers;*
 - *motor vehicles;*
 - *other suitable and acceptable assets.*
2. *The usage of the asset to be leased by the customer and to be financed by the bank must not be haram (forbidden), such as the lease of a machine for processing alcoholic intoxicants.*

By converting financial capital into tangible assets, the financier has assumed risks for which compensation is permissible

3. *In the process of extending ijara financing to the customer, the following factors are to be considered:*
 - *used industrial equipment market;*
 - *second hand value;*
 - *capital allowances.*

4. *Repossession will be instituted by the lessor if the lessee defaults. Examples of default are:*
 - *default in payment;*
 - *failure to observe or perform any of the provisions of the lease;*
 - *a winding-up petition filed against the lessee;*
 - *lessee gives notice of its intention to redeem.*

5. *All costs incurred in the repossession process shall be borne by the lessee.*

6. *Guarantees: The concept of guarantee in Islam is known as Al Kafalah. Under ijara the provision of guarantees is allowable. Examples of guarantees are as follows:*
 - *personal or individual guarantee;*
 - *corporate guarantee.*

7. *Security:*
 - *As funds supplied by depositors and investors are utilised for financing and investment activities, the bank has a prime responsibility to protect their interest and normally extend financing on a secured basis in order to reduce the credit risks involved.*
 - *In Islam, the concept of security is known as Al-Rahn.*
 - *The land and building or other property acceptable by the bank can be accepted as collateral for a financing facility under ijara. Land and buildings can be secured by way of a legal charge.*

Rules of Islamic leasing

Islamic leasing is different from conventional leasing. The basic rules of Islamic leasing are set out by Usmani (1999):

1. *Leasing is a contract whereby the owner of something transfers its usufruct to another person for an agreed period, at an agreed consideration.*

2. *The subject of the lease must have a valuable use. Therefore items having no usufruct at all cannot be leased.*

3. *It is necessary, for a valid contract of lease, that the corpus of the leased property remains under the ownership of the seller, and only its usufruct is transferred to the lessee. Thus, anything which cannot be used without being consumed cannot be leased out. Therefore a lease cannot be effected in respect of money, eatables, fuel and ammunition and so on because their use is not possible unless they are physically consumed.*
4. *If anything of this latter nature is leased out, it will be deemed to be a loan and all the rules concerning a loan transaction shall accordingly apply. Any rent charged on this invalid lease will be deemed to be interest charged on a loan (riba).*
5. *As the corpus of the leased property remains under the ownership of the lessor, all the liabilities emerging from the ownership of the lessor must be borne by the lessor. However, the liabilities relevant to the direct use of the property shall be borne by the lessee.*
6. *The period of the lease must be determined in clear terms.*
7. *The lessee cannot use the leased asset for any purpose other than the purpose specified in the lease agreement. If no such purpose is specified in the agreement, the lessee can use it for whatever purpose it is used for in the normal course of the business. However, if the lessee wishes to use it for what may be categorised as an abnormal purpose, he cannot do so unless the lessor allows him to do so in express terms.*
8. *The lessee is liable to compensate the lessor for any damage to the leased asset caused by any misuse or negligence on the part of the lessee.*
9. *The leased asset shall remain at the risk of the lessor throughout the lease period in the sense that any harm or loss, caused by factors beyond the control of the lessee, shall be borne by the lessor.*
10. *A property jointly owned by two or more persons can be leased out, and the rental should be distributed between all the joint owners according to the proportion of their respective shares in the property.*
11. *A joint owner of a property can lease his proportionate share to his co-sharer only, and not to any other person.*

12. *It is necessary, for a valid lease, that the leased asset is fully identified by the parties.*
13. *The rental must be determined at the time of contract for the whole period of the lease. However, benchmarking against LIBOR is permitted.*
14. *The determination of rental on the basis of the aggregate cost incurred in the purchase of the asset by the lessor, as normally done in financial leases, is not against the rules of the Sharia'a, if both parties agree to it. This holds true provided that all the other conditions of a valid lease, prescribed by the Sharia'a, are fully adhered to.*
15. *The lessor cannot increase the rent unilaterally, and any agreement to this effect is void.*
16. *The rent or any other part thereof may be payable in advance before the delivery of the asset to the lessee, but the amount so collected by the lessor shall remain with him as an "on account" payment and must be adjusted towards the rent after its being due.*
17. *The lease period commences from the date on which the leased asset has been delivered to the lessee, irrespective as to whether the lessee has started using it or not.*
18. *If the leased asset has totally lost the function for which it was leased, and no repair is possible, the lease must terminate the day on which such loss has been caused. However, if the loss is caused by misuse or by negligence on the part of the lessee, he will be liable to compensate the lessor for the depreciated value up to what it was before the damage took place.*

Practical examples of *Ijara*

Islamic leasing (*Ijara*) and lease purchase (*Ijara Wa Iqtina*) are now widely accepted as financing instruments. Assets that can be leased range from vehicles and building machinery to equipment and even aircraft. But *Ijara* is considered particularly suitable for small- and medium-scale businesses whilst at the same time it helps growth in investment and capital formation within the economy.

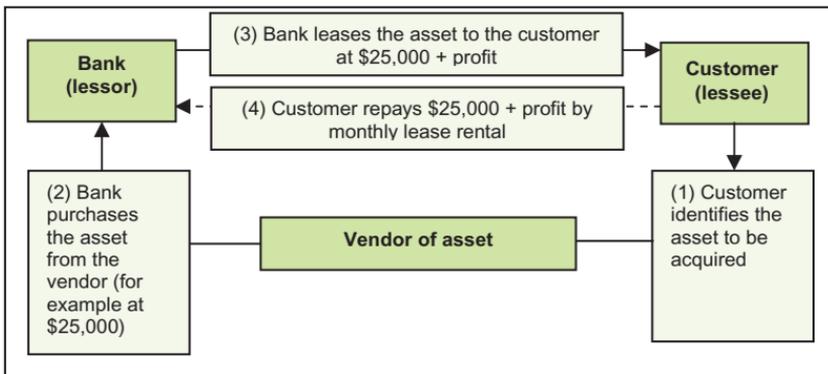
Lease purchase (*Ijara Wa Iqtina*), as discussed earlier, is a contract in which an Islamic bank purchases equipment, buildings or an entire project and rents them to the client. The client agrees to make payments, normally into an Islamic investment account, which will eventually lead to the client's purchase of the equipment or the project from the bank. The profits which accumulate in the investment account are paid to the client.

The Dubai-based Emirates Airline, in 1990, worked with the Al Rajhi Banking and Investment Corporation (ARBIC), which operates on Islamic principles, to raise \$US60 million lease financing for an A310-300 Airbus. This was the first aircraft leasing deal to be handled by an Islamic bank and it attracted support from Islamic commercial banks.

Ijara was used by Albaraka International Bank in London to finance the purchase of a new minicab fleet for Pakistani taxi drivers in Sheffield.

Figure 2.6 illustrates the steps involved in *Ijara*.

Figure 2.6. *Ijara* financing operation



Ijara Wa Iqtina lease purchase transactions

Lease purchase transactions are called *Ijara Wa Iqtina* (lease purchase arrangement). The basic idea behind these transactions is that an asset is given to the client for lease at an agreed rental. At the same time, the lessee is allowed to purchase the

asset at an agreed price. The technique is practised at Islamic banks in various forms, some of which are described below.

Al Baraka Bank uses the technique of *Ijara Wa Iqtina* to finance the purchase of large capital items such as property, industrial plant and heavy machinery. It involves direct leasing where investors in the scheme receive regular monthly payments which represent an agreed rental. At the expiry of the lease, the lessee purchases the equipment.

Bank Islam Malaysia also uses lease purchase contracts. The procedure adopted is the same as that described above except that the client and the bank enter into an agreement at the time of the lease that the client will purchase the equipment at an agreed price with the provision that the lease rentals previously paid shall constitute part of the price.

The lease purchase arrangement is also widely used by Islamic banks in Iran. The banks purchase the needed machinery, equipment or immovable property and lease it to firms. At the time of the contract, the firms guarantee to take possession of the leased assets if the terms of the contract are fulfilled. The terms of the lease cannot exceed the useful life of the asset which is determined by the Central Bank of Iran. Banks in Iran are not allowed to lease those assets whose useful life is less than two years. Furthermore, Article 10 of the Law of Usury Free Banking of 1983 authorises banks, in coordination with the Ministry of Housing and Urban Development, to undertake the construction of low priced residential units for sale on a lease purchase basis.

What are the differences between an *Ijara* lease contract and a conventional lease?

Sharia'a law does not object to payment for the use of an asset. The lessor will acquire the asset and will lease it to the client for an agreed sum, payable in instalments over a period of time. *Ijara* contracts may be entered into for the long-, medium- or short-term and may be adapted to fulfil the functions of either conventional finance or operating leases. Moreover, these contracts can be subject to English or US law. *Sharia'a* compliance is a moral rather than a legal issue. There are, however, a few

significant differences between a conventional Western lease and an *Ijara* lease.

Four of the main differences, and some of the mechanisms for circumventing the *Sharia'a* complications, are discussed below. It should be stressed that many of these techniques do not adhere to the spirit of Islamic finance.

1 Rental payments based on interest

Where an asset is financed by way of floating-rate funds, with conventional leasing, the owner will usually pass the risk of rate fluctuations down to the lessee through the rentals payable by the lessee. This originally created a problem in the Islamic context where lease rentals could not originally be directly expressed by reference to interest rates, an issue discussed earlier.

This difficulty was, to a certain extent, surmountable. In leasing transactions the lessor is providing an asset, not funds, so the return is in the form of rent, rather than principal and interest. The lessor is, in effect, using its funds productively to invest in an asset and is accepting the associated risk. In an *Ijara* lease the amount and timing of the lease payments should be agreed in advance, though the agreed schedule and amount of those payments need not be uniform.

In some leases the problem has been overcome by referring to the rental payable under the lease at the date of signing, but subject to adjustments by reference to provisions in other documents. In another lease variant, the rent can be adjusted by cross-reference to fluctuating rentals payable under a non-Islamic lease being signed at the same time and at the same rentals. Other transactions have included a rental adjustment letter linking rentals to LIBOR.

2 Penalty interest with a default

Western conventional leases usually provide for default interest on late payment of amounts due. This is not possible in Islamic leases. In an *Ijara* lease the same effect can be achieved in different ways, for example by providing for some form of discount formula, where an agreed rate of discount is applied for each day that payment is made prior to a backstop date. The

backstop date is chosen to reflect a commercial period in which funds might be expected, at the latest, to be paid. However, if payment is made after the backstop date, then the lessor cannot recover any additional amount. In other leases late-payment fees have replaced the conventional default interest penalty.

3 Insurance and maintenance issues

In contrast with most conventional leases, in an *Ijara* lease the responsibility for maintaining and insuring the leased asset remains that of the lessor throughout. Therefore, the owner or lessor will agree, in the lease, to ensure the maintenance and insurance of the asset.

The conventional position of the lessor relieving itself of these burdens can be achieved within the *Ijara* framework if the owner or lessor recovers the insurance costs by increasing the rental payments and if the lessor appoints the lessee, or another third party as its agent, to obtain the required insurance, in return for a fee.

Maintenance obligations can be dealt with in a similar way, where the lessor agrees in the lease to perform all maintenance and repair obligations but appoints the lessee or another third party to perform such obligations on behalf of the lessor, in return for a fee. The extent to which maintenance responsibilities have been transferred is usually reflected in the lease payments due from the lessee.

4 Sharia'a board issues

One distinct feature of Islamic financial institutions is the role of the *Sharia'a* board, which forms an integral part of an Islamic financing institution. The role of the *Sharia'a* board, discussed in detail in Chapter 4, is to monitor the workings of the Islamic financing institution from a *Sharia'a* standpoint and to review every new transaction to make sure that it is *Sharia'a* compliant. These boards include some of the most respected contemporary scholars of *Sharia'a* law. Yet *Sharia'a* law is open to interpretation and *Sharia'a* boards often have divergent views on key *Sharia'a* issues.

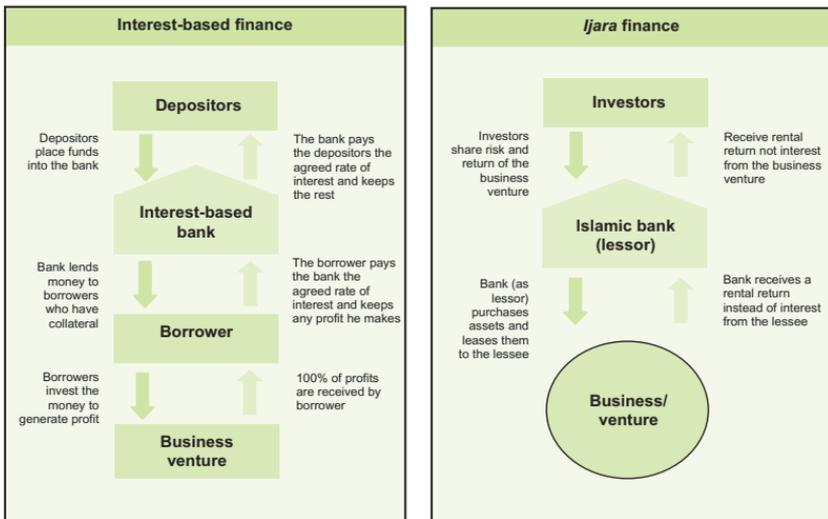
There is no fixed practical guide as to what constitutes the acceptable application of an Islamic financial instrument, and the suggestions mentioned above, which are designed to achieve the same effect as conventional leases within an *Ijara* framework, need to be viewed in this light. A document or structure may be accepted by one *Sharia'a* board but rejected by another.

To repeat, it should be stressed that many of the above mentioned techniques do not adhere to the spirit of the *Sharia'a*.

Comparison of *Ijara* with the conventional banking equivalent

One way of illustrating this issue is to observe the working mechanics of a conventional bank and its relationship with depositors and borrowers, and to then compare this with *Ijara* finance in an Islamic bank. See *Figure 2.7*.

Figure 2.7. Conventional interest-based finance as compared with Ijara finance



5 *Istisna'a* as a mode of Islamic finance

Istisna'a

Istisna'a is a sale contract whereby the purchaser asks the seller to manufacture a specifically defined product, using the seller's raw materials, at a given price.

Istisna'a is a sale contract between *al-mustasni'* (the ultimate purchaser) and *al-musania'a* (the seller). Under this system *al-musania'a* – based on an order from the *al-mustasni'* – undertakes to have manufactured or otherwise acquire *al-masnoo'* (the subject matter of the contract) according to specification and sell it to *al-mustasni'* for an agreed upon price and method of settlement. This is whether it is, at time of contracting, by instalments or deferred to a specific future time. It is a condition of the *Istisna'a* contract that *al-musania'a* should provide either the raw materials or the labour.

The contractual agreement of *Istisna'a* has a characteristic similar to that of *Salam* in that it provides

for the sale of a product not available at the time of sale. It also has a characteristic similar to an ordinary sale of goods in that deferred payment is allowed. However, unlike *Salam*, the price in the *Istisna'a* contract is not paid when the deal is concluded. A third characteristic of the contractual agreement of *Istisna'a* is that it is similar to *Ijara* (employment) in that labour is required in both.

Parallel *Istisna'a*

If *al-mustasni* (the ultimate purchaser) does not stipulate in the contract that *al-musania'a* (the seller) should manufacture the *al-masnoo'* by himself, then *al-sani'* may enter into a second *Istisna'a* contract in order to fulfil his contractual obligations in the first contract. This second contract is called a parallel *Istisna'a*.

Source:

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

Definition of *Istisna'a*

The word *Istisna'a* is derived from the Arabic term *Sina'a*, meaning to manufacture a specific commodity. *Istisna'a* is an agreement whereby a customer requiring an item, equipment, building, or project, which needs to be constructed, manufactured, fabricated, or assembled, approaches the bank for financing. The bank offers to have the said item constructed, manufactured, or assembled and then, after adding its profit margin, sells it to the customer. The buyer can pay the price later, either in a lump sum or in instalments.

Istisna'a is a financing method used for the production of specific goods. It is also a frequently applied model for construction finance. In essence, *Istisna'a* is an agreement whereby one party pays for goods to be manufactured or pays for something to be constructed. As a general rule the ultimate user will make periodic instalments according to the actual progress in construc-

tion or manufacturing. For example, a ferry company wanting to buy a new ship would make periodic instalment payments to the shipbuilder as the assembly process moves forward.

In theory the contract could be made directly between the end user and the manufacturer but typically it is a three-party contract, whereby the bank acts as an intermediary. This is achieved by using a structure called a parallel or back-to-back *Istisna'a* that consists of two *Istisna'a* contracts. This constitutes the basis of such an arrangement. Under the first agreement the bank agrees to let the client pay back on a longer-term schedule, whereas under the second contract the bank, in the role of a purchaser, makes progress instalments to the producer over a shorter period of time.

Normally, the bank achieves profits by adding a mark-up. Hence the bank's compensation is the differential between the values of payments under the two contracts.

Istisna'a* and parallel *Istisna'a

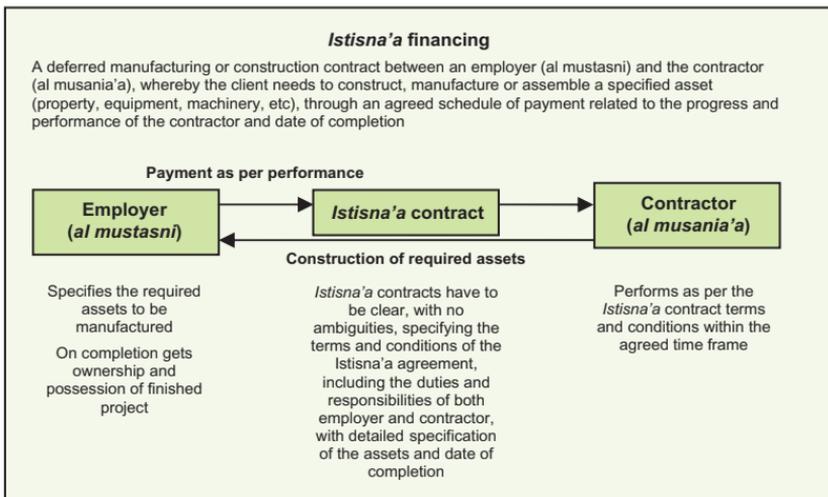
In *Istisna'a* the bank simultaneously enters into two parallel agreements as follows:

- **First agreement.** *This agreement is between the bank and the customer. The customer provides to the bank complete and detailed specifications for the item, equipment, building, or project to be acquired including its layout, design, materials to be used, as well as the desired quality and performance standards, and the time of completion. The specifications may also identify the contractors, manufacturers, and the suppliers of the raw materials. The customer may also provide an estimate of the costs involved, or the bank may obtain the quotations from the contractors, manufacturers or suppliers specified by the customer. The bank then adds, to the costs provided, its profit margin and quotes a price to the customer. On approval and acceptance by the customer, they enter into an agreement, which includes, among other things, the mode of payment to the bank. This could be in the form of a lump sum, or in instalments.*
- **Second agreement.** *This second agreement is between the bank and the contractors, manufacturers or suppliers. Along with the first agreement, the bank simultaneously enters into an agreement with the contractors, manufacturers or suppliers for the assembly, fabrication, manufacture or construction of the item, equipment, building, or project, by the given date, as per the specifications. The*

bank pays all the costs directly to them. On completion of the item, equipment, building, or project, the bank hands it over to the customer. The customer then pays the price either in lump sum, or by instalments, as agreed.

Figure 2.8 provides a summary of the parties concerned.

Figure 2.8. Summary of parties involved in *Istisna'a* financing



What makes *Istisna'a* Sharia'a compliant?

No direct support for the principle of *Istisna'a* can be found by studying the major sources of *Sharia'a* law. In fact, the majority of religious schools argue that *Istisna'a* is inconsistent with *Sharia'a* law. Only the Hanafi School of Islamic jurisprudence accepts the *Istisna'a* contract and then merely because there is a need within society and customary practice (*urf*) to have an Islamically acceptable form of project finance. Notwithstanding the lack of juristic support for *Istisna'a*, it is still a widely employed method among Islamic banks.

As regards the legal effect of the agreement within the *Sharia'a*, the majority of its supporters say that the *Istisna'a* contract is not binding on any party until the construction is ready and approved by the buyer or until the goods are made and accepted by the final purchaser.

Practicalities of implementing *Istisna'a*

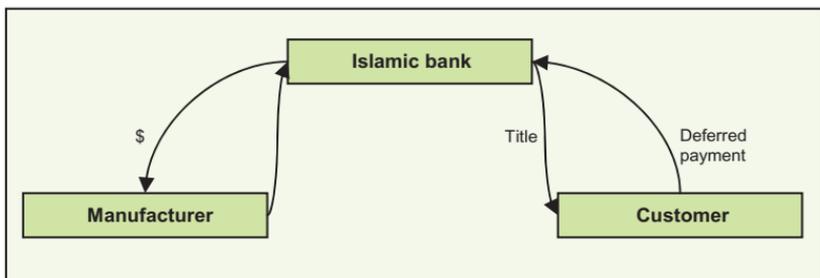
The deal usually starts with the client approaching a bank to finance, say, a new building. Rather than extending an interest-bearing loan, the bank may suggest using *Istisna'a* to construct an interest-free transaction. The client will be asked to present to the bank his ready-made blueprints and plans. He will also advise on his preferred contractor for possible consideration by the bank. After concluding a credit evaluation of the client, the contractor (usually the one recommended by the client) provides the bank with an estimate. This is usually valid for a few months.

During this time the bank will sign a contract with the client, whereby the latter is actually buying, on deferred payment terms, the specified asset which is to be constructed by the bank. The bank will then sign a contract with the contractor to construct the specified asset using exactly the same specifications and contract conditions agreed with the client. The bank's payment to the contractor will be in cash, while the bank receives the sale price from the client through instalments. This is Islamic financial intermediation in action.

The bank's profits are the difference between the cash payments made to the contractor and the deferred payment made by the client. Profit can be calculated in any which way, as long as the amount is known to the client at the time of contracting. The profit cannot be variable, and cannot be increased if instalments are not paid on time.

Figure 2.9 illustrates the parties to an *Istisna'a* contract.

Figure 2.9. Parties to an *Istisna'a* contract



Sharia'a* rules concerning *Istisna'a

The fundamental starting point is that an *Istisna'a* agreement is not a construction contract, although elements of it will likely deal with construction issues. It is a subset of *Sharia'a*-approved sale contracts.

***Sharia'a* rulings for *Istisna'a* are as follows:**

- *Istisna'a* is an exceptional mode of sale, at an agreed price, whereby the buyer places an order to manufacture, assemble or construct, or cause so to do something to be delivered at a future date.
- The commodity must be known and specified to the extent of removing any ambiguity regarding its specifications including kind, type, quality and quantity, in order to avoid gharar.
- The price of the goods to be manufactured must be fixed in absolute and unambiguous terms. The agreed price may be paid in lump sum or in instalments, as mutually agreed by the parties.
- The provision of the material required for the manufacture of the commodity is not the responsibility of the buyer.
- Unless otherwise mutually agreed, any party may cancel the contract unilaterally if the seller has not incurred any direct or indirect cost in relation thereto.
- If the goods manufactured conform to the specifications agreed between the parties, the orderer (purchaser) cannot decline to accept them unless there is an obvious defect in the goods. However, the agreement can stipulate that if the delivery is not made within the mutually agreed time period, then the buyer can refuse to accept the goods.
- The bank (the buyer in the *Istisna'a*) can enter into a parallel *Istisna'a* contract without any condition or linkage with the original *Istisna'a* contract. In one of the contracts the bank will be the buyer and in the second contract the seller. Each of the two contracts shall be independent of the other. They cannot be tied up in such a manner that the rights and obligations of one contract are dependent on the rights and obligations of the parallel contract.
- In *Istisna'a* transactions the buyer shall not, before taking possession (actual or constructive) of the goods, sell or transfer ownership of the goods to any other person.

- If the seller fails to deliver the goods, within the stipulated period, the price of the commodity can be reduced by a specified amount per day as per the agreement.
- The agreement can provide for a penalty payment calculated at the agreed rate in percent per day or per annum. This must be donated to charity. Any security or collateral provided can be sold by the bank (purchaser) without the intervention of a court.
- In the case of default by the client, the banks can also approach competent courts for an award of damages, at the discretion of the court. This must be determined on the basis of direct and indirect costs incurred, and not be related to the time value of money.

Practical examples of *Istisna'a*

Istisna'a is an Islamic financing structure best suited to finance the construction of capital equipment such as aircraft, oil rigs and machinery. Unlike *Murabaha*, where the investor can only buy the goods when they are completed, *Istisna'a* enables the Islamic investor to purchase, in advance, equipment under construction.

At the end of the construction period the equipment will be totally owned by the investor. At that point in time the Islamic investor (owner) can then sell the equipment spot, lease it or sell it on deferred basis to an end user.

Istisna'a can be used for providing financing in a variety of transactions, especially in the house finance sector. If the client has his own land and seeks financing for the construction of a house, the financier may undertake to construct the house on the land, on the basis of *Istisna'a*. If the client has no land the financier may undertake to provide him with a constructed house on a specified piece of land.

Since it is not necessary with *Istisna'a* that the price is paid in advance, nor is it necessary that it is paid at the time of delivery (it may be deferred at any time according to the agreement of the parties) the time of payment may be fixed in whatever manner is mutually agreed.

On the other hand it is not necessary that the financier himself constructs the house. He can enter into a parallel

Istisna'a contract with a third party, or may hire the services of a contractor (other than the client). In both cases, he can calculate his cost and fix the price of *Istisna'a* with his client in a manner which may give him a reasonable profit over his cost. The client may start to pay instalments right from the day when the *Istisna'a* contract is signed by the parties, and may continue during the construction of the house and after it is handed over to the client. In order to secure the payment of the instalments, the financier may keep the title deeds of the house or land, or any other property of the client as a security, until the last instalment is paid by the client. The financier, in this case, will be responsible for the construction of the house in full conformity with the specifications detailed in the agreement.

The UK-based ABC International Bank, a wholly-owned subsidiary of the Arab Banking Corporation (ABC) Group, in Bahrain, has pioneered a Parallel Phased *Istisna'a* (PPI), which sets new standards for the provision of *Sharia'a*-compliant construction finance in the UK.

One of the risks associated with *Istisna'a* financing for building contracts is that they can be expensive because of the drawn-out nature of construction activity and the possible delays that can very often occur. As such the financing naturally carries a cost of capital from the day it is disbursed.

ABC's PPI mitigates this scenario through the use of multiple phased *Istisna'a* contracts for specific parts of the construction cycle. In other words, the construction project is broken up into several *Istisna'as* which allows for a staggered financing and the drawdown of the funds, which subsequently carry a lower cost of capital. ABC International Bank has financed the construction of an inner-city residential development in Gotts Island, Leeds, in the UK, consisting of 183 residential flats and 72 parking spaces.

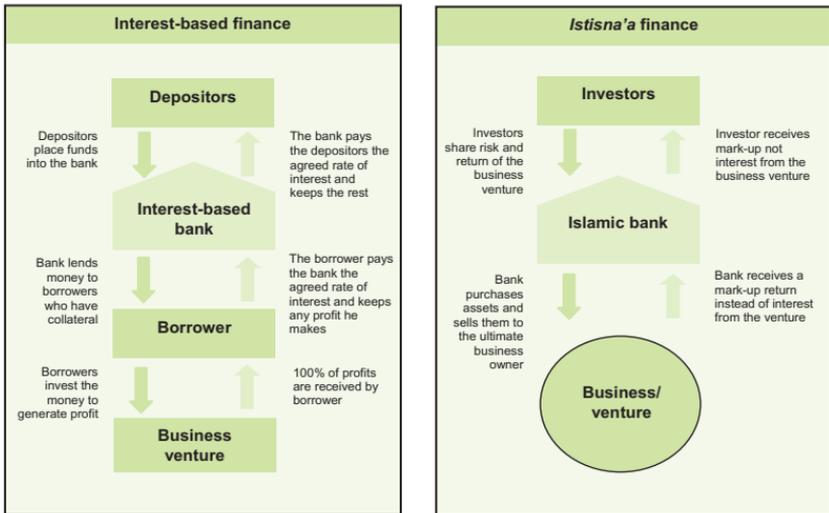
ABC entered into a contract with its equity partners, primarily investors from the Gulf Cooperation Council countries, and also has a separate contractual relationship with the developer, which, in the case of Phase II of the Gotts Island Project, is the UK-based Mayfair International Limited.

The *Istisna'a* contract may also be used for project financing on similar lines. If a client wants to install, say, an air conditioning plant in his factory, and the plant needs to be manufactured, the financier may undertake to construct the plant using the *Istisna'a* contract according to the aforesaid procedure. Likewise, the *Istisna'a* contract can be used for building a bridge or a motorway.

The modern Buy, Operate and Transfer (BOT) agreements may also be formalised on the basis of *Istisna'a*. If a government wants to construct a motorway, it may enter into a contract of *Istisna'a* with a builder. In this case, the business deal for the builder may be the right to operate the motorway and collect tolls for a specified period.

Figure 2.10 below illustrates the differences between an interest-based structure and that of an *Istisna'a* contract.

Figure 2.10. Conventional interest-based finance as compared with *Istisna'a* finance



What are the differences between *Istisna'a* and *Ijara*?

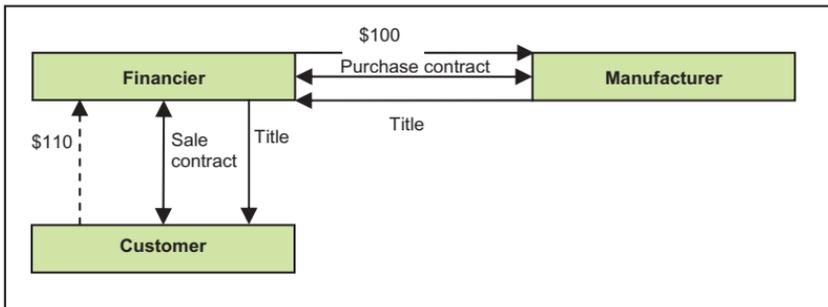
The manufacturer in *Istisna'a* undertakes to make the required goods with his own materials. This transaction therefore implies

that the manufacturer should obtain the necessary materials, if he does not already possess them, and will undertake the work required for making the ordered goods with it. *Istisna'a* differs from *Ijara* in that the manufacturer must procure his own raw materials. Otherwise the contract would amount to a hiring of the seller's wage labour as occurs under *Ijara*.

If the material is provided by the customer, and the manufacturer is required to use his labour and skill only, the transaction is not *Istisna'a*. In this case it will be an *Ijara* transaction whereby the services of a person are hired for a specific fee paid to him.

Figure 2.11 illustrates the *Istisna'a* mode of finance.

Figure 2.11. *Istisna'a* as a mode of finance



6 Salam as a mode of Islamic finance

Salam

Salam is a contract involving the purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions, or sale of a commodity for deferred delivery in exchange for immediate payment.

Parallel Salam

A Salam contract whereby the seller depends, for executing his obligation, on receiving what is due to

him — in his capacity as the buyer — from a sale in a previous Salam contract without making the execution of the second Salam contract dependent on the execution of the first one.

Source: *Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)*

Definition of *Salam*

Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date, in exchange for an advanced price fully paid at spot. Here the price received is in the form of cash, but the delivery of the purchased goods is deferred. The buyer, in Arabic, is called *muslam*, the seller *muslam ileihi*, the cash price is *ra's-ul-mal* and the purchased commodity is termed as *muslam fih*.

Salam involves selling something that does not already exist and would not normally be *Sharia'a* compliant, given the *Sharia'a* ruling mentioned earlier. *Salam* was allowed by the Prophet Mohammed subject to certain conditions. The basic purpose of this sale was to meet the needs of small farmers who needed finance to grow their crops (particularly dates) and to feed their families up to the time of harvest. After the prohibition of *riba*, they could not take usurious loans. They were allowed to sell agricultural products in advance in a forward market-type sale.

Similarly, the traders of Arabia used to export goods to other places and to import some other goods to their homeland. They needed finance to undertake this type of business. They could not borrow from the money lenders after the prohibition of *riba*. It was therefore made permissible that they could sell their goods in advance. After receiving their cash price, they could then more easily undertake their everyday business.

Not every commodity is suitable for a *Salam* contract. It is usually applied only to fungible commodities. Some basic rules, elaborated further below, governing the *Salam* sale are given here:

- *The price should be paid in full at the time of the contract.*
- *Goods whose quality or quantity cannot be determined by exact specification cannot be sold through the contract of Salam. An example of this would be precious stones.*
- *Goods can be sold only by specifying the attributes the goods possess. The goods, in the case of agricultural goods, cannot be particularised to a given farm, field or tree.*
- *The exact date and place of delivery must also be specified.*

Islamic banks can provide financing by way of a *Salam* contract by entering into two separate *Salam* contracts. For example, the bank could buy a commodity by making an advance payment to the supplier and fixing the date of delivery at the client's desired date. It can then sell the commodity to a third party, if the two were both *Salam* contracts.

This second contract would be for delivery of the same quantity and description as that constituting the subject matter of the first *Salam* contract.

The second contract would be concluded after the first contract, as its price has to be paid immediately upon conclusion of the contract.

To be valid from the *Sharia'a* point of view, the second contract must be independent (or not linked to the delivery in the first contract).

Practicalities of implementing *Salam* contracts

Guarantees and securities in a *Salam* contract are necessary to implement it. In order to ensure that the seller delivers the commodity on the agreed date, the bank can also ask the seller to furnish security, which may be in the form of a guarantee or in the form of a mortgage or hypothecation. In the case of default in delivery, the guarantor may be asked to deliver the same commodity and if there is a mortgage, the buyer or financier can sell the mortgaged property and the sale proceeds can be used either to realise the required commodity by purchasing it from the market or to recover the price advanced by the bank.

A *Salam* contract is a debt obligation, albeit in goods not money. It is normal, therefore, to support this obligation by guarantees and securities up to an amount equal to the value of the goods.

Sharia'a* rules concerning *Salam

As discussed earlier, it is one of the basic conditions for the validity of any sale in *Sharia'a* that the commodity (intended to be sold) must be in the physical or constructive possession of the seller. This condition has three elements:

1. *The commodity must exist. This means that a commodity which does not exist at the time of sale cannot normally be sold.*
2. *The seller should have acquired ownership of that commodity. This means that if the commodity exists but the seller does not own it, he cannot sell it to anybody.*
3. *Mere ownership is not enough. It should have come into the possession of the seller, either physically or constructively. If the seller owns a commodity, but he has not taken its delivery either himself or through an agent, he cannot sell it.*

There are only two exceptions to this general principle in the *Sharia'a*. One is *Salam* and the other is *Istisna'a*, discussed earlier. Both are sales of a special nature. *Salam* is beneficial to the seller, because he receives the price in advance.

The permissibility of *Salam* was an exception to the general rule that prohibits forward sales, and therefore it was subjected to some strict conditions.

Usmani (1999) has set out the *Sharia'a* rules regarding *Salam* (advance payment against deferred delivery sale).

These conditions are summarised below:

1. *Salam means a kind of sale whereby the seller undertakes to supply specific goods to a buyer at a future date in consideration of a price being fully paid in advance at the time the contract of sale is made.*
2. *The buyer pays the price in full to the seller at the time of effecting the sale. Otherwise it will be tantamount to a sale of debt against debt, which is expressly prohibited in the Sharia'a.*
3. *The specifications, quality and quantity of the commodity must be determined in order to avoid any ambiguity which could become a cause of dispute (gharar).*
4. *The date and place of delivery must be agreed upon but can be changed with mutual consent of the parties.*
5. *Salam can be effected in respect of the Arabic term Dhawatul-Amthal which classifies the acceptable Salam commodities as those which are homogenous in terms of characteristics and which are traded by counting, measuring or*



Salam is beneficial to the seller, because he receives the price in advance



weighing, according to usage and the customs of trade. Items such as precious stones, farm animals and so on cannot be sold through the contract of Salam because every stone or individual animal is normally different from any other.

- 6.** *It is necessary that the commodity, which is the subject of Salam contract, should normally be expected to be available at the time of delivery.*
- 7.** *Salam cannot be effected in respect of things which must be delivered spot. Examples are exchange of gold with silver or wheat with barley where it is necessary, according to the Shari'a, that the delivery of both be simultaneous.*
- 8.** *Salam cannot be tied to the produce of a particular farm, field or tree.*
- 9.** *In a Salam transaction, the buyer cannot contractually bind the seller to buy-back the commodity that will be delivered by the seller to the buyer. However, after the delivery is effected, the buyer and the seller can enter into a transaction of sale, independently and with free will.*
- 10.** *In Salam transactions the buyer shall not, before taking possession (actual or constructive) of the goods, sell or transfer ownership in the goods to any person.*
- 11.** *The bank (the buyer in Salam) can enter into a parallel Salam contract without any condition or linkage with the original Salam contract. In one contract the bank will be the buyer and in the second contract the seller. Each one of the two contracts shall be independent of the other. They cannot be tied together in a manner that the rights and obligations of the original contract are dependent on the rights and obligations of the parallel contract.*
- 12.** *In order to ensure that the seller delivers the commodity, on the agreed date, the bank can ask him to furnish security or guarantees.*
- 13.** *In the case of multiple commodities, the quantity and period of delivery for each of them should be separately fixed.*
- 14.** *A penalty can be agreed at the outset in the Salam contract for any delay in delivery of the commodity concerned by the client or the seller of the commodity. In that case, the client shall be liable to pay a penalty calculated at the agreed rate in percent per day or per annum. However, that penalty must be donated to charity. The banks can also approach competent courts for an award of damages, at the discretion of the courts. This must be determined on the*

basis of direct and indirect costs incurred, other than the time value of money or the opportunity cost. Also, security or collateral can be sold by the bank (purchaser) without the intervention of a court.

Parallel Salam: opportunities and complications

After purchasing a commodity by way of *Salam*, the financial institutions may sell it through a parallel *Salam* for the same date of delivery, as mentioned above. The period of *Salam* in the second (parallel) transaction being shorter, the price may be a little higher than the price of the first transaction and the difference between the two prices will be the profit earned by the institution. The shorter the period of *Salam*, the higher the price and the greater the profit. In this way the institutions may manage their short-term financing portfolios.

If a parallel *Salam* is not feasible, for one reason or another, the financial institution can obtain a promise to purchase from a third party. This promise should be unilateral from the expected buyer. Being merely a promise, and not the actual sale, their buyers will not have to pay the price in advance. Therefore, a higher price may be fixed as soon as the commodity is received by the institution. It will be sold to the third party at a pre-agreed price, according to the terms of the promise.

Another option is sometimes proposed. This is that, at the date of delivery, the commodity is sold back to the seller at a higher price. However, this suggestion is not in line with the dictates of the *Sharia'a*. It is never permitted, under the *Sharia'a*, that the purchased commodity is sold back to the seller before the buyer takes its delivery and, if it is done at a higher price, it will be tantamount to *riba* which is totally prohibited. Even if it is sold back to the seller after taking delivery from him, it cannot be pre-arranged at the time of original sale. This proposal is not acceptable under the *Sharia'a*.

Comparison of Salam with the conventional banking equivalent

One way of illustrating this is to observe the working mechanics of a conventional bank and its relationship with depositors

and borrowers, as in *Figure 2.12* on page 81 and to then compare this with *Salam* finance in an Islamic bank.

Salam can best be depicted as the flow chart in *Figure 2.13* on page 81.

Reference

Usmani, T.U. (1999) *An Introduction to Islamic Finance*. Idaratul Ma'arif. Karachi, Pakistan.

Figure 2.12. Conventional interest-based finance as compared with Salam finance

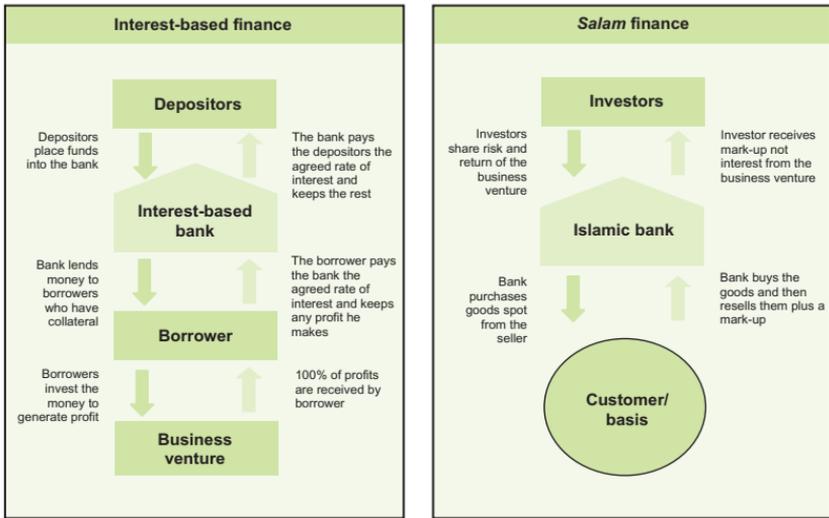
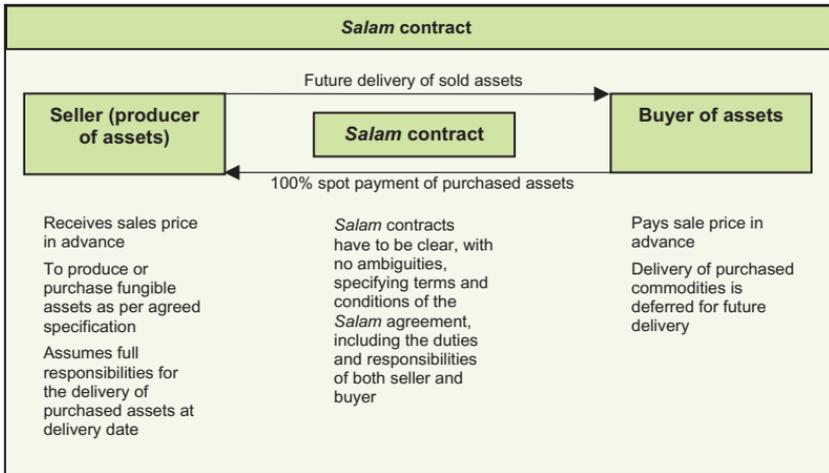


Figure 2.13. Salam flow chart



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Sharia'a *Law*

IT IS NOT ONLY
LAWYERS WHO
NEED TO KNOW
ABOUT IT

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The Source of the *Sharia'a*

The first source of *Sharia'a* law is the Holy Qur'an. The second source is the *Sunnah* or the Practise of the Prophet Mohammed who explained:

"I leave two things for you.

*You will never go astray while holding them firmly.
The Book of Allah and the Sunnah of His Prophet."*

The third source which may be classified as '*Ijma'*', the consensus of opinion of the '*Ulema'*', and the fourth source is '*Qiyas'*', analogical deductions.

What is the *Sharia'a*?

The legal system within which Islamic banking is implemented is that of *Sharia'a* law. I should stress that an appreciation of the principles is not just a subject for lawyers. Not surprisingly, an appreciation of *Sharia'a* law is essential to anyone seeking to grasp the principles within which Islamic banking has evolved and will certainly evolve in the future.

Allah is the Law Giver

Sharia'a is an Arabic word meaning the Path to be followed. Literally it means 'the way to a watering place'. It is the path not only leading to Allah, the Arabic word for God, but the path believed by all Muslims to be the path shown by Allah, the Creator Himself through His Messenger, the Prophet Mohammad. In Islam, Allah alone is sovereign and it is He who has the right to ordain a path for the guidance of mankind. Thus, Muslims believe, it is only *Sharia'a* that liberates man from servitude to other than Allah. This is the reason why Muslims are obliged to strive for the implementation of that path, and that of no other path.

In the *Sharia'a*, therefore, there is an explicit emphasis on the fact that Allah is the Lawgiver and the whole *Ummah*, the nation of Islam, is merely His trustee. It is because of this principle that the *Ummah* enjoys a derivative rule-making power and not an absolute law-creating prerogative. The Islamic world consists of one vast homogeneous commonwealth of people who have a common goal and a common destiny and who are guided by a common ideology in all matters both spiritual and temporal. The entire Muslim *Ummah* lives and operates under the *Sharia'a* and it is to this which every member has to submit, with sovereignty belonging to Allah alone. Clearly this system operates in parallel with the law of the land.

Every Muslim who is capable and qualified to give a sound opinion on matters of *Sharia'a* is entitled to interpret the law of Allah when such interpretation becomes necessary. In this sense Islam is a democracy. But where an explicit command of Allah or his Prophet already exists, no Muslim leader or legis-

lature, or any religious scholar can form an independent judgement. Not even all the Muslims of the world put together have any right to make the slightest alteration to it.

The *Sharia'a* is represented by the Council of Jurists (*Ulema* and *Fuqaha*) in whom the legislative function of deriving laws from the Book of Allah and the Sunnah is vested. New laws according to the needs of the time and circumstances are only made by these men learned in the guiding principles of *Sharia'a* law.

But the fundamental principle upon which rests the Islamic legal system is that the laws of Islam are not passed in a heated assembly by some who ardently desire the legislation, in their interest, against others who ardently oppose it, again in their interest. The laws of Islam are firmly based upon the *Sharia'a* and are therefore deemed to be in the interest of the people as a whole. They are not the work of warring politicians, but of sober jurists.

The difference between other legal systems and the *Sharia'a* is that, under the *Sharia'a*, its fountainhead is the Qur'an and *Sunnah*. The Qur'an and the *Sunnah* are the gifts given to the entire *Ummah*. Therefore the *Ummah* as a whole is collectively responsible for the administration of justice.

The other important point in this regard is that, under the *Sharia'a*, justice is administered in the name of Allah.

The sources of the *Sharia'a*

The ideal code of conduct, or a pure way of life as the *Sharia'a* is thought of by Muslims, has much wider scope and purpose than an ordinary legal system in the western sense of the term. The *Sharia'a* aims at regulating the relationship of man with Allah and man with man. This is the reason why *Sharia'a* law cannot be separated from Islamic ethics. The process of revelation of various injunctions of the Qur'an shows, Muslims believe, that the revelation came down when some social, moral or religious necessity arose, or when some of the Companions of the Prophet consulted the Prophet concerning any significant problems which had wide repercussions on the lives of Muslims.

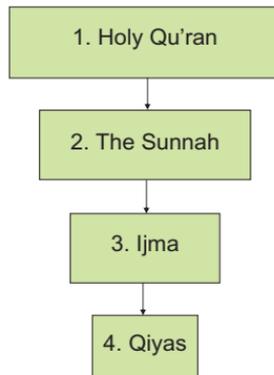
The laws of Islam are firmly based upon the *Sharia'a* and are therefore deemed to be in the interest of the people as a whole. They are not the work of warring politicians, but of sober jurists

The *Sharia'a* aims at regulating the relationship of man with Allah and man with man

The Qur'an is the main source of the *Sharia'a*

The scholars of the Qur'an have enumerated a varying number of verses of legal injunctions, with the number being approximately considered to be 500. They deal with marriage, polygamy, maintenance, rights and obligations of the spouses, divorce and various modes of dissolution of marriage, the period of retreat after divorce, fosterage, contracts, loans, deposits, weights and measures, removal of injury, oaths and vows, punishments for crime, wills, inheritance, equity, fraternity, liberty, justice to all, principles of an ideal state, fundamental human rights, laws of war and peace, judicial administration, etc. See *Figure 3.1* for details of the sources of the *Sharia'a*.

Figure 3.1. The sources of *Sharia'a* law



The Qur'anic injunctions, from which is derived the *Sharia'a*, are further explained and translated into practice by the *Sunnah* of the Prophet. *Sunnah* literally means a way, practice, rule of life and refers to the exemplary conduct or the model behaviour of the Prophet in what he said, did or approved. Thus it became a very important source of the *Sharia'a*, second only in authority after the Holy Qur'an.

Besides the Qur'an and the *Sunnah*, the consensus of the opinion of the learned men and jurists, known in the *Sharia'a* terminology as the *Ijma*, plays an important role in *Sharia'a* law since it provides a broad vehicle reflecting progress and

reconstruction. *Qiyas* or analogical deduction is also recognised as one of the sources of an Islamic legal system, particularly to Sunni Muslims, since it gives an instrument to cope with the growing needs and requirements of society. Such analogical deduction is based on very strict, logical and systematic principles. These four sources were illustrated in **Figure 3.1**.

Alongside these four sources, the *Sharia'a* takes into consideration *Istihsan* or juristic preference or equity of a jurist as against *Qiyas*. This helps in providing elasticity and adaptability to the entire Islamic legal system. The concept of *al-Masalih al Mursalah* (the matters which are in public interest and which are not specifically defined in the *Sharia'a*) has also become a part of the *Sharia'a* system.

The basic principles of *Sharia'a* can be summed up as follows:

- (a) *The larger interest of society takes precedence over the interest of the individual.*
- (b) *Although 'relieving hardship' and 'promoting benefit' are both among the prime objectives of the Sharia'a the former takes precedence over the latter.*
- (c) *A bigger loss cannot be inflicted to relieve a smaller loss or a bigger benefit cannot be sacrificed for a smaller one. Conversely, a smaller harm can be inflicted to avoid a bigger harm or a smaller benefit can be sacrificed for a larger benefit.*

The Qur'an: the primary source of the *Sharia'a*

The Qur'an is believed to be the miracle of Mohammad, the proof of his prophethood and a testimony to its divine origin.

Being the verbal noun of the root word *qara'a* (to read), 'Qur'an' literally means 'reading' or 'recitation'. It may be defined as 'the book containing the speech of God revealed to the Prophet Mohammed in Arabic and transmitted to us by continuous testimony'. It is a proof of the prophecy of Mohammed, the most authoritative guide for Muslims, and the first source of the *Sharia'a*. The *Ulema* (religious scholars) are unanimous on this, and some even say that it is the only source and that all other sources are explanatory to the Qur'an. The five

salient attributes of the Qur'an that are indicated in this definition may be summarised as:

- *it was revealed exclusively to the Prophet Mohammad;*
- *it was put into writing;*
- *it is all mutawatir (universally accurately reported);*
- *it is the inimitable speech of God; and*
- *it is recited in Salah (prayer).*

The first revelation of the Qur'an began on the 15th night of the month of Ramadan in the 41st year of the Prophet's life. Its first *Sura* (chapter) was revealed in the Cave of Hira when the verse, "*Recite in the name of thy Lord and Cherished who created man out of a (mere) clot of congealed blood. Proclaim and thy Lord is Most Bountiful*" was revealed.

The Qur'an was revealed to mankind gradually, over about twenty-three years, through the mediation of the archangel Gabriel.

There are 114 *Suras* (chapters) and 6235 *ayat* (verses) of unequal length in the Qur'an. The shortest of the *Suras* consist of four *ayat* and the longest of 286 *ayat*. Each chapter has a separate title. The longest *Suras* appear first and the *Suras* become shorter as the text proceeds.

As mentioned, the Qur'an consists of manifest revelation which is defined as communication from God to the Prophet Mohammed, conveyed by the angel Gabriel, in the very words of God. This the Prophet received in a state of wakefulness, and thus no part of the Qur'an originated in internal inspiration or dreams. God inspired the Prophet and the latter conveyed the concepts in his own words. All the sayings, or *hadith*, of the Prophet fall into the category of internal revelation and, as such, are not included in the Qur'an.

The *Ulema* are in agreement that the entire text of the Qur'an is *mutawatir*, that is, its authenticity is proven by uni-

versally accepted testimony. It has been retained both in memory and as a written record throughout the generations.

During the lifetime of the Prophet, the text of the Qur'an was preserved not only in memories, but also in inscriptions on such available materials as flat stones, wood and bones, which would explain why it could not have been compiled in a bound volume. Initially, the first Caliph, Abu Bakr, collected the Qur'an soon after the battle of Yamamah, which led to the death of at least seventy of the memorisers of the Qur'an. Zayd ibn Thabit, the scribe of the Prophet, was employed in the task of compiling the text, which he accomplished between 11 and 14 AH. But several versions of this edition soon crept into use. Hence the third Caliph, Uthman, once again utilised the services of Zayd to verify the accuracy of the text and compiled it into a single volume. All the remaining variations were then destroyed. As a result, only one authentic text has remained in use to this day.

Out of over 6,200 *ayat*, less than one-tenth relate to law and jurisprudence, while the remainder are largely concerned with matters of belief and morality, the five pillars of the faith and a variety of other themes. The concept of economic and social justice, including its legal contents are, on the whole, subsidiary to its religious call.

The *Sunnah*: the secondary primary source of *Sharia*'a

Literally, *Sunnah* means a clear path or a beaten track but it is also used to imply normative practice, or an established course of conduct.

In pre-Islamic Arabia, the Arabs used the word *Sunnah* in reference to the ancient and continuous practices of the community that they inherited from their forefathers.

In the Qur'an, the word *Sunnah* has been used to imply an established practice or course of conduct.

The prime source of the religion of Islam is the Qur'an, as mentioned. The Qur'an is the word of Allah to all Muslims. The Prophet did not have anything to do with its words; it was revealed to him as it is now read. Whilst the Qur'an gives the Muslims a primary rule of life, there are many matters where



**Only one
authentic text
has remained in
use to this day**





***Sunnah means
a way or rule
or manner of
acting or mode
of life***



guidance for practical living is necessary but about which the Qur'an says nothing. In such cases the obvious thing was to follow the custom or usage of the Prophet (i.e. *Sunnah*). There were ancient customs which could be accepted in some matters, but on matters peculiar to the religion of Islam there was the custom of the earliest believers who had been the contemporaries and companions of the Prophet and who presumably would act in matters of religion according to the custom of the Prophet himself. Eventually there came into existence statements as to what the *Sunnah* of the earliest Muslims was on a variety of matters.

Literally, *Sunnah* means a way or rule or manner of acting or mode of life. In consequence of this, there arose in Islam a class of students who made it their business to investigate and hand down the minutest details concerning the life of the Prophet.

After his death, reports of the Prophet's sayings and doings began to circulate. These sayings continued to increase from time to time as they were collected from the *Sahaba*, the Companions of the Prophet, and became subject to standardisation and selection.

The records of the sayings, therefore, were called *hadith*; the rest, as a whole, was called the *Sunnah* (custom or usage).

The *hadith* is the second pillar, after the Qur'an, upon which every Muslim rests the fabric of his faith and life. The body of traditions circulated orally for some time, as indicated by the word '*hadith*', commonly used to mean tradition and which literally means a saying conveyed to man either through hearing or through witnessing an event. It is also used to denote 'conversation' i.e. the telling of something new.

To the *Ulema of hadith*, the *Sunnah* refers to all that is narrated from the Prophet, his acts, his sayings and whatever he has tacitly approved, plus all the reports which describe his physical attributes and character.

Notwithstanding the fact that the *Ulema* have used *Sunnah* and *hadith* almost interchangeably, the two terms have meanings of their own. Literally, *hadith* means a narrative, communication or news consisting of the factual account of an event. The word

occurs frequently in the Qur'an (twenty-three times) and in all cases it carries the meaning of a narrative or communication. In none of these instances has *hadith* been used in its technical, exclusive sense, that is, the sayings of the Prophet. In the early days of Islam, following the demise of the Prophet, stories relating to the life and activities of the Prophet dominated all other kinds of narratives, so the word began to be used almost exclusively for a narrative from, or a saying of, the Prophet.

Hadith differs from the *Sunnah* in that *hadith* is a narration of the conduct of the Prophet whereas the *Sunnah* is the example or the law that is deduced from it. *Hadith* in this sense is the vehicle or the carrier of *Sunnah*, although the *Sunnah* is a wider concept and used to be so especially before its literal meaning gave way to its juristic usage. The *Sunnah* thus refers not only to the *hadith* of the Prophet but also to the established practice of the community.

What is the difference between the Qur'an and the *Sunnah*?

The Qur'an was recorded in writing from beginning to end during the lifetime of the Prophet, and he ascertained that the Qur'an was preserved as he received it through divine revelation. The Prophet clearly expressed the concern that nothing of his own *Sunnah* should be confused with the text of the Qur'an. This was, in fact, the main reason why he discouraged his Companions, at the early stage of his mission, from reducing the *Sunnah* into writing lest it be confused with the Qur'an. The *Sunnah*, on the other hand, was mainly retained in memory by the Companions who did not, on the whole, keep a written record of the teachings of the Prophet. There were perhaps some exceptions as the relevant literature suggests that some, though only a small number, of the Companions held collections of the *hadith* of the Prophet which they wrote and kept in their private collections. The overall impression, however, is that this was done on a fairly limited scale.

The priority of the Qur'an over the *Sunnah*

As the *Sunnah* is the second source of the *Sharia'a* after the Qur'an, the *mujtahid* (scholar of Islamic law) is bound to



The jurist must resort to the Sunnah only when he fails to find any guidance in the Qur'an



observe the order of priority between the Qur'an and the *Sunnah*. Hence in his search for a solution to a particular problem, the jurist must resort to the *Sunnah* only when he fails to find any guidance in the Qur'an. Should there be a clear text in the Qur'an, it must be followed and be given priority over any ruling of the *Sunnah* which may happen to be in conflict with the Qur'an. The priority of the Qur'an over the *Sunnah* is partly a result of the fact that the Qur'an consists wholly of manifest revelation whereas the *Sunnah* mainly consists of internal revelation and is largely transmitted in the words of the narrators themselves.

The other reason for this order of priority relates to the question of authenticity. The authenticity of the Qur'an is not open to doubt. It is, in other words, decisive, in respect of authenticity and must therefore take priority over the *Sunnah*.

Ijma* (consensus): The first secondary source of the *Sharia'a

The primary sources of the *Sharia'a* are the Qur'an and the *Sunnah*, as mentioned. The secondary sources are *Ijma*, *Qiyas* and *Ijtihad* – which are derived from the legal injunctions of the Holy Qur'an and the *Sunnah* of the Prophet. The final sanction for all intellectual activities in respect of the development of *Sharia'a* comes from nowhere else but the Qur'an. Any *hadith* which goes contrary to the Qur'an is not to be considered as authentic.

Apart from the Qur'an and the *Sunnah*, the two acknowledged primary sources of the *Sharia'a*, there are two secondary sources *Ijma* and *Qiyas*. *Ijma* refers to the consensus of juristic opinions of the learned *Ulema* of the *Ummah* after the death of the Messenger of Allah, the Prophet Mohammed.

Ijma can be defined as the consensus of opinion of the companions of the Prophet (*Sahaba*) and the agreement reached on the decisions taken by the learned *Muftis*, or jurists, on various Islamic matters.

Unlike the Qur'an and *Sunnah*, *Ijma* does not directly partake of divine revelation. *Ijma* is the verbal noun of the Arabic word *ajma'a*, which means 'to determine and to agree upon something'. The second meaning of *Ijma* often subsumes

the first, in that whenever there is a unanimous agreement on something, there is also a decision on that matter. Whereas a decision can be made by one individual or by many, unanimous agreement can only be reached by a plurality of individuals.

Ijma is defined as the unanimous agreement of the Muslim community for any period, following the demise of the Prophet Mohammed, on any matter.

It is clear from its definition that *Ijma* can only occur after the demise of the Prophet. During his lifetime, the Prophet alone was the highest authority on *Sharia'a*; hence the agreement or disagreement of others did not affect the overriding authority of the Prophet. In all probability, *Ijma* occurred for the first time among the Companions in the city of Medina.

Following the demise of the Prophet, the Companions used to consult each other about the problems they encountered, and their collective agreement was accepted by the community. After the passing of the Companions, this leadership role passed on to the next generation, the Successors, and then to the second generation of Successors, and so on. When these latter differed on a point, they naturally referred to the views and practices of the Companions and the Successors. In this way, a fertile ground was created for the development of the theory of *Ijma*.

The essence of *Ijma* lies in the natural growth of ideas. It begins with the personal view of individual jurists and culminates in the universal acceptance of a particular opinion over a period of time. Differences of opinion are tolerated until a consensus emerges.

Ijma represent authority. Once an *Ijma* is established it tends to become an authority in its own right.

Qiyas* (analogical reasoning): The second secondary source of the *Sharia'a

Literally *Qiyas* means measuring or ascertaining the length, weight or quality of something.

Qiyas also means comparison, with a view to suggesting equality or similarity between two things. *Qiyas* thus suggests



Differences of opinion are tolerated until a consensus emerges

an equality or close similarity between two things, one of which is taken as the criterion for evaluating the other.

Technically, *Qiyas* is the extension of a position from the *Sharia'a* to a new case, on the grounds that the latter has the same effective cause as the former. The original case is regulated by a given text, and *Qiyas* seeks to extend the same textual ruling to the new case. It is by virtue of the commonality of the effective cause, or '*illah*', between the original case and the new case that the application of *Qiyas* is justified. A recourse to analogy is only warranted if the solution of a new case cannot be found in the Qur'an, the *Sunnah* or a definite *Ijma*.

Qiyas is defined, in Islamic theological parlance, as analogy, or analogical deduction. In other words, *Qiyas* is the legal principle introduced in order to arrive at a logical conclusion of a certain law on a certain issue that has to do with the welfare of Muslims. In exercising this, however, it must be based on the Qur'an, *Sunnah* and *Ijma*.

This legal principle was introduced by Imam Abu Hanifah, the founder of the Hanafi School, in Iraq. The reason why he introduced it was connected with the intention of curbing the excessive thinking and digression of the people from strict Islamic principles.

During the period of the Abbasids (750–1258 AD), people engaged themselves in reading various text books on logic, philosophy, etymology, linguistics, the literature of various places, foreign text books which, some argued, tended to corrupt their minds and lead them astray. They wanted to apply what they had studied in these foreign text books regarding Islamic jurisprudence. Many new Muslims in far away lands were applying the local philosophical outlook, their culture and even some religious notions concerning the role of Islam. Abu Hanifah introduced *Qiyas* so as to curb their excessive thinking and to ensure that Islamic principles were consistently upheld.

During the lifetime of the Companions of the Prophet the Companions arrived at various decisions on analogical deductions. To take an example concerning the punishment that should be given to a drunkard. Sayyidna Ali concluded by

saying: “He who drinks, get drunk; he who gets drunk, raves; he who raves, accuses people falsely and he who accuses people falsely should be given eighty strokes of cane. Therefore, he who drinks should be given eighty strokes of cane.” It is deemed perfectly acceptable for scholars to use *Qiyas* in deriving a logical conclusion in *Sharia’a* law in as much as that conclusion does not go against the injunctions of the Holy Qur’an or the *Sunnah* of the Prophet.

Ijtihad

The Arabic word *Ijtihad* literally means an effort or an exercise to arrive at one’s own judgement.

In its widest sense, it means the use of human reason in the elaboration and explanation of *Sharia’a* law. It covers a variety of mental processes, ranging from the interpretation of texts of the Qur’an and the assessment of the authenticity of the *ahadith*. *Qiyas* or analogical reasoning, then, is a particular form of *Ijtihad*, the method by which the principles established by the Qur’an, *Sunnah*, and *Ijma* are to be extended and applied to the solution of new problems not expressly regulated before.

Ijtihad, therefore, is an exercise of reasoning to arrive at a logical conclusion on a legal issue undertaken by the jurists, to deduce a conclusion as to the effectiveness of a legal precept in Islam.

Any form of *Ijtihad* must have its starting point in a principle of the Qur’an, *Sunnah*, or *Ijma* and cannot be used to achieve a result which contradicts a rule established by any of these three fundamental sources. Whenever a new case issue presents itself, reasoning by *Qiyas* with an original case covered by the Qur’an the *Sunnah* or *Ijma* is possible provided the effective cause ‘illah is common to both cases.

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Sharia'a Boards

ROLES,
RESPONSIBILITY
AND
MEMBERSHIP



Sharia'a Boards are mandatory for Islamic banks and Islamic financial institutions. This is one of the key differences between Islamic and conventional banking. This chapter highlights the precise functions, membership and responsibilities of the Sharia'a Board.

The ultimate arbiters of the Islamic finance industry are not regulators, bespoke-suited bankers or the authorities, but a small, select coterie of ascetically garbed scholars versed in Qur'anic verses and arcane areas of jurisprudence.

This was made abundantly clear in 2008 when Sheikh Taqi Usmani, a leading scholar of Sharia'a-compliant finance, shocked the industry by declaring many Islamic bonds, or *sukuk*, had gone too far in mimicking conventional debt.'

Source: The Times, May 4, 2009

I heard Allah's Messenger say "The Halāl (permissible) is clear and the Harām (forbidden)" is clear. Between these are matters that are doubtful. Most people do not know whether these are from the Halāl or from the Harām. So, he who leaves it (such matters) to guard his religion (against adulteration) and his integrity has indeed saved himself. He who engages (to any degree) into any of these (doubtful matters) would soon engage in the Harām just as he who grazes (animals) around (another's) territory is likely to enter into it. Be cautious! Each king has a territory. Be cautious! And the (prohibited) territory of Allah is His prohibitions.

Hadith narrated by an bin Bashir R.A.

What are the objectives of the *Sharia'a*?

These were discussed in Chapter 3 but are so central to an appreciation of Islamic banking that it is worth reiterating them here.

The flavour of the principles underlying *Sharia'a* law can be illustrated by the *ahadith* below:

"The basis of the Sharia'a is the wisdom and welfare of the people in this world, as well as the hereafter. This welfare lies in complete justice, mercy, well-being and wisdom. Anything that departs from justice to oppression, from mercy to harshness, from welfare to misery and from wisdom to folly, has nothing to do with the Sharia'a." (Ibn Al-Qayyim)

"The very objective of the Sharia'a is to promote the welfare of the people which lies in safeguarding their faith, their life, their intellect, their posterity and their property. Whatever ensures the safeguard of these objectives serves public interest and is desirable." (Al-Ghazali)

Sharia'a: the framework of Islamic banking

The origin and basis of Islamic banking is the *Sharia'a*, i.e. Islamic laws, sometimes referred to as Islamic jurisprudence.

Box 4.1 provides definitions of some of the key *Sharia'a* terms used in Islamic banking.

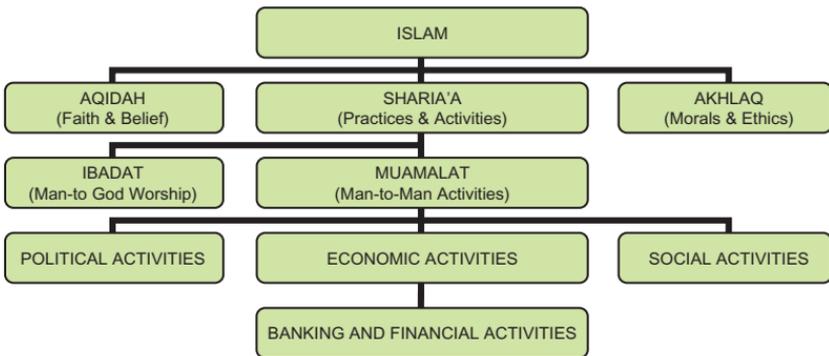
Box 4.1. Some *Sharia'a* terminology

***Sharia'a*:** A *Sharia'a* product must meet all the requirements of Islamic law. To facilitate this, a *Sharia'a* Board is usually appointed. This board, or committee, is usually comprised of Islamic scholars available to the organisation for guidance and supervision for the development of *Sharia'a* compliant products.

***Sharia'a* scholar:** An independent professional, usually a classically trained Islamic legal scholar, appointed to advise an Islamic financial organisation, on the compliance of its products and services, with Islamic law, the *Sharia'a*. While some organisations consult individual *Sharia'a* scholars, most establish a committee of *Sharia'a* scholars.

***Sharia'a* compliant:** The activity that ensures that the requirements of the *Sharia'a* or Islamic law are observed. The term is often used in the Islamic banking industry as a synonym for 'Islamic', for example, *Sharia'a*-compliant financing or *Sharia'a*-compliant investment.

Figure 4.1. Islam, *Sharia'a*, *Muamalat* and banking and finance



In the faith and belief of a Muslim, Islam is the religion revealed by Allah to his last prophet, Mohammed. It is a complete religion, embracing all facets of his mundane activities in this world and his state of affairs in the world hereafter.

The teaching of Islam encompasses the essence of economic well-being and development of Muslims at the individual, family, society, state and *Ummah* (or Islamic universal community) levels. *Figure 4.1* illustrates the Islamic view of life of a

Muslim and the place of his economic activities, including banking and financial activities, within the framework of such a view.

As shown in Figure 4.1, Islam may be perceived as comprising three basic elements. The first element is *Aqidah*, which concerns all forms of faith and belief by a Muslim in Allah and His will, from the fundamental faith in His being to the ordinary beliefs in His individual commands (*ahkam*). The second element is *Sharia'a*, which concerns all forms of practical actions by a Muslim manifesting his faith and belief. The third element is *Akhlaq*, which concerns the behaviour, attitude and work ethics within which a Muslim performs his practical day-to-day activities.

Sharia'a, being the practical aspects of a Muslim's daily life, is then divided into two categories: *Ibadat* and *Muamalat*. *Ibadat* is concerned with the practicalities of worship to Allah, in the context of the man-to-Allah relationship. *Muamalat*, however, is concerned with the practicalities of mundane daily life, in the context of various forms of man-to-man relationships.

A significant segment of *Muamalat* is the conduct of a Muslim's economic activities within the economic system. Within the economic system one finds the banking and financial system, the place where Muslims conduct their banking and financial activities.

Thus, in the Islamic scheme of life and *Sharia'a* framework, a Muslim's banking and financial activities can be traced through his economic activities, back to *Muamalat*, to *Sharia'a*, to Islam, and finally to Allah. This is the root of Islamic banking and finance.

Sharia'a is the religious law of Islam. As Islam makes no distinction between religion and daily life, *Sharia'a* law covers not only the religious rituals but every aspect of life. The actual codification of canonic law is the result of the concurrent evolution of jurisprudence proper and the so-called science of the roots of jurisprudence (*usul al-fiqh*).

A general agreement was reached, in the course of the formalisation of Islam, as to the authority of four such roots: the



A Muslim's banking and financial activities can be traced through his economic activities, back to Muamalat, to Sharia'a, to Islam, and finally to Allah



Qur'an in its legislative segments; the example of the Prophet as related in the *hadith*; the consensus of the Muslims (*Ijma*), premised on a saying by Muhammad stipulating "My nation cannot agree on an error"; and reasoning by analogy (*Qiyas*). These concepts were discussed in Chapter 3.

Another important principle is *Ijtihad*, the extension of *Sharia'a* to situations neither covered by precedent nor explicable by analogy to other laws.

These roots provide the means for the establishment of prescriptive codes of action and for the evaluation of individual and social behaviour.

The basic scheme for all actions is a fivefold division of categories and encompasses obligatory, meritorious, permissible, reprehensible, and forbidden Islamic modes of conduct.

Numerous schools of jurisprudence emerged in the course of Islamic history. Four co-exist today within Sunni Islam, with one or more dominant in particular areas; Maliki (North and West Africa), Hanafi (Turkic Asia), Shafii (Egypt, East Africa, South-East Asia) and Hanbali (Saudi Arabia).

Shiite jurisprudence is often referred to as *Jafari*.

While these schools of jurisprudence vary on certain rituals and practices, they are perceived as being complementary rather than mutually exclusive.

Compliance with the scheme of *Sharia'a* laws

Within the Islamic scheme of life Islam imposes its *ahkam* (laws), in modern terminology norms or values, on its believers. These laws or values are not man-made. Instead they are ordained by Allah. These laws are derived from the sources of *Sharia'a*. The two primary sources are:

1. *Qur'an*
2. *Sunnah*

These laws, as derived from the above sources, are arranged into the following five level schemes depending on the approach Muslims should adopt to them:

- (i) *Fard or Wajib: An obligatory duty, the omission (i.e. not doing) of which is punishable.*
- (ii) *Mandub or Mustahab: An action which is rewarded Islamically, but the avoidance of which is not punishable.*
- (iii) *Jaiz or Mubah: An action which is permitted, with the law being indifferent.*
- (iv) *Makruh: An action which is disliked, yet not punishable Islamically, but the avoidance of which is rewarded.*
- (v) *Haram: An action which is absolutely forbidden and punishable.*

Banking and financial activities, being part and parcel of Islamic *Muamalat*, are therefore subject to the *Sharia'a* law on *Muamalat*.

The Sharia'a Supervisory Board (SSB)

To ensure that their banking activities are in conformity with the *Sharia'a* law, religious supervisory boards are mandatory for Islamic banks and Islamic financial institutions. Also called the Sharia'a Supervisory Committee or sometimes Sharia'a Supervisory Board (SSB), the SSB examines contracts, dealings and transactions to assure that Islamic beliefs are being implemented.

The SSB is there to guarantee, and certify, that the banking activities are *halal* (permissible). The SSB is merely an advisory body, but nevertheless it has an authoritative and respected function as the bank entrusts the SSB with questions as to the permissibility of its activities.

Function and responsibilities

The four central responsibilities of an SSB are:

- (i) *to ensure that the banking facilities and services are in accordance with Islam;*
- (ii) *to guarantee that the bank's investments and involvement in projects are Sharia'a-compliant;*

(iii) *to ensure that the bank is managed in conformity with Islamic values; and*

(iv) *to issue fatawas.*

In its articles of association the Faisal Bank of Egypt stated that “A Religious Supervisory Board shall be formed within the Bank to observe conformance of its dealings and actions with the principles and rulings of Islamic Sharia’a”.

The International Association of Islamic Banks (IAIB) has chosen a more scrupulous clarification of the duties imposed on its supervisory committee.

In Article 2 of its Statute, IAIB has entrusted its SSB with the following duties:

(i) *to study fatawas previously issued, assess its constituency with the Sharia’a and, when appropriate, base its own rulings on these decisions;*

(ii) *to supervise the activities of the bank in order to guarantee conformity with the Islamic law;*

(iii) *to issue religious opinions on banking and financial questions; and*

(iv) *to clarify legal religious rulings on new economic issues.*

Sharia’a Boards: Roles and scope of responsibilities

Sharia’a scholars have both supervisory and consultancy functions.

Categorically, the overall applications of the *Sharia’a* by *Sharia’a* scholars have a two-fold objective.

Firstly, the *Sharia’a* scholars review the operations of the institutions participating in the Islamic financial markets, ensuring that they comply with the requirements of the *Sharia’a*. This is, to a large extent, equivalent to an investigatory role.

Secondly, in the increasingly complex and sophisticated world of modern and dynamic Islamic finance, the *Sharia’a*



Institutions participating in the Islamic financial markets are required to establish operating policies and procedures to ensure that their activities, investments or operations, are undertaken in line with Sharia'a requirements



scholars endeavour to answer any issues or concerns for a particular transaction or product conformation with the *Sharia'a*, and, where deemed necessary, offer constructive, creative and/or alternative recommendations.

Institutions participating in the Islamic financial markets are required to establish operating policies and procedures to ensure that their activities, investments or operations are undertaken in line with *Sharia'a* requirements.

Sharia'a scholars are expected to participate and engage themselves actively in deliberating the *Sharia'a* issues put before them. Amongst the duties and responsibilities of the *Sharia'a* scholars as applied in the Islamic financial markets are to:

(i) *Review the products and services to ensure conformity with Sharia'a requirements*

In the Islamic investment industry the Sharia'a scholars are responsible for ensuring that the funds they oversee are managed and administered in accordance with the principles of the Sharia'a. This also includes the responsibility to provide expertise and guidance to the investment management companies and fund managers in all matters relating to the principles of the Sharia'a pertaining to the fund. This coverage would include the trust deed, the prospectus, the investments of the fund and other operational and administrative matters.

(ii) *Review and endorse relevant documents*

In order to be Sharia'a-compliant, Islamic financial market products and services need to undergo a predefined vetting and endorsement process by Sharia'a scholars. The Sharia'a scholar's role is to advise on all aspects of Islamic securities, including documentation, structuring and investment as well as other administrative and operational matters and to ensure compliance with applicable Sharia'a principles and relevant resolutions.

In the course of reviewing and endorsing the documentation, the basic principle that must be adhered to is that no other person is competent enough to ensure that the documentation conforms and is consistent with the contemplated Sharia'a transaction, other than the Sharia'a scholar.

(iii) Supervise investments made by the institutions in the Islamic financial markets

Another integral role of the Sharia'a scholar is to supervise and ensure that the investments made by these institutions, comply with the Sharia'a. In this case, the Sharia'a scholar must ensure that the fund managers invest only in securities classified as Sharia'a-approved by the Sharia'a Board.

(iv) Deliberate on Sharia'a issues pertaining to the day-to-day operations of the institutions and provide advice accordingly

In the day-to-day operations of these institutions, there are various Sharia'a issues that the practitioners will come across, particularly those with regard to the practice and implementation of financial transactions.

These issues are usually not covered by text books or the theoretical framework of a particular transaction. Thus, Sharia'a scholars are compelled to understand and resolve these issues. By and large this requires them to be closely involved with the actual practice and implementation side as this gives them a more comprehensive and deeper understanding of the issues that they are dealing with.

(v) Conduct research and develop new products

As the financial system advances, the need for institutions to compete, not only with the existing but also upcoming conventional products, requires Sharia'a scholars to develop or approve innovative new products which are competitive and acceptable to all.

Some of the more complex areas requiring innovation, which is permissible under the Sharia'a, are risk management, hedging tools, derivatives and hybrid financing facilities. When Sharia'a scholars are equipped with the essentials of both fiqh and Muamalat, especially concerning capital and asset management principles, it is intended that they develop Islamically-acceptable financial products.

(vi) Provide training and education on Muamalat, based on Sharia'a contracts

The large growing pool of Islamic-finance practitioners must be well informed and systematically educated in order to prepare them with the necessary knowledge to manage Islamic financing activities.

In the course of developing the Islamic financial market its dynamic nature must be recognised.

The dissemination process must be continuous in order to train as many practitioners as possible. This will provide lines of successors who are well trained prior to succeeding their superiors.

Since the Sharia'a scholars are those who possess the knowledge of Muamalat, it is critical that they lead the way in imparting knowledge to the practitioners as well as to society at large. This is vital towards achieving a true and accurate understanding of the Sharia'a and the application of the nominate contracts in Muamalat.

(vii) Assist related parties on Sharia'a matters and provide advice upon request

The related parties of the institutions in the Islamic financial market such as their legal counsels, solicitors, auditors and consultants, may seek advice on Sharia'a matters from the Sharia'a scholars. The scholars are expected to provide the necessary assistance so that full compliance with Sharia'a principles can be assured.

Over and above this they must also explain the Sharia'a issues and the recommendations offered for a particular decision. These opinions must be supported by the relevant Sharia'a jurisprudential literature.

Issues with the scholars

Islamic banks have multiplied in recent years, thanks to government support, a profusion of petrodollars and a favourably inclined customer base in much of the Muslim world.

However, the number of scholars qualified to pass judgement on banks has remained low at about 30–40.

In addition to an exhaustive knowledge of *Sharia'a* and Islamic jurisprudence, scholars have to be financially knowledgeable and comfortable with English – the language of most financial and legal documentation.

Islamic banks also depend on an even narrower clique of about a dozen or so 'brand name' scholars who usually chair the Sharia'a Boards. These well-known scholars are keenly sought by international and local banks for the Islamic legitimacy their names bestow.

"You have to have good credentials to sit on a Sharia'a Board," says Mohamed Nedal Alchaar, head of the Accounting and Auditing Organization for Islamic Financial Institutions.

“The Sharia’a Board is a brand, so when you have good and prominent *Sharia’a* scholars, that’s better for the bank.”

The rise of the industry in recent years, and a drive to develop Islamic financial services, has led to a tremendous workload for the top-tier scholars.

The Dubai Islamic Bank (DIB) Sharia’a Board

At DIB the Fatwa and Sharia’a Supervision Board oversees the application of different aspects of *Sharia’a*. It also ensures that all the transactions are in strict compliance with the *Sharia’a* principles. The Board is further empowered with the right to contradict any violating procedures, if found.

The Board of Directors is obligated to obey the fatawas, irrespective of whether a unanimous or a majority consensus secured the decision (clause 78 of the Bank’s Memorandum and Articles of Association).

Sharia’a Board meetings are held periodically or whenever the need arises. The rights of the Board are enshrined in Article Seven of the Bank’s Memorandum & Articles of Association (Clauses 74–84). *Figure 4.2* overleaf provides details of the functions of the Dubai Islamic Bank Sharia’a Board.

Qualifications necessary to become a Sharia’a Board scholar

The qualifications necessary to become a *Sharia’a* scholar are not established in any formalised manner from, say, some central institution, as one would find in most professional bodies. However, a glance at the nine abbreviated CVs, listed below, of some of the better known scholars provides the flavour of what qualifications would be needed. The section also includes the qualifications required for scholars to work for the State Bank of Pakistan.



The Sharia’a Board is a brand, so when you have good and prominent Sharia’a scholars, that’s better for the bank



Figure 4.2. Duties of the Dubai Islamic Bank Sharia'a Board

- As an expert source on Islamic principles (including fatawas), the Board, through a representative, usually the General Secretary of the Board, supervises the *Sharia'a* compliance of all the transactions in the Bank.
- To devote time and effort to devising more *Sharia'a*-compliant transactional procedures, templates and banking products that enable the Bank to adapt to market trends, while maintaining a high competitive edge in deposit procedures, investments, and banking services. At the same time, the Board gives its opinion on proposed new templates and banking transactions.
- Analysing unprecedented situations that are not covered by fatawa, in the Bank's transactional procedures or those reported by different departments, branches and even the customers. This is to ensure *Sharia'a* compliance before the Bank develops any new products or implements any new procedures.
- Analysing contracts and agreements concerning the Bank's transactions, as submitted by the Chairman of the Board of Directors or any department/branch within the bank or requested by the Board itself in order that *Sharia'a* compliance can be evaluated and maintained.
- Ensuring *Sharia'a* compliance in the implementation of all banking transactions and correcting any breaches.
- Analysing administrative decisions, issues and matters that require the Board's approval.
- Supervising *Sharia'a* training programmes for the Bank's staff.
- Preparing an Annual Report on the Bank's balance sheet, with respect to its *Sharia'a* compliance.

The Fatawa and Sharia'a Supervision Board submits a complete Annual Report for the Board of Directors, summarising all the issues referred to the Board, as well as its opinion on the Bank's transactional procedures.

Source: Dubai Islamic Bank

CVs of prominent Sharia'a Board scholars

1. Dr Hussain Hamid Hassan

Dr Hussain Hamid Hassan received his PhD from the Faculty of Sharia'a at Al Azhar University in Cairo, Egypt in 1965. He also holds two degrees in law from the International Institute of Comparative Law, University of New York and two degrees

in Law and Economics from Cairo University. He served as Assistant Professor, Associate Professor and Professor of Sharia'a in the Faculty of Law and Economics at Cairo University between 1960 and 2002.

Dr Hassan chairs, or is a member of the Sharia'a supervisory committees for many Islamic financial institutions including Emirates Islamic Bank, Dubai Islamic Bank, National Bank of Sharjah, Islamic Development Bank, Dubai Islamic Insurance and Re-Insurance (Aman), Tamweel, AMLAK, the Liquidity Management Centre and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr Hassan is the author of 21 books on Islamic law, finance, economics, social studies and art, in addition to more than 400 research articles on these subjects.

2. Dr Ali AlQaradaghi

Dr Ali AlQaradaghi received his PhD in the area of contracts and financial transactions from Al Azhar University in Cairo, Egypt in 1985. He is currently a Professor of Islamic Financial Contracts and heads the Department of Islamic Jurisprudence in the College of Sharia'a and Islamic Studies at the University of Qatar.

Dr Ali Qaradaghi presently serves on the Sharia'a Boards of many Islamic financial institutions including Emirates Islamic Bank and Dubai Islamic Bank in the UAE, Investment House and Investors Bank in Bahrain and First Investment in Kuwait.

In addition, he is a founding member of many charitable organisations and international Islamic jurisprudence bodies. He is the author of many research articles in contemporary issues in Islamic finance and banking. He has more than eight books published on topics including Islamic jurisprudence and Islamic thought.

3. Dr Mohamed Elgari

Dr Elgari received his PhD in economics from the University of California (USA), and is currently serving as a Professor of Islamic Economics at King Abdulaziz University (Jeddah), Saudi Arabia.

He is a Sharia'a advisor to many Islamic financial institutions including HSBC Amanah, Abu Dhabi Islamic Bank, Bahrain

Islamic Bank, Dow Jones Islamic Index, National Commercial Bank, Saudi American Bank and Saudi Fransi Bank.

As a prolific writer he has published in a number of scholarly journals and authored several books.

4. Dr Mohd. Daud Bakar

Dr Mohd. Daud Bakar received his PhD from the University of St. Andrews, UK. He was the former Associate Professor in Islamic Law and Deputy Rector at the International Islamic University Malaysia.

Dr Bakar is the Chief Executive Officer of the International Institute of Islamic Finance. His areas of specialisation include Islamic legal theory, banking and finance, law of Zakat and medieval law.

Dr Bakar is a member of the Sharia'a supervisory committees of many financial institutions in Malaysia and around the world, including the Central Bank of Malaysia, Securities Commission of Malaysia, International Islamic Financial Market, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and numerous other institutions.

He has published more than 30 articles in academic journals and presented more than 120 papers at various conferences.

5. Sheikh Nizam M.S. Yaquby

Education

- PhD Candidate, University of Wales (Islamic Law).
- BA McGill University Montreal – Canada (Economics & Comparative Religion).
- Traditional Islamic studies under the guidance of eminent scholars, including Sheikh Abdulla al-Farisi, Sheikh Yusuf al-Siddiqi, Sheikh Muhammed Saleh al-Abbasi, Sheikh Muhamed Yasin al Fadani (Makkah), Sheikh Habib-ur-Rahman A. Zaini (India), Sheikh Abdulla bin Al-Siddiq Al-Ghumar (Morocco).

Experience

- Khatib in Bahrain Mosques (1981–1990).
- Teaching Tafsir, Hadith and Fiqh in Bahrain.

- Member of the Sharia'a Supervisory Boards for the Islamic Investment Banking Unit of Ahli United Bank (UK), Abu Dhabi Islamic Bank and many other Islamic banks and institutions.
- Participation in many Islamic, *Da'wah* and *Fiqh* international meetings.

Publications

- Risalah fi al Tawbah (in Arabic).
- Qurrat al-Ainayn fi Fada il Birr al-Walidayn (in Arabic).
- Irshad al-Uqala ila Hukm al Qira h min al-Mushaf fi al-Salah.
- Tahqiq al Amal fi Ikhraj Zkat Al-Fitr Bil-Mal (Editor).
- Over 500 lectures, sermons and training sessions, and audio cassette recordings.

Languages

- Arabic, English and Persian.

6. Sheikh Muhammed Taqi Usmani

Education

- M.A (Arabic) with distinction from Punjab University in 1970.
- LLB with distinction from Karachi University in 1967.
- B.A. from Karachi University in 1964.
- Takhassus in Ifta from Darul Uloom Karachi in 1961 (1381 AH).
- "Alimiyyah" from Darul Uloom Karachi in 1959 (1379 AH).
- Fazil-e-Arabi with distinction from the Punjab University in 1958.

Experience

- Recently retired as Judge Sharia'at Appellate Bench, Supreme Court of Pakistan (since 1982).

- Deputy Chairman/Permanent Member, International Islamic Fiqh Academy Jeddah (sponsored by the Organisation of Islamic Countries “OIC”).
 - Vice President, Darul Uloom Karachi.
 - Chairman of the Centre for Islamic Economics Pakistan since 1991.
 - Chairman of the Sharia’a Boards for:
Saudi American Bank, Jeddah;
Robert Fleming Oasis Fund, Luxembourg;
Sharia’a Board (AAOIFI);
Citi Islamic Investment Bank, Bahrain.
- Vice Chairman of the Sharia’a Board Abu Dhabi Islamic Bank, Abu Dhabi.
- Member of the Sharia’a Boards for:
The Ahli United Bank (UK);
Al-Baraka Group, Jeddah;
First Islamic Investment Bank, Bahrain.

Also

- Member of the Commission for Islamization of the Economy, Government of Pakistan.
- Taught several branches of Islamic studies for 39 years.

Publications

- Over 50 works published in English (including Islamic Modes of Financing), Arabic and Urdu.

Languages

- Arabic, English, Urdu and Persian.

7. Sheikh Abdullah Bin Suleiman Al-Maniya

- Member of the Senior Ulema Board since its inception in 1971 (1391 AH).
- Formerly Judge of the Cassation Court in Makkah Al Mukarramah.
- Supervised a number of PhD theses and participated in the discussion of a number of MA and PhD dissertations.

- Appointed president of the courts of the Makkah Al Mukar-ramah by delegation.

8. *Sheikh Dr Abdullah bin Abdulaziz Al Musleh*

- Established the branch of Al-Imam Muhammad bin Saud Islamic University in Abha and was its rector from 1976 (1396 AH), until 1994 (1415 AH).
- Dean of the Faculty of Sharia'a and Principles of Religion at the Imam Muhammad bin Saud Islamic University, in addition to his work as Rector of the University's branch in Abha, Saudi Arabia.
- Established the Islamic Economics Division at the Faculty.
- Director General of the Panel of Scientific Miracles in the Qur'an and Sunnah.
- Published several research publications and books including:
 - Private Ownership under Islamic Sharia'a compared with Contemporary Trends;
 - Restrictions on Private Ownership under Islamic Sharia'a;
 - Murabaha from Fiqh (Jurisprudence);
 - Compendium of Provisions of Leasing and Sharikah Provisions.

9. *Sheikh Dr Muhammad Al-Ali Al Qari bin Eid*

- Professor of Islamic Economics at King Abdulaziz University in Jeddah.
- Expert at the Fiqh Academy of the Organization of Islamic Conference in Jeddah.
- Director of the National Administrative Consultancy Centre in Jeddah.
- Published several research publications and books, which include:
 - Financial Markets/Contracts and Transactions;
 - Credit in the Form of a Card and a Proposed Formula for a Credit Card with no Sharia'a Violations;
 - Standard Assessment, its Checks and the Opinions of Economists in Regard Thereto;

- Shares, Options and Futures: Types and Transactions Carried out on the Basis Thereof;
- Letters of Credit, a Chapter in the Economic Fiqh Encyclopaedia of the Islamic Fiqh Academy.

State Bank of Pakistan (SBP): Fit & Proper Criteria for Appointment of Sharia'a Advisors

1 Minimum qualification and experience

- a. *The Sharia'a Advisor must have at least five years' experience of giving religious rulings.*
- b. *He should have knowledge of, or at least be familiar with, the banking industry.*
- c. *Minimum qualification is Dars-e-Nizami. Higher education such as MA Islamiat, economics or in the discipline of banking and finance may be an added qualification.*
- d. *Relaxation in number of years of experience may be considered in case of experience as a teacher of Islamic Fiqh in a reputable institution, other than banking institutions, for a period of not less than three years.*

2 Track record

- a. *A Sharia'a Advisor must have an impeccable track record in the companies he/she has served either in the capacity of an employee or director/chief executive or as chairman.*
- b. *Has not been terminated or dismissed in the capacity of employee, director/ chairman of a company.*

3 Solvency and financial integrity

- a. *Has not been associated with any illegal activity especially relating to the banking business.*
- b. *Has not been in default of payment of dues owed to any financial institution and/or default in payment of any taxes in an individual capacity.*
- c. *Has sufficient means to discharge his/her financial obligations.*

4 Integrity, honesty and reputation

- a. *Has not been convicted of any criminal offence, involved in any fraud/forgery, financial crime etc.*
- b. *Has not been subject to any adverse findings or any settlement in civil/criminal proceedings, particularly with regard to investments, financial/business, misconduct, fraud, formation or management of a corporate body etc.*
- c. *Has not contravened any of the requirements and standards of the regulatory system or the equivalent standards of requirements of other regulatory authorities.*
- d. *Has not been involved with a company or firm or other organisation that has been refused registration/licence to carry out trade, business etc.*
- e. *Has not been involved with a company/firm whose registration/licence has been revoked or cancelled or gone into liquidation.*
- f. *Has not been debarred for giving religious rulings by any religious institution/body.*

5 Conflict of interest

- a. *Is not a Sharia'a Advisor of any other financial institution. The term financial institution includes any bank, investment finance company, non-banking finance company, venture capital company, housing finance company, leasing company or Mudaraba company.*
- b. *The conflict of interest shall not apply if a Sharia'a Advisor is nominated by the SBP to its own Sharia'a Board.*

Source: State Bank of Pakistan

Application of *Sharia'a* principles to banking and investments

The earnings to be derived from Islamic investments are required to be strictly *halal*. Any products intended for sale to the Islamic community (*Ummah*) must adhere to the Islamic prohibitions on a variety of goods. So any products sold and/

or invested in by Muslims must ensure that the products are not prohibited (*haram*) under the *Sharia'a*.

The hadith on eating interest

Ibn Mas'ud R.A. reported that Allah's Messenger S.A.W. cursed the eater of interest, him who fed it (to others), its two witnesses and him who recorded it.

Narrated by Tirmidhi

Words in Qur'anic literature and the prophetic traditions (*ahadith*) often have figurative meanings and care should be taken against misinterpreting these as having a strict literal meaning or, in some cases, adopting a figurative meaning when a strictly literal meaning is intended.

Thus interest on money is not actually eaten but it is used for a variety of financial requirements. In these narrations, the noun 'eating' is adopted instead of usage. Most likely, any form of usage is equated in the *ahadith* to physical eating since, although other forms of using interest may be external, the religious harm or Divine punishment for consuming interest remains.

The Qur'an prohibits *riba* (interest). *Riba* is not considered to only refer to usury. Any loan in which the lender specifies a return in excess of the capital amount loaned is *riba* irrespective of whether such an amount is moderate or excessive.

The different forms of *riba* are not restricted to an excess over capital that is extended as a loan, as is discussed below and was discussed in Chapter 1.

In the case of foreign exchange transactions, the failure to provide full reciprocal value in another currency, at the instance of the contract, is also considered as a form of *riba* since it allows the party that has received payment/or the currency without providing the reciprocal exchange currency to unjustifiably benefit from the money in the time period prior to providing the reciprocal payment.

Capital owners are instructed to either directly trade or invest their capital in Islamically-permitted forms of investment and partnerships. Islam refutes the notion that capital providers can justify interest on the grounds that time has



**Islam refutes
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capital
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value**

value. Although money has a time value, it cannot be necessarily claimed that the passing of time always results in a profit to the providers of capital.

The Islamic prohibition against interest is so stringent that a *hadith* even warns those who witness an interest transaction, or record it, that it is sinful. Although the *hadith* literally mentions two witnesses, the number of witnesses is not limited. Therefore, even if a hundred or more persons witness an interest transaction, they would all be committing sin.

Islam declares, quite unequivocally, that acts of worship to Allah are unacceptable to Him if income is from prohibited sources.

It is useful to examine the Sharia' Board rulings about Islamic investing in order to appreciate the religiously-imposed *Sharia'a* constraints on Islamic banks and financial institutions.

Sharia'a Islamic investment principles

It is forbidden for any Islamic institution or investment fund to deal in the following goods:

- *alcoholic drinks and related activities;*
- *pork, ham, bacon and related by-products;*
- *dead animals (i.e. those not slaughtered according to the rules of the Sharia'a);*
- *products associated with gambling such as gambling machines, etc;*
- *tobacco, drugs, etc;*
- *activities associated with pornography;*
- *gold and silver except for spot cash;*
- *armaments and destructive weapons.*

According to the principles of Islamic jurisprudence the payment and receipt of interest is a grave sinful act, for which the participant is responsible in the Hereafter.

Since almost all companies deal with some form of interest or otherwise prohibited activity, some *Sharia'a* advisory boards have determined an upper limit as to what percentage of a company's income can be earned through interest and/or such activities. It would be unacceptable to invest in a firm that exceeds these limits. These limits are evolving and, as a result, becoming more sophisticated and nuanced.

Companies that may have been excluded under simplistic models a few years ago (e.g. due to large cash holdings) may now be acceptable under newer models.

***Sharia'a* Conditions for Investment in Shares**

Dealing in shares can be acceptable under the *Sharia'a*, according to Usmani (1999), subject to the following conditions:

1. *The main business of the company is not in violation of Sharia'a. This means that it is not permissible to acquire the shares of companies providing financial services associated with interest, such as conventional banks or insurance companies. Companies involved in some other business not approved by the Sharia'a, such as companies manufacturing, selling or offering alcohol, pork, haram meat, or involved in gambling, night club activities, pornography, etc. are forbidden.*
2. *If the main business of the companies is halal, such as computers, cars, mobile phones, etc. but the companies involved deposit their surplus funds in an interest-bearing account or borrow money on interest, the Muslim shareholder should express his disapproval against such dealings. This should preferably be done by raising his voice against such activities in the Annual General Meeting of the company.*
3. *If some income from interest-bearing accounts is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given to charity, and must not be retained by the investor. For example, if 5% of the total income of a company is earned from interest-bearing deposits, then 5% of the dividend must be given to charity.*

In other words, where profits are earned through dividends, a certain proportion of the dividend, which corresponds to the proportion of interest (or other Islamic activities) earned by the company, must be given to charity. Islamic scholars have termed this process as 'purification'.

Sharia'a scholars have different views about whether the 'purification' is necessary where the profits are made through capital gains (i.e. by purchasing the shares at a lower price and selling them at a higher price). Some scholars are of the view that, even in the case of capital gains, the process of 'purification' is necessary, because the market price of the share may reflect an element of interest included in the assets of the company.

Other scholars consider that no purification is required if the share is sold, even if it results in a capital gain.

4. The shares of a company are negotiable (freely investible in) only if the company owns some non-liquid assets. If all the assets of a company are in liquid form, i.e. in the form of money that cannot be purchased or sold, except at par value, then these shares cannot be purchased. In this case the share represents money only and money, Islamically, cannot be traded except at par.

What should be the exact proportion of non-liquid assets of a company enabling the negotiability of its shares is a question which scholars continuously ask. Contemporary scholars have different views about this question. Some scholars are of the view that the ratio of non-liquid assets must be 51% at the very least. They argue that if such assets are less than 50%, then most of the assets are in liquid form and therefore all its assets should be treated as liquid on the basis of the juristic principle: "The majority deserves to be treated as the whole of a thing."

Some other scholars, however, have opined that even if the non-liquid assets of a company are 33%, its shares can be treated as negotiable.

Some complications

In the case where there is doubt regarding whether Islam sanctions a specified product, it would be judicious to abstain from purchasing it/investing in it.

To take an example, gelatine is produced from particular products of cattle and pigs. See **Box 4.2** overleaf for details of some of the widespread uses of gelatine. If particular cattle are not slaughtered in conformity with the *Sharia'a*, not only the slaughtered cattle would be classified as *haram* but also any products derived from its meat, bones and fat would also be impermissible for Muslim consumption. Thus, gelatine produced from such cattle would be *haram*.

Box 4.2. What is gelatine used for?

Probably best known as a gelling agent in cooking, different types and grades of gelatine are used in a wide range of food and non-food products.

Common examples of foods that contain gelatine are desserts, jelly, trifles, aspic, marshmallows, and confectioneries. Gelatine may be used as a stabiliser, thickener, or texturiser in foods such as ice cream, jams, yogurt, cream cheese, and margarine. It is also used in fat-reduced foods to simulate the mouth feel of fat and to create volume without adding calories.

Gelatine is also used for the clarification of juices, such as apple juice, and of vinegar. Animal glues, such as hide glue, are essentially unrefined gelatine. It is used to hold silver halide crystals in an emulsion in virtually all photographic films and photographic paper.

Given that, in many cases, there are few substitutes for gelatine this creates problems, for *Sharia* scholars, as to how to handle the Islamic issues involved.

This ruling implies that any other products containing such gelatine would also be *haram*. Therefore, if a particular sweet company has used such gelatine in various sweet products then, for all such products, it would also become impermissible for Muslims to sell and/or invest in the products.

Gelatine did not exist in the Prophetic period. Therefore, contemporary jurists differ whether gelatine manufactured from non-*halal* bovine products and from pigs would be *halal* or *haram*.

It should be clear that there are many such 'grey' areas for Islamic investors. The cautionary route to be adopted by an Islamic financing institution, in this instance, would be to abstain from financing and/or investing in any sweet or other products which contain gelatine that is not strictly produced from slaughtered animals that are classified as *halal*.

Reference

Usmani, T.U. (1999) *An Introduction to Islamic Finance*. Idaratul Ma'arif. Karachi, Pakistan.

*Financial Statement
Analysis for Islamic Banks*



Islam prohibits the payment of interest on loans, regardless of their nature or purpose



Muslims believe, following an injunction from the Qur'an, that commercial banking should be organised on the basis of some form of profit sharing



As mentioned in earlier chapters conventional financial institutions operate as financial intermediaries borrowing funds on the liability side of the balance sheet and lending funds on the asset side. In both cases 'interest' plays a pivotal role in the exercise. This chapter illustrates, from a financial statement perspective, how, given that *riba* instruments are forbidden, Islamic financial institutions can operate as financial intermediaries.

The Appendices to this chapter provide readers with real life Islamic financial statements designed to illustrate just how different these statements are from those of their conventional counterparts.

Islamic finance – the background

As mentioned in earlier chapters the *raison d'être* of Islamic finance is derived from the Islamic injunction against *riba* (interest). Islam prohibits the payment of interest on loans, regardless of their nature or purpose.

In contrast to conventional interest-based banking, Islamic banking is not based on the notion of a predetermined fixed return on capital. The Islamic prohibition against interest does not imply, in any way, that capital is free of charge nor that it should be made available without any cost. It also does not mean that there should be no return on capital. In fact, Islam allows a return on capital provided that the capital participates in the productive process and is exposed to business risk.

Muslims believe, following an injunction from the Qur'an, that commercial banking should be organised on the basis of some form of profit sharing, ideally represented by *Mudaraba* and *Musharaka*, discussed in detail in Chapter 2.

Broadly speaking, profit sharing is a contractual arrangement between two or more contracting parties which allows them to pool their resources to invest in a project to share profits and losses.

Mudaraba (profit-sharing venture)

The *Mudaraba* contract, described in more detail in Chapter 2, is a contract between two parties whereby one party, the

Rabb-al-Maal (the sleeping partner or beneficiary), entrusts money to the other party called the *Mudarib* (the working partner or managing trustee). The *Mudarib* agrees to utilise the money in an agreed manner and then return to the *Rabb-al-Maal* the principal and the pre-agreed share of the profit. The *Mudarib* is then rewarded with the pre-agreed share of the profit.

The characteristics of *Mudaraba* are listed below:

- *the division of profits between the two parties must necessarily be on a proportional basis and cannot be a lump sum or a guaranteed return;*
- *the investor is not liable for losses beyond the capital he has contributed;*
- *the Mudarib does not share in the losses except for the loss of his own time and effort;*
- *the Mudaraba can be general purpose or for a specific purpose.*

***Musharaka* (profit-sharing venture)**

Another profit sharing venture, normally of limited duration, can be formed to carry out a specific project. Known as a *Musharaka*, and also discussed in detail in Chapter 2, it is similar to a western-style joint venture. It is also regarded by some as the purest form of Islamic financial instrument since it conforms to the underlying partnership principles of sharing in, and benefiting from, risk. Participation in a *Musharaka* can either be in a new project or by providing additional funds for an existing one.

Profits are divided on a predetermined basis, and losses are shared in proportion to the capital contribution. With a *Musharaka*, a bank enters into a partnership with a client whereby both share the equity capital – and perhaps even the management – of a project or deal, and both share in the profits or losses on a predetermined basis, according to their proportionate equity shareholding.

According to theoretical models developed by Islamic economists, Islamic banking, based on the principle of *Mudaraba*,

is claimed to be superior to interest-based commercial banking in terms of equity, efficiency, stability and growth. In comparison with other financial systems, the proponents of Islamic banking argue that it will be more efficient just because the contract of *Mudaraba* is based on the principles of justice and equity. It will be more efficient, again it is argued, as it will help attain a more rational and balanced allocation of financial resources among competing projects because the main consideration, in the allocation of funds under Islamic banking, would be the profitability of relevant projects and not the safe return of the principal amount, as is the case in conventional banking.



Bankable projects would be selected on the basis of profitability and not on the criterion of creditworthiness

In other words, bankable projects would be selected on the basis of profitability and not on the criterion of creditworthiness. Islamic banking, it is suggested, will also safeguard against business fluctuations as it has more potential for being linked to the productive capacity of the economy. Hence the cost of capital, as well as the amount advanced for further investment, would adjust itself in accordance with changes in the business environment. Furthermore it may also promote growth as it can potentially increase the supply of risk capital for investment.

In order to turn these Islamic contracts into meaningful financial statements, as understood in conventional finance and accounting, we have to look at the sources and uses of funds for Islamic banks as seen from an accountant's perspective.

Sources of funds for Islamic banks

The sources of funds for Islamic banks are described below.

1 Current accounts

All Islamic banks operate current accounts on behalf of their clients. Current accounts are sometimes classified as 'other accounts' in the financial statements. These accounts are operated for the safe custody of deposits and for the convenience of customers.

The main characteristics of these accounts are listed below:

- (i) *Current accounts govern what is commonly known as demand deposits. These accounts can be opened either by individuals or companies, in domestic currency or in foreign currency.*
- (ii) *The bank guarantees the full return of these deposits on demand and the depositor is not paid any share of the profit, interest or a return in any other form.*
- (iii) *Depositors authorise the bank to utilise funds at the bank's own risk. Hence, if there is any profit resulting from the employment of these funds, it accrues to the bank and if there is any loss, it is also borne by the bank.*
- (iv) *There are no conditions with regard to deposits and withdrawals.*
- (v) *Usually account holders have a right to draw cheques on their accounts.*

There are two dominant views, within the Islamic banking community, about current accounts. One is to treat demand deposits as *Amanah* (trust) accounts. This view is adopted by the Jordan Islamic Bank which operates a 'Trust Account' instead of a current account. A trust deposit is defined by the Jordan Islamic Bank as 'cash deposits received by the bank whereby the bank is authorised to use the deposits at its own risk and responsibility with respect to profit or loss and which are not subject to any conditions for withdrawals or depositing'.

Thus, these deposits are handed over to the bank by depositors as a Trust and the bank does not have the authority to use them without first obtaining the specific permission of the owner of the funds.

The other view is to treat demand deposits as a *qard hasan* (interest-free loan). This view has been adopted by Iranian Islamic banks which call the current account '*qard hasan* current account'. According to this view, money deposited in these accounts is a benevolent (or interest free) loan (*qard hasan*) from the depositor to the bank. The bank is free to utilise these funds at its own risk without any return to the depositor and without needing any authorisation.

In the case of *qard hasan*, the debtor does not need the specific permission of the creditor to use the borrowed funds. The debtor owes the creditor only the principal amount borrowed. This condition is fulfilled as the amount deposited in these accounts is fully underwritten by the bank.

2 Savings deposits

Although all Islamic banks operate saving accounts, there are some differences in the operation of these accounts. A typical example is that of the Bank Islam Malaysia, which defines savings deposits in the following way:

“The Bank accepts deposits from its customers looking for safe custody of their funds and a degree of convenience in their use together with the possibility of some profits in the form of Savings Accounts on the principle of *Al Wadia*. The bank requests permission to use these funds as long as these funds remain with the bank. The depositors can withdraw the balance at any time they so desire and the Bank guarantees the refund of all such balances. All the profits generated by the Bank from the use of such funds belong to the Bank. However, in contrast with the current account, the Bank may, at its absolute discretion, reward the customers by returning a portion of the profits generated from the use of their funds, from time to time.”

It must be pointed out that any return on capital is Islamically justified only if the capital is employed in such a way that it is exposed to business risk. If depositors with savings accounts are informed that the accounts are guaranteed and that their amounts will be refunded in full, if and when they want them, as is the case with conventional banks, then they are not participating in business risk.

Under these circumstances it has to be made clear that savings depositors are not Islamically entitled to any return. If an Islamic bank refunds some portion of the profits generated from the use of saving deposits to the depositors, it is at the discretion of the bank concerned, and it must be treated as a gift.

It is quite clear from the above quotation that this is exactly the course of action adopted by the Bank Islam Malaysia.

In contrast to this, Bahrain Islamic Bank calls savings accounts ‘Savings Accounts with Authorisation to Invest’. Here

depositors provide the bank with an authorisation to invest their money. Depositors have the right of withdrawal, but profits are calculated on the basis of the minimum balance maintained for a month.

Similarly, savings accounts at the Dubai Islamic Bank operate as follows:

- (i) *Savings accounts are opened with the condition that depositors provide the bank with an authorisation to invest.*
- (ii) *Depositors have the right to deposit and withdraw funds.*
- (iii) *The profits in savings accounts are calculated on the minimum balance maintained during the month. Depositors participate in the profits of savings accounts with effect from the beginning of the month following the month in which the deposits are made.*
- (iv) *A minimum balance has to be maintained in order to qualify for a share in profits.*

The Iranian Islamic banks include saving accounts in *Qard Hasan Accounts* and call them *qard hasan* deposits. The operation of these accounts is similar to that of savings accounts in the conventional system as far as the deposit and withdrawal of money by means of a savings account passbook is concerned. Although no dividends are due, in the case of *qard hasan* depositors, Iranian banks use different promotional methods in order to attract and mobilise deposits. These include giving the following incentives to depositors:

- (i) *non-fixed bonus either in cash or in kind;*
- (ii) *exempting depositors from or granting discount thereto, in the payment of commissions and/or fees;*
- (iii) *according priority to qard hasan customers in the use of banking facilities.*

The Jordan Islamic Bank has adopted yet another way to operate savings accounts. It includes the savings deposits in an investment pool called 'joint investment accounts'.

To summarise, Islamic banks adopt one or more of the following practices in operating savings accounts:

- (a) *accepting savings deposits on the principle of Al Wadia (trust) requesting depositors to give permission to the bank to use these funds at its own risk, but guaranteeing full return of deposits and sharing any profits voluntarily;*
- (b) *accepting savings deposits with an authorisation to invest and share profits in an agreed manner for the period in which a required balance is maintained;*
- (c) *treating savings deposits as qard hasan from depositors to the bank and granting pecuniary or non-pecuniary benefits to depositors;*
- (d) *accepting savings deposits as part of an investment pool and treating them as investment deposits.*

3 Investment deposits

Investment deposits are the Islamic banks' counterparts of term deposits or time deposits in the conventional banking system. They are also called Profit and Loss-Sharing (PLS) Accounts or Participatory Accounts.

They can be distinguished from traditional fixed-term deposits in the following manner:

- (i) *Fixed-term deposits in the conventional system operate on the basis of interest, while investment accounts in Islamic banks operate on the basis of profit sharing. Instead of promising depositors a predetermined fixed rate of return on their investment the bank informs them only of the ratio in which it will share the profits with them. How much profit each depositor earns depends on the final outcome of the bank's own investment.*
- (ii) *While fixed-term deposits are usually distinguished from each other on the basis of their maturities, investment deposits can be distinguished on the basis of maturity as well as on the basis of other purposes, as it is possible to give special instructions to the bank to invest a particular deposit in a specified project or trade.*

The main characteristics of investment deposits are listed below:

- (i) *Investment accounts can be opened by individuals or companies either in domestic or foreign currency provided that the bank is allowed to operate in foreign exchange.*
- (ii) *Deposit holders do not receive any interest. Instead, they participate in the share of the profits or losses.*
- (iii) *These accounts are usually opened for a specified period, e.g. three months, six months, one year or more.*
- (iv) *The return on investment deposits is determined according to actual profits from investment operations of the bank and is shared in an agreed proportion by depositors, according to the amount of their deposits and the period for which they are held by the bank. As an accounting practice, the amount held in the account is multiplied by the period for which it has been employed and profits are distributed on a pro rata basis.*
- (v) *Generally speaking, depositors do not have the right to withdraw from these accounts as is customary in time deposits in conventional banks. However, withdrawals may be made under special circumstances.*

Limited period investment deposits

These deposits are operated by Bahrain Islamic Bank, Kuwait Finance House and many other Islamic banks. Investment deposits under this scheme are accepted for a specified period which is mutually determined by the depositors and the bank. The contract terminates at the end of the specified period but profits are calculated and distributed at the end of the financial year. These accounts are more commonly referred to as Unrestricted Investment Accounts.

Unlimited period investment deposits

These investment deposits differ from limited period deposits in that the time period is not specified. Deposits are automatically renewable unless a notice of three months is given to terminate the contract. No withdrawals or further deposits are permitted in this kind of contract, but customers are allowed to open more than one account. The profits are calculated and distributed at the end of the financial year.

Specified investment deposits

Most Islamic banks have developed an investment deposit scheme with specific authorisation to invest in a particular project or business. In this case, only the profits of this particular project are distributed between the bank and its customers, according to mutually agreed terms and conditions. These accounts are more commonly referred to as Restricted Investment Accounts.

In the case of specified investment deposit accounts Islamic banks function as an agent on behalf of depositors. One example of this is in the provisions of the Jordan Islamic Bank which declares that the bank will accept cash deposits into specific investment accounts “from persons desiring to appoint the bank as agent for investment of these deposits in a specific project or in a specific manner on the basis that the bank will receive a part of the net profits realised but without liability for any losses as long as these are not attributable to any violation or default by the bank”.

Islamic bank current, savings and investment accounts

Details of the RHB Islamic accounts are given below to illustrate the differences between the accounts offered by conventional banks.

1 Islamic current accounts

2 types:

1. Wadiah Current Account**2. Mudaraba Current Account***1. A Wadiah Current Account*

A **Wadiah Current Account-i (WCA-i)** is an agreement between the depositor and the bank for the customer's deposit to be kept in the bank's custody. With the owner's permission the bank will use the customer's funds in accordance with *Sharia'a* requirements. Based on the bank's discretion the customer may be paid some *hibah* (token/gift).

The benefits of the RHB Islamic WCA-i are listed below:

1. Funds are invested under Sharia'a principles.
2. The account is transacted using a cheque book.

2. A Mudaraba Current Account

Mudaraba (*profit sharing*)

This refers to an arrangement made between two parties, i.e. the fund provider and the entrepreneur (who provides expertise), to enable the entrepreneur to carry out business projects. The profit-sharing ratio needs to be predetermined during the agreement. In the case of losses, these are borne by the provider of the funds. This is the case unless the loss arises out of wilful negligence or misappropriation by the entrepreneur.

A **Mudaraba Current Account-i (MudhCA-i)** is a current account based on the profit-sharing concept of *Mudaraba*.

Under this concept, a customer provides funds for the bank to invest in permissible activities in accordance with the *Sharia'a*. The profits earned from the investment will be shared between the customer and the bank, based on mutually agreed profit-sharing ratios. **Box 5.1** provides details of the payment principles with *Mudaraba* current accounts.

Box 5.1. Rates paid on Mudaraba Current Accounts

(Effective from 16/10/2005 to 15/11/2005)

Amount	Profit Sharing (Customer: Bank)	Rate (% paid)
0- RM1,999	0:100	NIL
RM 2,000 to 49,999	30:70	1.05
RM 50,000 to 99,999	45:55	1.56
RM100,000 & above	55:45	2.00

The above Profit Sharing Ratio is subject to periodic review and change by the bank.

2 Islamic Savings Account

Wadiah Yad Dhamanah (*savings with guarantee*)

This refers to the placement of goods or deposits with another person, who is not the owner, for safe keeping. *Wadiah Yad Dhamanah* is a guaranteed trust. The depository becomes the guarantor and therefore guarantees repayment of the whole amount or any part thereof outstanding in the account of depositor, when demanded. The depositors are not entitled to any share of the profit but the depository may provide returns to the depositors as a token of appreciation.

A **Wadiah Savings Account (WSA-i)** is an agreement between the depositor and the bank for depositor's funds to be kept in the bank's custody. With the owner's permission the bank will use the funds in accordance with *Sharia'a* requirements. Based on the bank's discretion the customer may be paid some *hibah* (token/gift).

The benefits of the RHB Islamic Bank WSA-i are that the *hibah* will be credited monthly into the account. There is also a multi-tier *hibah* rate.

The characteristics of the Wadiah Savings Account (WSA-i) are listed below:

1. Deposits of up to RM10,000 will enjoy the prevailing WSA-i rate.
2. Deposits exceeding RM10,000 will enjoy 0.5% plus the prevailing WSA-i rate.

Box 5.2 gives an illustrative example of the rate structure with these accounts.

Box 5.2. Rates paid on a Wadiah Savings Account

(Effective from 16/10/2005 to 15/11/2005)

Tier	Range	Rate (% p.a.)
Tier 1	Up to RM 1,000	0.10
Tier 2	Up to RM 5,000	0.80
Tier 3	Up to RM 20,000	0.80
Tier 4	Above RM 20,000	1.25

3 Islamic term deposit/investment accounts

2 types:

1. *Mudaraba General Investment Account (GIA)*.
2. *Mudaraba Special Investment Account (SIA)*.

1. *Mudaraba General Investment Account (GIA)*

This account is based on the principle of profit sharing. The bank will invest Islamically using the money invested in this account. Whatever profit that is earned from this investment will be shared as dividends between the investor and the bank. These can be invested in either Tier 1 or Tier 2 accounts depending on the size of the deposits.

The investments are conducted in line with *Sharia'a* principles. See **Box 5.3** on page 135 for an illustrative structure of these accounts

2. *Mudaraba Special Investment Account (SIA)*

This investment account works on a profit sharing basis. The depositor provides the capital for the bank to invest. The profit earned from the investment will then be shared as dividends between the investor and the bank.

The profit sharing ratio is negotiable and it works according to *Sharia'a* requirements.

Appendices 1–5 give examples of the financial statements of several large Islamic banks. An illustration of the principal elements in an Islamic bank's balance sheet is given below:

Assets

Cash and cash equivalents

Participations

Murabaha receivables

Mudaraba

Musharaka

Investments

- 1. Islamic securities*
- 2. Restricted Investment Accounts*
- 3. Assets acquired for leasing*
- 4. Other investments*

Investment in commodities

Investment in securities

Qard al Hasan

Other assets

Fixed assets

Total assets

Liabilities, Owner's Equity and Unrestricted Investment Accounts

Liabilities and owner's equity

Liabilities

Current accounts

Items due to a financial institution

Restricted Investment Accounts

Other liabilities

Total liabilities

Unrestricted Investment Accounts

Owner's equity

Share capital

Reserves

Retained earnings

Total liabilities and owner's equity

Total liabilities, owner's equity, Unrestricted Investment Account

Box 5.3. Rates payable on Guaranteed Investment Accounts

Mudaraba GIA

(For MGIAi deposit maturing 16/10/2005)

Tier 1 (RM 500,000 and below)			Tier 2 (Above RM 500,000)		
Months	Profit Sharing Ratio	Rate (%)	Months	Profit Sharing Ratio	Rate (%)
1	75:25	2.60	1	60:40	2.08
2	75:25	2.67	2	60:40	2.14
3	75:25	2.74	3	60:40	2.19
4	75:25	2.81	4	60:40	2.25
5	75:25	2.88	5	60:40	2.30
6	75:25	3.01	6	60:40	2.41
7	75:25	3.08	7	60:40	2.47
8	75:25	3.16	8	60:40	2.53
9	75:25	3.24	9	60:40	2.59
10	75:25	3.31	10	60:40	2.65
11	75:25	3.39	11	60:40	2.71
12–14	75:25	3.46	12–14	60:40	2.77
15–17	75:25	3.58	15–17	60:40	2.86
18–23	75:25	3.67	18–23	60:40	2.94
24	75:25	3.85	24	60:40	3.08
25–36	75:25	4.02	25–36	60:40	3.22
37–48	75:25	4.19	37–48	60:40	3.35
49–60	75:25	4.32	49–60	60:40	3.46

Islamic banking in the GCC

Islamic banking has historically been dominated by locally established banks in the GCC, as the sector remained a locally contained phenomenon for much of its history. More recently, a growing number of foreign banks have also joined the fray. Some of these, such as Barclays Capital, Deutsche Bank, Citigroup, BNP Paribas and HSBC, have established special Islamic 'windows', or branches, of their operations in the Middle East. These are run according to *Sharia'a*-compliant principles. See **Table 5.1** opposite.

As at end 2007 there were 15 publicly listed Islamic banks in the GCC, accounting for 23% of the total listed banks assets. Oman is the only exception with no Islamic banks within its borders, as banking regulations in the country do not permit it.

Appendices 5.1 to 5.5 provide detailed balance sheets of the largest Islamic financial institutions.

Table 5.1. Publicly-listed Islamic banks in the GCC (2007)

	Assets (USD'000)	Date of establishment	Country
Al Rajhi Bank	28,055,665	1987	KSA
Kuwait Finance House	21,840,226	1977	Kuwait
Al Baraka Banking Group	20,227,658	2002	Bahrain
Dubai Islamic Bank	17,750,396	1975	UAE
Abu Dhabi Islamic Bank	9,997,364	1997	UAE
Shamil Bank	4,491,406	1982	Bahrain
Bank Al Jazira	4,190,100	1975	KSA
Qatar Islamic Bank	4,020,030	1982	Qatar
Bank Al Bilad	3,099,276	2004	KSA
Emirates Islamic Bank	2,885,331	1976	UAE
Qatar International Islamic Bank	2,307,125	1990	Qatar
Sharjah Islamic Bank	2,105,113	1975	UAE
Boubyan Bank	1,791,104	2004	Kuwait
Masraf Al Rayan	1,188,004	2006	Qatar
Bahrain Islamic Bank	1,157,761	1979	Bahrain
Total Islamic Banks' Assets	125,106,558		
Total Banks' Assets	538,791,503		
% of total	23.2%		

Source: SHUAA Capital

Appendices 5.1 to 5.5 provide the income statements and balance sheets for a variety of Islamic financial institutions. The asset side of the balance sheets were discussed in detail in Chapter 2.

More diligent readers are invited to contact these institutions for more details of their financial statements.

The financial statements for the banks in these appendices come from their most recent urls which are listed below.

Appendix 5.1 Al Rajhi Banking and Investment Corporation (Saudi Arabia)

<http://www.alrajhibank.com.sa/reports/Pages/default.aspx>

Appendix 5.2 Kuwait Finance House (Kuwait)

<http://www.kfh.com/english/AboutUs/Annual-Report/index.asp>

Appendix 5.3 Al Baraka Bank (Bahrain)

<http://www.albaraka.com/default.asp?action=article&id=55>

Appendix 5.4 Dubai Islamic Bank (UAE)

http://www.alislami.ae/en/aboutdib_financialreports.htm

Appendix 5.5 Bahrain Islamic Bank (Bahrain)

<http://www.bisbonline.com/annualreport/tabid/92/Default.aspx>

Appendix 5.1
Al Rajhi Banking and
Investment Corporation
(Saudi Joint Stock Company)

Consolidated financial statements for
the year ended December 31 2007

Al Rajhi Banking and Investment Corporation
(Saudi Joint Stock Company)

Consolidated Balance Sheets

As at 31 December 2007

(SR'000)

ASSETS

Cash and precious metals	3,486,046
Balances with Saudi Arabian Monetary Agency ("SAMA")	9,655,153
Due from banks	790,645

Investments, net:

Mutajara	42,605,089
Instalment sale	55,989,774
Istisna'a	1,630,014
Murabaha	4,078,388
Other	572,180

Total investments, net 104,875,445

Customer debit current accounts, net	909,918
Property and equipment, net	2,591,101
Other assets, net	2,578,174

TOTAL ASSETS 124,886,482

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Due to banks	2,593,090
Syndicated Murabaha financing from banks	1,875,000
Customer deposits	89,725,167
Other customer accounts (including margins on letters of credit, third party funds, certified cheques and transfers)	3,030,969
Other liabilities	4,056,144

Total liabilities 101,280,370

Shareholders' equity	
Share capital	13,500,000
Statutory reserve	7,096,219
General reserve	197,650
Retained earnings	1,588,326
Proposed gross dividends	1,223,917
Total shareholders' equity	<u>23,606,112</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>124,886,482</u></u>

Al Rajhi Banking and Investment Corporation
(Saudi Joint Stock Company)

Consolidated Statements of Income
For the years ended December 31 2007
(SR'000)

INCOME

Income from investments:

Mutajara	2,797,651
Instalment sale	5,647,749
Istisna'a	194,092
Murabaha	108,089
Other	15,535
	<u>15,535</u>

Total income from investments 8,583,116

Income paid to customers and banks on time investments (751,593)

Income paid on syndicated Murabaha financing from banks (109,711)

Income from investments, net 7,721,812

Income from investment properties	–
Mudaraba fees	71,249
Fees from banking services, net	980,625
Exchange income, net	470,872
Other operating income	76,538
Total operating income	<u>9,321,096</u>

EXPENSES:

Salaries and employee related benefits	1,451,180
Rent and premises related expenses	117,918
Impairment charge for investments	443,240
Depreciation and amortisation	288,159
Other general and administrative expenses	567,831
Board of directors' remuneration	3,111

Total operating expenses	<u>2,871,439</u>
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NET INCOME	<u>6,449,657</u>
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Weighted average number of shares outstanding	<u>1,350 million</u>
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EARNINGS PER SHARE (IN SR)	<u>4.78</u>
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Appendix 5.2

Dubai Islamic Bank

Dubai Islamic Bank (Public Joint Stock Company)
and Subsidiaries

Consolidated financial statements
31 December 2006

Dubai Islamic Bank
Consolidated Balance Sheets
Year ended 31 December 2006

2006
AED'000

ASSETS

Cash and balances with Central Banks	3,111,724
Balances and deposits with banks	407,245
International Murabaha short term	14,991,239
Islamic financing and investing assets	35,255,447
Properties under construction	2,171,004
Properties held for sale	136,585
Investment properties	761,213
Investments in associates	1,077,901
Other investments	3,523,944
Receivables and other assets	2,465,123
Property, plant and equipment	495,601
Goodwill	36,910
Total assets	64,433,936

LIABILITIES

Customers' deposits	47,732,482
Due to banks and other financial institutions	4,649,900
Other liabilities	3,155,269
Accrued zakat	72,035
Total liabilities	55,609,686

Shareholders' equity

Share capital	2,800,000
Statutory reserve	2,761,030
Donated land reserve	286,951
General reserve	895,000
Exchange translation reserve	30,323

Cumulative changes in fair value	544,649
Retained earnings	43,197
Proposed dividends	<u>1,176,000</u>
	8,537,250
Minority interests	<u>287,100</u>
Total equity	<u><u>8,824,250</u></u>
Total liabilities and equity	<u><u>64,433,936</u></u>
Contingent liabilities	<u><u>12,174, 346</u></u>

Consolidated Income Statement
Year ended 31 December 2006

2006
AED'000

INCOME

Income from Islamic financing and investing assets	2,441,532
Income from international Murabaha short term	525,153
Income from investment properties	153,203
Income from sale of properties under construction, net	412,710
Commissions, fees and foreign exchange income	906,716
Share of profits of associates	16,148
Other income	<u>120,995</u>
TOTAL INCOME	<u><u>4,576,457</u></u>

EXPENSES

General and administrative expenses	(1,148,174)
Provisions for impairment	(76,467)
Depreciation of investment properties	<u>(10,240)</u>
TOTAL EXPENSES	<u><u>(1,234,881)</u></u>

Profit before depositors' share and tax	3,341,576
Depositors' share of profits	<u><u>(1,757,611)</u></u>

Profit for the year before tax	1,583,965
Income tax	<u>(6,122)</u>
PROFIT FOR THE YEAR	<u>1,577,843</u>
Attributable to:	
Shareholders of the parent	1,560,093
Minority interests	<u>17,750</u>
	<u>1,577,843</u>
Basic and diluted earnings per share attributable to the shareholders of the parent	<u>AED 0.71</u>

LIABILITIES**Customers' deposits**

2006
AED'000

a) By type:	
Current accounts	9,264,286
Saving accounts	5,733,414
Investment deposits	32,065,814
Margins	579,724
Profit equalisation provision (See Note 37 below)	<u>89,244</u>
	<u>47,732,482</u>
b) By maturity:	
Demand deposits	14,887,667
Deposits due within 3 months	18,668,425
Deposits due within 6 months	5,058,889
Deposits due within 1 year	<u>9,117,501</u>
	<u>47,732,482</u>

Note 37: Profit equalisation provision

	2006 AED'000
Balance, beginning of the year	135,455
Share of profit for the year	<u>6,152</u>
	141,607
Zakat for the year (See Note 29 below)	(2,363)
Additional transfer (to) / from depositors' share of profit during the year	<u>(50,000)</u>
Balance, end of the year	<u><u>89,244</u></u>

Profit equalisation provision represents a portion of the depositors' share of profits set aside as a provision. This provision is payable to the depositors upon the approval of the Board of Directors and the Bank's Sharia'a Supervisor Board. Zakat on profit equalisation provision is included under accrued zakat.

Note 29: Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisor Boards of the respective entities on the following basis:

- *Zakat on shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve plus employees' end of service benefits).*
- *Zakat on profit equalisation provision is charged to this provision after it has been calculated.*
- *Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.*
- *Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves.*

Accrued Zakat

	2006 AED'000
Zakat on shareholders' equity (except for share capital)	69,672
Zakat on profit equalisation provision (See Note 29 above)	2,363
	<u>72,035</u>

Share Capital

	2006 AED'000
Authorised capital	
3,000,000,000 shares of AED 1 each	3,000,000
(2005: 3,000,000,000 shares of AED 1 each)	<u>3,000,000</u>
Issued and fully paid-up	
2,800,000,000 shares of AED 1 each	2,800,000
(2005: 1,500,000,000 shares of AED 1 each)	<u>2,800,000</u>

Reserves

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
2005					
As of 31 December 2004	625,566	284,701	280,000	–	1,190,267
Exchange and other adjustments	–	2,250	–	8,320	10,570
Transfer from retained earnings	<u>106,134</u>	<u>–</u>	<u>315,000</u>	<u>–</u>	<u>421,134</u>

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
As of 31 December 2005	731,700	286,951	595,000	8,320	1,621,971
Exchange and other adjustments	–	–	–	22,003	22,003
Premium on issue of shares – Bank	2,000,000	–	–	–	2,000,000
Relating to – subsidiary	29,330	–	–	–	29,330
Transfer from retained earnings	–	–	300,000	–	300,000
As of 31 December 2006	<u>2,761,030</u>	<u>286,951</u>	<u>895,000</u>	<u>30,323</u>	<u>3,973,304</u>

Statutory reserve

Article 192 of the UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law. The statutory reserve includes AED 2,000 million being the premium collected at AED 2 per share on the rights issue.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital. This is subject to the approval of the Shareholders at the Annual General Meeting.

Donated land reserve

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties. The donated land reserve represents the fair value of the land at the time of the donation.

General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and approved by the shareholders at the Annual General Meeting.

Terminology

The following terms are used in the DIB consolidated financial statements with the meaning specified.

Murabaha

An agreement whereby the Group sells to a customer a commodity or asset, which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer against an agreed price.

Ijara

An agreement whereby the Group (lessor) purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rent instalments. Ijara could end by transferring the ownership of the asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Appendix 5.3 Kuwait Finance House

Consolidated Financial Statements for the year ended
31 December 2007

Kuwait Finance House**Consolidated Balance Sheet****At 31 December 2007**2007
KD 000's**ASSETS**

Cash and balances with banks and financial institutions	553,565
Short-term international Murabaha	1,067,291
Receivables	3,988,131
Trading properties	126,413
Leased assets	930,657
Available for sale investments	896,098
Investment in associates	341,279
Investment properties	247,300
Other assets	239,694
Property and equipment	407,488
TOTAL ASSETS	8,797,916

**LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE,
FOREIGN EXCHANGE TRANSLATION RESERVE AND
TOTAL EQUITY**

LIABILITIES

Due to banks and financial institutions	1,186,391
Depositors' accounts	5,361,155
Other liabilities	380,853
TOTAL LIABILITIES	6,928,399
DEFERRED REVENUE	374,608
FAIR VALUE RESERVE	86,843
FOREIGN EXCHANGE TRANSLATION RESERVE	1,972

**EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF
THE BANK**

Share capital	171,535
Share premium	464,735
Proposed issue of bonus shares	34,307
Reserves	<u>427,925</u>
	1,098,502
Proposed cash dividend	<u>111,498</u>
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	1,210,000
Minority interest	<u>196,094</u>
TOTAL EQUITY	1,406,094
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY	<u>8,797,916</u>

**Consolidated Income Statement
Year ended 31 December 2007**

2007
KD 000's

INCOME

Murabaha, Wakala, Istisna'a and leasing income	466,893
Investment income	266,397
Fee and commission income	56,125
Net gain from dealing in foreign currencies	14,696
Other income	<u>27,037</u>
	831,148
EXPENSES	
Staff costs	73,783
General and administrative expenses	48,134
Murabaha and Ijara costs	65,712

Depreciation	27,939
Provision for impairment	38,179
	<u>253,747</u>
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS	577,401
Distribution to depositors	<u>242,528</u>
PROFIT AFTER DISTRIBUTION	334,873
Contribution to Kuwait Foundation for the Advancement of Sciences	2,847
National Labour Support tax	6,257
Directors' fees	200
Zakat (based on Zakat Law No. 46/2006)	<u>174</u>
PROFIT FOR THE YEAR	<u>325,395</u>
Attributable to:	
Equity holders of the bank	275,266
Minority interest	<u>50,129</u>
	<u>325,395</u>
BASIC AND DILUTED EARNINGS PER SHARE	166 fils
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	

Terminology

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Short-term international Murabaha

Short-term international Murabaha are financial assets originated by the group and represent deals with high credit quality international banks and financial institutions maturing within three months of the balance sheet date. These are stated at amortised cost.

Receivables

Receivables are financial assets originated by the group and principally comprise Murabaha, Wakala, Istisna'a and receivables. These are stated at amortised cost.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sell it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Wakala is an agreement whereby the group provides a sum of money to an agent, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the wakala.

Zakat

In accordance with its internal guidelines, the bank calculates Zakat at 2.577% on the opening reserves of the bank (excluding proposed distributions) which have remained for one complete fiscal year. It is paid under the direction of the bank's Al-Fatwa and Sharia'a Supervisory Board. Such Zakat is charged to voluntary reserve.

In addition, effective from 10 December 2007, the bank has also provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated income statement.

Appendix 5.4

Al Baraka Islamic Bank

Consolidated Financial Statements 2006

Al Baraka Islamic Bank**Balance Sheet
31 December 2006**2006
US \$**ASSETS**

Cash and balances with banks	155,962,918
Sales receivables	289,071,426
Mudaraba	13,852,743
Ijara assets	36,599,965
Musharaka financing	13,672,501
Investments	31,257,027
Investment properties	1,083,790
Ijara income receivables	5,587,314
Premises and equipment	4,837,516
Other assets	7,739,771
Total assets	559,664,971

LIABILITIES

Due to banks and financial institutions	20,973,437
Current accounts	31,844,241
Other liabilities	14,648,031
Total liabilities	67,465,709
Unrestricted investment accounts	435,993,805

Equity

Share capital	50,000,000
Reserves	5,682,255
Retained earnings	523,202
Total equity	56,205,457
Total liabilities, unrestricted investment accounts and equity	559,664,971

Restricted investment accounts	191,866,537
Commitments	112,439,831

Al Baraka Islamic Bank

Statement of Income

Year ended 31 December 2006

2006
US \$

Income

Income from jointly financed sales	24,751,079
Income from jointly financed other financings and investments	5,411,070
Joint investment income	<u>30,162,149</u>
Return on unrestricted investment accounts (investors' share of income before Bank's Mudarib share)	(27,264,912)
Bank's Mudarib share	<u>2,628,291</u>
Return on unrestricted investment accounts	<u>(24,636,621)</u>
Bank's share of income from investment accounts (as a Mudarib and as fund owner)	5,525,528
Bank's income from self financed sales	612,156
Bank's income from self financed other financings and investments	2,250,154
Revenue from banking services	3,143,974
Other revenues	1,668,536
Bank's Mudarib share in restricted investment profit	<u>526,278</u>
Total revenue	<u>13,726,626</u>

Expenses

Operating expenses	<u>(12,997,523)</u>
Net income before provisions and taxation	729,103
Provision for impairment – net	<u>(3,806,185)</u>
Net (loss) income for the year before taxation	<u>(3,077,082)</u>
Taxation	<u>(434,810)</u>
NET (LOSS) INCOME FOR THE YEAR	<u><u>(3,511,892)</u></u>

Bank's share of restricted investment accounts

The Bank's share of restricted accounts is based on its principal participation percentage. This is in addition to the Mudarib fee on profit made on restricted investment accounts.

Zakat

The responsibility of payment of Zakat is on individual shareholders and investment account holders. In Pakistan, Zakat is deducted at source by the Branch from the unrestricted account holders, as required by local laws.

Earnings prohibited by Sharia'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Bank uses these funds for social purposes.

Statement of sources and uses of charity fund (Zakat)

Year ended 31 December 2006

	2006 US \$
Source of charity fund	
Non-Islamic income transferred to the charity fund	814,461
Receipts of staff loans	<u>27,387</u>
Total sources	<u><u>841,848</u></u>

Uses of charity funds

Charity for the poor and the needy	355,374
Other charitable contributions	<u>397,544</u>
Total uses	<u>752,918</u>
Net increase of sources over uses	88,930
Balance of charity fund at beginning of the year	<u>782,768</u>
Balance of charity fund, at end of the year	<u><u>871,698</u></u>

Accounting Principles**Investment risk reserve (IRR)**

The Bank deducts 5% from the profit distributable to unrestricted investment accounts of its Bahrain operations as an investment risk reserve. The Bank uses this reserve to cater against future losses for unrestricted investment account holders.

Profit equalisation reserve (PER)

The Bank appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts after taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for unrestricted investment account holders.

Return on unrestricted investment accounts

The investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to the investment pool "Mudarib expenses". Mudarib expenses include all expenses incurred by the Bank, including specific provisions, but excluding staff cost and depreciation. The Bank's "mudarib profit" is deducted from investors' share of income before distributing such income at the end of the year. Unrestricted investment accounts withdrawn before maturity and without completing three months are not entitled to any income. Unrestricted investment accounts held for more than three months' duration and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months' income.

The basis applied in arriving at the investment account holders' share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and unrestricted investment accounts) times average funds of unrestricted investment accounts]. Neither the Bank's income from restricted

investment accounts' "mudarib fee" nor the income paid to restricted investment accounts are included in the calculation of unrestricted investments account holders' share of income.

Investments that are jointly owned by the Bank and the investment account holders share are classified under the caption – "jointly financed" – in the financial statements. Investments that are financed solely by the Bank are classified under the category "self financed".

Unrestricted investment accounts

2006

US \$

Unrestricted investment accounts	434,878,469
Profit equalisation reserve	207,035
Investment risk reserve	908,301
	<u>435,993,805</u>

Movement in profit equalisation reserve

2006

US \$

Balance at 1 January	10,472
Amount apportioned from income allocable to unrestricted investment account holders	199,543
Transferred to income on jointly financed sales	(2,980)
Balance at 31 December	<u>207,035</u>

Movement in investment risk reserve

2006

US \$

Balance at 1 January	416,272
Amount apportioned from income allocable to unrestricted investment account holders	642,029
Transferred to provision for sales receivables	(150,000)
Balance at 31 December	<u>908,301</u>

Terminology

Types of credit risk

Financing contracts mainly comprise sales receivables and Mudaraba financing.

Cash and balances with banks

Cash and balances with banks include balances with banks and financial institutions invested on a short term basis.

Sales receivables

The Bank finances these transactions through buying the commodity which represents the object of the Murabaha and then resells this commodity to the beneficiary at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the Murabaha over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Ijara and Ijara receivables

The legal title of the assets under Ijara only passes to the lessee at the end of the Ijara term, through gift, consideration or gradual sale, provided that all Ijara instalments are settled.

Mudaraba

The Bank enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

Musharaka

Musharaka is a form of partnership between the Bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Appendix 5.5

Bahrain Islamic Bank

Consolidated Balance Sheet
2005

Bahrain Islamic Bank BSC**Consolidated Balance Sheet****30 June 2005****30 June 2005
BD'000****ASSETS**

Cash and balances with the CBB and other banks	12,146
Murabaha receivables	144,943
Mudaraba investments	14,496
Musharaka investments	5,537
Non-trading investments	69,661
Investments in associates	2,995
Investments in Ijara assets	5,262
Ijara Muntahia Bittamleek	12,457
Investments in properties	8,484
Other assets	3,028
TOTAL ASSETS	279,009

**LIABILITIES, UNRESTRICTED INVESTMENT
ACCOUNTS AND EQUITY****LIABILITIES**

Customers' current accounts	40,558
Other liabilities	4,739
TOTAL LIABILITIES	45,297

UNRESTRICTED INVESTMENT ACCOUNTS 172,503**EQUITY**

Share capital	25,300
Share premium	5,762
Reserves	30,147

TOTAL EQUITY	61,209
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	279,009
CONTINGENCIES	11,861

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*The Islamic Banking
Infrastructure*

What is the role of the financial infrastructure?

The financial infrastructure is the set of institutions that enable the effective operation of financial intermediaries. The financial infrastructure encompasses the existing legal and regulatory framework for financial sector operations. The world financial infrastructure is currently undergoing severe challenges so it is useful to be clear about what the exact role played by an appropriately designed financial infrastructure should be.

The continued stability of the financial system relies on a safe and efficient infrastructure

The continued stability of the financial system relies on a safe and efficient infrastructure. Suitable arrangements for the regulation of financial institutions, combined with sound and transparent market practices, reduce both the likelihood and severity of episodes of financial instability. A strong emphasis on risk management within payment and settlement systems limits the possibility of these systems acting as conduits through which financial distress is transmitted between institutions or markets. A well-designed international financial architecture reduces the risk of contagion across national borders. Nonetheless, it is also important for financial authorities to have available the appropriate tools to manage any domestic crisis that does occur.

The financial services infrastructure is going through a period of rapid upheaval and change

Governmental and financial institutions play critical roles in providing the infrastructure within which financial services are transacted. Financial services infrastructure comprises standards and regulatory bodies, whose main function is to enable and secure the execution of financial transactions between governments, financial institutions, industry and individuals. These organisations often have the capability to carry out financial transactions on their own behalf, but that is not their main purpose.

The financial services infrastructure is going through a period of rapid upheaval and change. With the globalisation and convergence of financial services, central banks and regulators strive to minimise opportunities for regulatory arbitrage not only between domestic, regional and international markets, but also between financial sectors such as banking and insurance. It makes no difference whether we look at the conventional or

the Islamic financial world, the need for an efficient infrastructure remains the same.

The components of the financial infrastructure include:

- *legal and regulatory frameworks (including enforcement and conflict resolution mechanisms, and bankruptcy codes);*
- *supervision, accounting, and auditing (i.e. rules, systems, practices, and professions);*
- *financial corporate governance rules and institutions;*
- *information infrastructure (i.e. public registries, official statistics, laws and rules on disclosure, credit bureaux, communications networks, rating agencies, financial information specialists, and financial and industry analysts);*
- *clearing, settlement, and exchange systems (i.e. technology platforms, networks, and rules and standards);*
- *liquidity and safety net facilities.*

This chapter describes the principal ingredients of the Islamic financial infrastructure.

The Islamic financial infrastructure

The financial infrastructure is the set of institutions that enable effective operation of financial intermediaries, in this case the Islamic banking sector. There are at least five critical issues that any financial infrastructure must handle:

- *Strengthening the financial system's core components by implementing rigorous standards of sound practices.*
- *Creating a more structured and coordinated approach to testing new needs.*
- *Promoting industry-wide standards for business continuity and resilience.*
- *Expanding the membership of the institutions involved including outreach and education efforts.*

- *Identifying and testing critical interdependencies between Islamic financial services and the conventional equivalent.*

What is the ideal Islamic infrastructure?

The Islamic financial architecture – both its national components and the international infrastructure institutions – should be designed to foster a sound and orderly development of the Islamic financial institutions (IFIs). That is to say, it must be well diversified and well integrated within the national and global financial system, while providing adequate access to a wide range of customers. This goal should be achieved by helping national authorities to develop:

- i) *a legal infrastructure underpinning laws, contracts, property rights, insolvency and creditor rights regime, as well as financial safety nets;*
- ii) *a transparent, information and governance infrastructure, including monetary and financial policy transparency and neutrality, corporate governance, accounting and auditing framework, disclosure regime and market monitoring arrangements such as credit ratings and credit report systems; and*
- iii) *a systemic liquidity infrastructure, including monetary and foreign exchange operations, payment and securities settlement systems, and an adequate microstructure of the money, foreign exchange and securities markets.*

The means to these ends include encouraging international technical and financial cooperation and information exchange; developing standards, codes of good practice and market conduct, informal self-regulation among IFIs, and guidelines on monetary and financial policies and developing strategic alliances with other multilateral institutions.

The design of the financial architecture can have a first order impact on the development of the industry, as well as on the effectiveness of supervision. It is important that the design be flexible enough to accommodate the prospective changes in the industry structure, including:

- i) *increasing presence of non-bank financial institutions, including, in particular, takaful operators;*

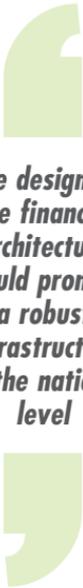
- ii) *greater integration of IFIs and money and capital markets, in part reflecting the increasing use of asset securitisation and other product innovations for balance sheet management, and a growing share of Islamic financial market instruments, with a sizeable presence of sovereign and money market issues and securitised mortgages;*
- iii) *product innovations and a risk management technology that permit a greater role for equity-based finance and more transparent profit-sharing investment account products of different risk-return-maturity combinations; and*
- iv) *increased availability of Sharia'a-compliant derivative contracts.*

The design of the financial architecture should promote a robust infrastructure at the national level. This is a prerequisite for greater cross-border access to Islamic financial services and for greater global integration of both conventional and Islamic finance. Thus international infrastructure institutions should have, as a goal, acceleration of the national-level institutional development through cooperation, information exchange, and developing standards and guidelines where needed.

The design should build on and ensure close coordination with the existing architecture for conventional finance. It should facilitate product innovation and risk management that lead to a deeper integration with the rest of the financial system. It should also help to broaden access to the services of the industry by avoiding, where feasible, segmentation or isolation of the IFIs as a result of having separate products and services that are not comparable with or competitive with conventional financial products. Moreover, it should not result in a heavy compliance burden that is disproportionate to the size and scale of IFIs. IFIs are still small compared to their conventional counterparts. The developmental and financial stability considerations need to be carefully balanced in the design of the regulatory framework and the support institutions.

International Islamic financial infrastructure institutions

International infrastructure institutions are those that collectively facilitate monetary and financial policy-making at the



The design of the financial architecture should promote a robust infrastructure at the national level

national level, and promote national development, financial stability and international financial integration by helping to develop standards, guidelines and best practices, coordinating national policies, and organising international financial and technical support.

Many of the international and regional development banks also cover Islamic finance in the context of their surveillance, technical and financial assistance, and policy development work. In particular, the IDB plays a special role in the architectural hierarchy.

A number of initiatives have been taken in recent years, both nationally and internationally, to strengthen the Islamic financial architecture. Some countries such as Bahrain, Malaysia and Indonesia have adopted comprehensive medium-term strategies to foster IFIs and Islamic financial markets as part of broader financial sector reforms.

What are the components of the Islamic financial infrastructure ?

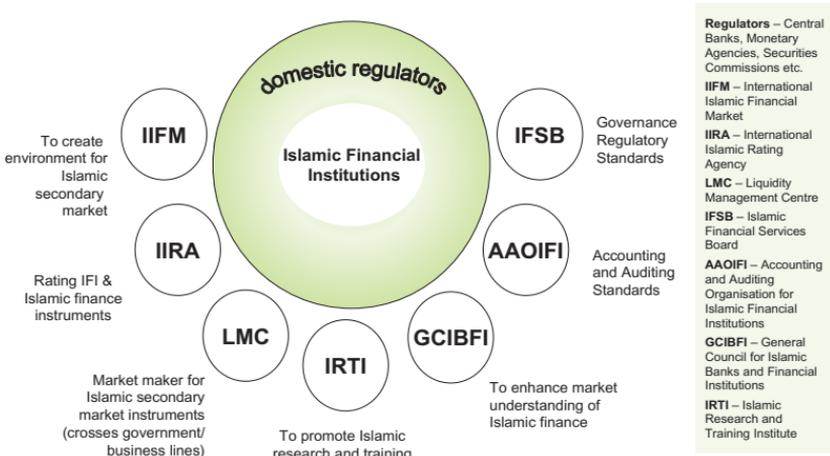
At the international level the Islamic infrastructure includes the following:

- *The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), set up in 1991;*
- *The Islamic Financial Services Board (IFSB), set up in 2002, established by several central banks and monetary authorities, working together with the IDB, IMF and AAOIFI;*
- *The Liquidity Management Centre(LMC), established on July 29th 2002 in the Kingdom of Bahrain;*
- *The International Islamic Financial Market (IIFM), set up in 2002;*
- *The International Islamic Rating Agency (IIRA), set up in 2007;*
- *The Islamic Research and Training Institute (IRTI), established by the IDB in 1981;*

- The General Council for Islamic Banks and Financial Institutions (GCIBFI), set up in 2001;
- The Arbitration Centre for Islamic Banks and Financial Institutions (ARCIFI), set up in 2005.

Figure 6.1 summarises these institutions.

Figure 6.1. The Islamic financial infrastructure



1 Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

AAOIFI Overview

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous not-for-profit corporate body that prepares accounting, auditing, governance, ethics and *Sharia*'a standards for Islamic financial institutions and the industry.

AAOIFI was established in accordance with the Agreement of Association which was signed by Islamic financial

institutions on the 26th February 1990 in Algiers. AAOIFI was registered on 27th March 1991, in the State of Bahrain.

As an independent international organisation, AAOIFI is supported by institutional members (155 members from 40 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry.

AAOIFI has gained wide support for the implementation of its standards. These are now adopted in the Kingdom of Bahrain, Dubai International Finance Centre, Jordan, Lebanon, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements.

The AAOIFI Objectives

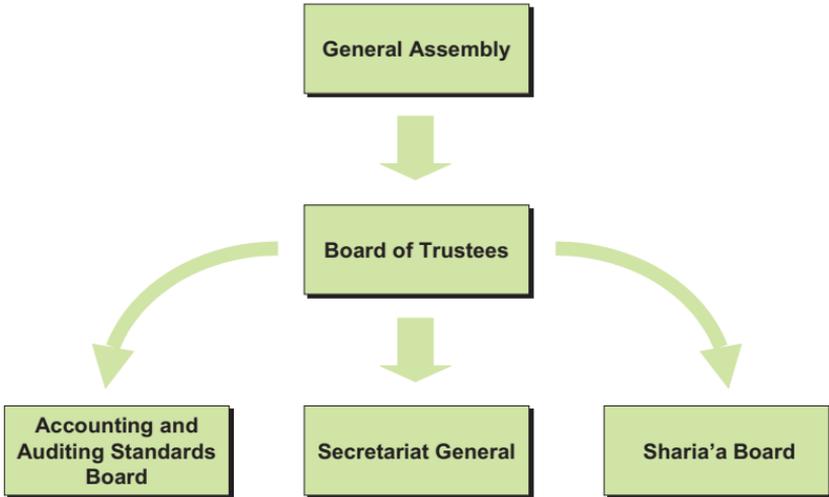
The objectives of AAOIFI are:

1. *to develop accounting and auditing concepts relevant to Islamic financial institutions;*
2. *to disseminate accounting and auditing concepts relevant to Islamic financial institutions and its applications through training, seminars, publication of periodical newsletters, carrying out and commissioning of research and other means;*
3. *to prepare, promulgate and interpret accounting and auditing standards for Islamic financial institutions; and*
4. *to review and amend accounting and auditing standards for Islamic financial institutions.*

AAOIFI carries out these objectives in accordance with the precepts of the Islamic *Sharia'a*. This represents a comprehensive system for all aspects of life in conformity with the environment in which Islamic financial institutions operate. AAOIFI's activities are intended both to enhance the confidence of users of the financial statements of Islamic financial institutions in the information that is produced about the institutions, and to

encourage the users to invest or deposit their funds in Islamic financial institutions and to use their services. The structure of AAOIFI is illustrated in *Figure 6.2*.

Figure 6.2. The AAOIFI structure



AAOIFI membership criteria

Membership criteria vary among institutions already joined or willing to join AAOIFI. However, Founding members stand apart, being the Islamic financial institutions which were signatories to the agreement establishing the organisation in 1990. Those members are the Islamic Development Bank, Al Baraka Banking Group (Bahrain), Dar Al Mal Al Islami (Switzerland), Al Rajhi Banking and Investment Corporation (Saudi Arabia), Kuwait Finance House (Kuwait) and Bukhari Capital (Malaysia).

Associate members are those Islamic financial institutions and companies that comply with Islamic *Sharia'a* precepts and principles in their operations and transactions. In addition, Islamic *Fiqh* academies and institutions that have corporate entities have their say in this category.

AAOIFI's membership base is not limited to Founding and Associate members. Members representing regulatory and supervisory authorities – central banks, monetary agencies, and such like – form a distinct category, playing a vital role by supervising Islamic financial institutions and by their contribution towards the economy at large.

The last category of membership is Observer members. These members include organisations and associations responsible for regulating the accounting and auditing profession and/or those responsible for preparing accounting and auditing standards. Practising certified accounting and auditing firms that have an interest in the accounting and auditing practices of Islamic financial institutions are among observers as well. The list goes further by admitting financial institutions engaged in financial activities of Islamic financial institutions (Islamic banking windows, for instance). Users of financial statements of Islamic financial institutions, both individuals and corporate, also belong to this category.

Supporting members, finally, comprise of users of financial statements of Islamic financial institutions, individuals and corporate. This is in addition to local and international financial institutions that already have, or intend to have, relationships with Islamic financial institutions and products.

Professional qualification programmes (notably CIPA, the Sharia'a Adviser and Auditor 'CSAA', and the corporate compliance programme) are delivered now by AAOIFI in its efforts to enhance the industry's human resources base and governance structures.

2 The Islamic Financial Services Board (IFSB)

The IFSB is an international organisation that issues guiding principles and standards within the banking, insurance and capital market sectors in order to promote stability in the Islamic financial services industry.

Background to the IFSB

The Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, Malaysia, was officially inaugurated on 3rd

November 2002 and started operations on 10th March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry. This is defined broadly to include banking, capital markets and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with *Sharia*'a principles, and recommending them for adoption.

To this end the work of the IFSB complements that of the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

As at January 2008, the 150 members of the IFSB include 37 regulatory and supervisory authorities as well as the International Monetary Fund, World Bank, Bank for International Settlements, Islamic Development Bank, Asian Development Bank, and 108 market players and professional firms operating in 29 countries.

Malaysia, the host country of the IFSB, has enacted a law known as the Islamic Financial Services Board Act 2002, which gives the IFSB the immunities and privileges that are usually granted to international organisations and diplomatic missions.

Objectives of the IFSB

The objectives of the IFSB are:

- 1. To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Sharia'a principles, and recommending these for adoption.*
- 2. To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop, for the Islamic financial services industry, the criteria for identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.*

3. *To liaise and cooperate with relevant organisations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.*
4. *To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.*
5. *To encourage cooperation amongst member countries in developing the Islamic financial services industry.*
6. *To facilitate training and personnel development and skills in areas relevant to the effective regulation of the Islamic financial services industry and related markets.*
7. *To undertake research into, and publish studies and surveys on, the Islamic financial services industry.*
8. *To establish a database of Islamic banks, financial institutions and industry experts.*
9. *Any other objectives which the General Assembly of the IFSB may agree from time to time.*

Source: Article 4 – IFSB Articles of Agreement

The organisational structure of the IFSB is illustrated in **Figure 6.3** opposite.

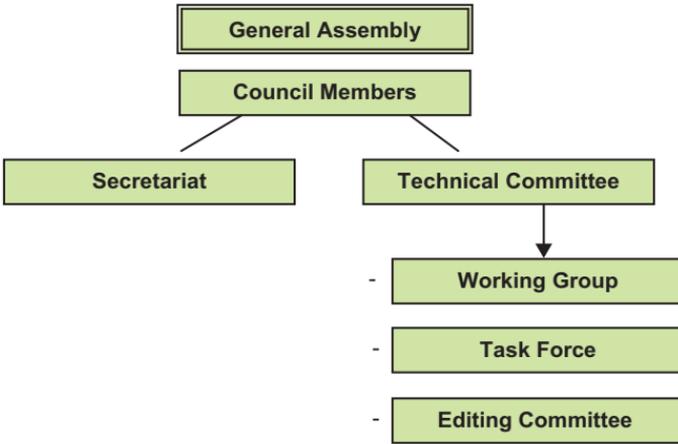
General Assembly

This is the representative body of all the members of the IFSB, namely Full Members, Associate Members and Observer Members.

Council

This is the senior executive and policy-making body of the IFSB. It consists of one representative from each Full Member who should be the senior executive officer of that Full Member or such other senior person nominated to represent him from time to time.

Figure 6.3. Organisational structure of the IFSB



Technical Committee

This is the body responsible for advising the Council on technical issues within its terms of reference (as determined by the Council). It should consist of up to fifteen persons selected by the Council and has a term of office of three years.

Working Group

This is a committee established to be responsible for drafting standards and/or guidelines.

Task Force

This is a committee established to be responsible for undertaking ad-hoc tasks.

Editing Committee

This is a committee established to be responsible for the translation of the IFSB documents from English to Arabic.

Secretariat

This is the permanent administrative body of the IFSB. It is headed by a full-time Secretary-General appointed by the

Council on such terms and conditions determined by the Council. The Secretariat is based in Kuala Lumpur, Malaysia.

Adoption of Standards

Since its inception the IFSB has issued numerous Standards, Guiding Principles and Technical Notes for the Islamic financial services industry. Listed below are some of the published documents which are on the areas of:

1. *Risk Management;*
2. *Capital Adequacy;*
3. *Corporate Governance;*
4. *Supervisory Review Process;*
5. *Transparency and Market Discipline;*
6. *Recognition of Ratings on Sharia'a-Compliant Financial Instruments;*
7. *Development of Islamic Money Markets.*

The IFSB is also working on several new standards and guidelines. These include:

1. *Special Issues in Capital Adequacy (currently being issued as an Exposure Draft);*
2. *Governance for Collective Investment Schemes (currently being issued as an Exposure Draft);*
3. *Corporate Governance in Takaful Operations;*
4. *Sharia'a Governance;*
5. *Market Conduct.*

The standards prepared by the IFSB follow a lengthy due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines. This involves the issuance

of an exposure draft and, where necessary, the holding of a public hearing.

Awareness promotion role of the IFSB

The IFSB is actively involved in the promotion of awareness of issues that are relevant or have an impact on the regulation and supervision of the Islamic financial services industry. This role mainly takes the form of international conferences, seminars, workshops, training, meetings and dialogues staged in many countries.

3 The Liquidity Management Centre (LMC)

The Liquidity Management Centre B.S.C. (LMC) was established on July 29th 2002 in the Kingdom of Bahrain as a Bahraini joint stock company with an Islamic Investment Banking licence.

Its principal vision is to enable Islamic financial institutions to manage their liquidity mismatches through short- and medium-term liquid investments structured in accordance with *Sharia'a* principles.

Role of the LMC

The LMC was established for the purpose of facilitating the investment of the surplus funds of Islamic banks and financial institutions into quality short- and medium-term financial instruments, structured in accordance with *Sharia'a* principles.

The LMC is committed to playing a key role in the creation of an active and geographically expansive Islamic interbank market which will assist Islamic financial institutions in managing their short-term liquidity. The establishment and depth of such an interbank market is designed to further accelerate the development process of the Islamic banking sector. In addition, it is intended that the LMC will attract assets from governments, financial institutions and corporates in both private and public sectors in many countries. The sourced assets will be securitised into readily transferable securities or structured into other innovative investment instruments.

The LMC also offers other Islamic advisory services, including but not limited to the areas of structured/project/corporate finance.

Sponsor

The Bahrain Monetary Agency, now the Central Bank of Bahrain (CBB), was the primary sponsor in establishing the Liquidity Management Centre.

Capital

Authorised Capital	US\$200 mn
Subscribed and Fully Paid up Capital	US\$50 mn

Ownership of the LMC

The LMC is owned and benefits from the continued support of four of the largest Islamic financial institutions, namely, Bahrain Islamic Bank, Dubai Islamic Bank, Kuwait Finance House and the Islamic Development Bank.

Shareholders of the LMC

Bahrain Islamic Bank B.S.C.	Kingdom of Bahrain	25%
Dubai Islamic Bank P.J.S.C.	United Arab Emirates	25%
Islamic Development Bank	Kingdom of Saudi Arabia	25%
Kuwait Finance House K.S.C.	State of Kuwait	25%

Sharia'a Board of the LMC

With the mission of contributing towards the development of a standardised framework for Islamic investment banking the LMC not only benefits from its own Sharia'a Board but enjoys the support of the Sharia'a Boards of its shareholders together with that of the CBB.

LMC Sharia'a Board

Scholar	Position
Dr Hussein Hammed Hassan	Chairman
Dr Ajail Jassem Al-Nashmi	Member
Dr Abdul Sattar Abu Ghuddah	Member
Shaikh Adnan Al Qattan	Member

Market Position

The LMC is designed to satisfy the increasing need for quality short- and medium-term tradable investment opportunities and the development of an active secondary market for these instruments. Its established track record in the primary market issuance of a varied number of *Sukuk*, as well as its commitment to coordinating secondary market activity, is a strength it is building upon.

Short-Term Secured Investment Sukuk

An open ended Short Term Sukuk Program (STS) was initially launched by the LMC in January 2004 and has grown steadily to a size of approximately US\$100mn. The programme possesses a number of key attributes which include:

- *monthly investment entry and exit points for investors;*
- *payment of monthly investment returns to investors;*
- *reputed liquidity providers for the programme;*
- *underlying asset security/collateral coverage in the form of a performing portfolio of various Sukuk.*

Primary Market Sukuk Issuance

Sukuk are certificate-based modes of structuring capital market instruments. The LMC offers a broad variety of such instruments. Its client base includes sovereign entities, financial institutions and other corporate entities. The purpose for the issuance of *Sukuk* varies and can include project finance, general corporate funding for working capital or expansion, corporate refinancing, asset securitisation and acquisition finance.

The LMC provides its clients with *Sukuk* structures and its documentation is tailored to meet their requirements.

The *Sukuk* structures may include but are not be limited to, the following:

- *Salam and Istisna'a Sukuk;*
- *Mudaraba and Musharaka Sukuk;*

- *Ijara and leasing Sukuk;*
- *Istisna'a and Ijara Sukuk;*
- *Murabaha Sukuk and post-dated sales;*
- *Investment Agency Sukuk.*

The LMC applies Sukuk structures to both debt-based transactions and equity-raising transactions.

As per its founding mandate, the LMC aims to develop an active secondary market for all transferable Islamic investment instruments. The LMC's activities in this area revolve around assisting prospective buyers and sellers of *Sukuk*. This area of its business is evolving in line with the underlying expansion in the primary *Sukuk* issuance market.

The LMC provides fund structuring, issuance and documentation services to a broad range of clients. Its fund structures and underlying documentation are tailored to meet the requirements of such clients. In addition, such investment structures may be domestically or internationally domiciled. *Table 6.1* opposite provides some illustrative examples of the market making side of the LMC's *Sukuk* activities.

④ The International Islamic Financial Market (IIFM)

The International Islamic Financial Market (IIFM) was founded with the collective efforts of the central banks and monetary agencies of Bahrain, Brunei, Indonesia, Malaysia, Sudan and the Islamic Development Bank based in Saudi Arabia. The IIFM is an infrastructure institution with the mandate to promote and enhance the establishment, development, self-regulation and promotion of the Islamic capital and money markets.

The IIFM's primary focus lies in the advancement and standardisation of Islamic financial instrument structures, contracts, product development and infrastructure, and the issuance of guidelines and recommendations for the enhancement of Islamic capital and money markets globally. In addition,

Table 6.1. LMC administered Sukuk – some illustrative examples

Issuer	Maturity Date	Return	Issue Size (Source Currency Mn)	Issue Size (US\$ Mn Equivalent)	Rating/ Listing	Indicative Price		Indicative Spread to LIBOR/ SWAPS (bps)	
						Bid	Offer	Bid	Offer
Lagoon City Sukuk Al Marfa'a Al Mali (Corporate)	12-Dec-2011	6m LIBOR + 2.25%	USD 200	200	Cl: BBB+	99.50	100.00	224	250
	26-Jul-2010	3m LIBOR + 2.50%	USD 134	134	-	99.75	100.35	261	237
Durrat Al Bahrain Sukuk (Corporate)	25-Jan-2010	3m LIBOR + 1.25%	USD 152.5	152.5	-	99.00	100.00	173	125
Emaar (Corporate)	6-Jul-2009	6m LIBOR + 0.7%	USD 65	65	-	99.25	100.25	118	50
The Commercial Real Estate Sukuk (Corporate)	12-May-2010	6m LIBOR + 1.25%	USD 100	100	Cl: A-	99.00	100.00	168	124

development of the global primary and secondary Islamic capital and short-term financial markets and the creation of a market for Islamic financial instruments is a key area for the IIFM.

What is the Vision of the IIFM?

To create “Active and well regulated trading and capital flows across the full spectrum of Sharia’a compliant and financial instruments internationally”.

What is the Mission of the IIFM?

“To achieve the Vision by catalyzing both a national and international trading infrastructure, product innovation and information flow within strong, transparent and well regulated standards and guidelines. This is to be achieved by promoting acceptance and integration with the mainstream markets.”

What is the Mandate of the IIFM?

The IIFM plays an active role in the global development of Islamic capital and short-term financial markets by facilitating the introduction of professional practices and creating common platforms for market participants through various working groups and committees.

Objectives of the IIFM

The principal objective of the IIFM is to encourage self-regulation for the development and promotion of the Islamic capital and money market segment. The IIFM, in partnership with its member institutions, creates initiatives that include issuance and trading guidelines, best practice procedures, standardisation of financial contracts leading to product innovation and market recommendations and infrastructure development. In particular, the IIFM promotes the emergence and integration of Islamic financial markets into mainstream global financial markets.

The IIFM acts as a market body in the development and maintenance of uniformity, assisting with standards benchmarking for the transparency and robustness of Islamic financial markets.

The IIFM plays an active role in the establishment, development and enhancement of trading, settlement and related systems' infrastructure and involves itself with several challenging issues for Islamic financial markets. These include Islamic hedging, secondary market documentation and the creation of innovative products, e.g. an Islamic repo market, Treasury Murabaha contract mechanisms and similar elements vital to a well-developed and functional Islamic financial system.

Broader Contribution of the IIFM

The IIFM's contribution to the Islamic financial services industry includes:

Market body

The IIFM forms a link between Islamic financial market participants and regulatory bodies on the Islamic capital and money market segment of the industry. Its Working Groups structure brings market participants onto a common platform with support from regulatory institutions.

Wider Sharia'a acceptance

Wider *Sharia'a* acceptance is provided through access to other Sharia'a Boards.

Self regulation

Members benefit from recommendations, guidelines and best practices on primary and secondary market issues.

Uniformity and standardisation

The production of unified documentation frameworks and product development creates cost reduction for all IFIs together with improved transactional security.

Knowledge sharing

The IIFM promotes the active participation of both Islamic and Islamically-interested institutions, and industry professionals. This is achieved through the exchange of knowledge and

expertise on a global basis through IIFM's specialised forums and workshops on Islamic capital and money markets.

Systems development

The IIFM advises on the integrity and compliance of a variety of Islamic financial infrastructures.

Recent IIFM Developments

In terms of project implementation the IIFM is currently actively finalising the following key initiatives.

1. IIFM Master Agreement for Islamic Treasury Placement

The Master Agreement for Islamic Treasury Placement will provide a standardised benchmark document for the industry. Currently there are more than 20 different documents being used by institutions. The absence of unified documentation results in an increase in costs, raises the issues of robustness and transparency, as well as resulting in diverse *Sharia'a* acceptance.

2. IIFM/ISDA Islamic Master Agreement

The IIFM is currently working on the creation of a framework document mainly covering Islamic hedging.

3. IIFM/ICMA Sharia'a-Compliant Repo Master Agreement

This project is aimed towards resolving the non-availability of a viable Islamic money market instrument and will also provide an efficient liquidity management tool to the industry. This tool will assist in fostering the secondary market for *Sukuk*.

In addition to the above mentioned projects, there are several other projects under consideration. These include the *Sukuk* Primary and Secondary Market, infrastructure improvement (including systems and procedures) and the database of Islamic capital market instruments. In the medium term, the IIFM aims to provide benchmark/standardised documents and best practices for products.

The IIFM Sharia'a Advisory Panel

– Sheikh Nizam Yaquby Bahrain	– Dr Hussain Hammed Hassan Dubai
– Sheikh Essam Ishaq Bahrain	– Dr Daud Bakar Malaysia
– Dr Ahmad Ali Abdulla Sudan	– Dr Layachi Sedek Fedad Saudi Arabia
– Dr Imran Usmani Pakistan	– Dr Burhan Arbouna Bahrain

5 The International Islamic Rating Agency (IIRA)*What is the IIRA?*

The Islamic International Rating Agency (IIRA) is the sole rating agency established to provide capital markets and the banking sector in predominantly Islamic countries with a rating spectrum that encompasses the full array of capital instruments and speciality Islamic financial products, and to enhance the level of analytical expertise in those markets.

The IIRA's augmented rating system recognises and incorporates the unique features of Islamic finance in a way that broadens the quality perspective that is a rating agency's ultimate goal. This will facilitate development of the company's markets. The business model employed, focused on the needs of institutional investors, predicates value creation for ratings on the premise that investors will ultimately demand the company's ratings and research. The IIRA is also soliciting recognition of its ratings by regulators. This business model defines the prerequisites for establishment of the agency: absolute independence of rating judgment, objective and impartial rating committees, highly-trained professional analytical staff and business objectives determined by the market.

The IIRA B.S.C. started operations in July 2005 to facilitate development of the regional and national financial markets by delineating relative investment or credit risk, providing an assessment of the risk profile of entities and instruments. The IIRA is sponsored by multilateral development institutions, leading banks, other financial institutions and rating agencies.

Its shareholders operate from eleven countries which constitute the agency's primary marketing focus.

The IIRA is structured in a way to preserve its independence. It has a Board of Directors and a completely independent Rating Committee. Its Sharia'a Board is made up of experts in the field.

What is the Vision of the IIRA?

The vision is to become the ultimate reference point for credit ratings in accordance with *Sharia'a* principles.

What is the Mission of the IIRA?

The mission of the Islamic International Rating Agency is to foster development of the financial markets in which it operates through the provision of:

- *ratings for sovereign bond issues;*
- *traditional bond/sukuk ratings and rating framework;*
- *Sharia'a-quality ratings to reflect institutional compliance;*
- *investment quality and/or issuer ratings;*
- *specialist focused corporate governance ratings;*
- *a periodic summary bulletin of market activity and ratings;*
- *economic commentary from a credit and investment quality perspective;*
- *detailed rating reports designed to enhance the investment decision process;*
- *sector reports clarifying company status within industry groupings;*
- *a record of actual and prospective money and capital market activity;*
- *analysis of financial institution counterparty risk for treasurers;*
- *seminars on the analytical principles employed by rating agencies.*

What are the Objectives of the IIRA?

1. *To develop methodologies and benchmarks for Issues/Issuer ratings.*
2. *To provide an independent assessment and opinion on the likelihood of timely repayment of financial obligations by sovereigns, corporates, banks and financial institutions and securities issued by governments, corporates, banks and financial institutions.*
3. *To provide an independent opinion on the level of compliance with the principles of Sharia'a.*
4. *To assess the governance system of corporates, banks, and other financial institutions.*
5. *To disseminate and publish information and data relating to business enterprises for the development of sound and efficient capital markets.*
6. *To offer research, analysis and evaluation of sectors, industries and entities.*
7. *To encourage the introduction of standards for greater disclosure and transparency.*

Rating Symbols of the IIRA

The IIRA communicates its opinions on ratings to investors and other stakeholders through symbols, in line with the other rating agencies. The IIRA definitions of ratings are given below.

Gradations of creditworthiness or the level of compliance are indicated by rating symbols, with each symbol representing a group in which the credit characteristics or level of compliance are broadly the same. The symbols are specific to the rating in question and are provided with accompanying definitions.

International Scale Ratings and National Scale Ratings

IIRA assigns national scale ratings to specific local-currency issues or obligations and to specific obligors who have issued

Sukuk/bonds and other securities in their local market. National scale ratings are a measure of relative risk within a country compared to other domestic issuers.

Sharia'a Rating Scale and Definitions

The IIRA uses a scale of AAA (SQR) to B (SQR) to rate Sharia'a Quality Compliance, with AAA (SQR) being the highest possible rating and B (SQR) being the lowest possible rating. The rating criteria are illustrated below.

- **AAA (SQR)** – *An entity/instrument rated AAA (SQR) conforms to the highest level of standard of Sharia'a requirements in all aspects of Sharia'a conformity;*
- **AA (SQR)** – *An entity/instrument rated AA (SQR) conforms to a very high level of standard of Sharia'a requirements in all aspects of Sharia'a conformity;*
- **A (SQR)** – *An entity/instrument rated A (SQR) conforms to a high level of standard of Sharia'a requirements with very few weaknesses in Sharia'a conformity;*
- **BBB (SQR)** – *An entity/instrument rated BBB (SQR) conforms to a moderately high level of standard of Sharia'a requirements but has a few weaknesses in Sharia'a conformity;*
- **BB (SQR)** – *An entity/instrument rated BB (SQR) conforms to satisfactory level of standard of Sharia'a requirements but has some weaknesses in Sharia'a conformity;*
- **B (SQR)** – *An entity/instrument rated B (SQR) conforms to an adequate level of standard of Sharia'a requirements but has weaknesses in a number of areas of Sharia'a conformity.*

'p' Rating

A 'p' rating is assigned to entities where the management has not requested a rating. The rating decision is arrived at using publicly available information.

A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign. Outlook is not assigned to these ratings.

Corporate Governance Rating (CGR) Scale and Definitions

The IIRA uses a scale of CGR-1 to 10 to rate corporate governance with CGR-10 being the highest possible rating and CGR-1 being the lowest possible rating. The rating criteria are illustrated below.

- **CGR-10:** *Strongest corporate governance processes and practices overall, with very few weaknesses in any of the major areas of governance analysis.*
- **CGR-9:** *Very strong corporate governance processes and practices overall, with few weaknesses in any of the major areas of governance analysis.*
- **CGR-8:** *Strong corporate governance processes and practices overall, with some weaknesses in certain of the major areas of governance analysis.*
- **CGR-7:** *Moderately strong corporate governance processes and practices overall, with weaknesses in certain of the major areas of governance analysis.*
- **CGR-6:** *Satisfactory corporate governance processes and practices overall, with some weaknesses in several of the major areas of governance analysis.*
- **CGR-5:** *Adequate corporate governance processes and practices overall, with weaknesses in several of the major areas of governance analysis.*
- **CGR-4:** *Moderately weak corporate governance processes and practices overall, with weaknesses in a number of the major areas of governance analysis.*
- **CGR-3:** *Weak corporate governance processes and practices overall, with significant weaknesses in a number of the major areas of governance analysis.*
- **CGR-2:** *Very weak corporate governance processes and practices overall, with significant weaknesses in most of the major areas of analysis.*
- **CGR-1:** *Weakest level of corporate governance processes and practices overall, with significant weaknesses in most of the major areas of analysis.*

Suspension of a Rating

The IIRA will suspend the rating if, due to non cooperation or inadequate level of cooperation of the Issuer, the available

information about the Issue or Issuer is not sufficient to uphold the rating opinion. A rating can remain suspended up to a maximum period of six months. During this time either the cause of the suspension has to be removed by the Issuer or the rating will be withdrawn.

Withdrawal of a Rating

The IIRA may withdraw the rating if:

- *new circumstances, considered material, preclude satisfactory and objective analysis of the impact;*
- *the Issue is redeemed or has matured;*
- *the obligor fails to renew the contract governing the rating.*

Rating Outlook

IIRA's rating outlook is an opinion regarding the direction the Issue or Issuers' creditworthiness is likely to take over the medium term.

Rating outlooks will fall into the following four categories:

Positive;

Negative;

Stable; and

Developing (contingent upon an event).

The rating outlook is not necessarily a precursor of a rating change.

IIRA Watchlist

The IIRA uses the Watchlist to indicate if a rating is under review for a probable change in the short term. An entity may be placed on the Watchlist owing to a change in circumstances that is expected to result in either an upgrade or downgrade in

the credit rating. A rating is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

Changes in Rating

As a result of changes in creditworthiness of the Issuer or variations in the compliance level of entities, the credit or compliance ratings undergo changes throughout the life of the Issue. Such rating changes indicate that the IIRA has observed an alteration in creditworthiness or compliance level of the Issue or Issuer and the previous rating does not fully reflect the quality (investment or compliance as the case may be) of the Issue or Issuer due to the observed alterations.

Default

Default is defined as an Issuer's failure to meet its obligations on time. The circumstances leading to default are the obligor's unwillingness to pay or inability to pay. Default is deemed to have occurred under the following circumstances:

- *failure to pay on the day when interest/profit and/or principal payment is due. An exception is allowed if there is a grace period and the IIRA believes that the payment will be made before the end of the grace period;*
- *upon voluntary bankruptcy filing or similar action. An exception will be made if the obligor is expected to continue meeting the obligations on the specific Issue;*
- *upon the completion of a tender or exchange offer, whereby some or all of an Issue is either repurchased for an amount of cash or replaced by other securities having a total value that is clearly less than par;*
- *in the case of preferred stock or deferrable payment securities, upon non payment of the dividend or deferral of the interest/profit payment.*

The IIRA Sharia'a Board

The IIRA has selected a Sharia'a Board comprising nineteen prominent scholars. The scholars are highly respected for their knowledge of the principles of *Sharia'a*, integrity and steadfastness. They are also well versed in modern banking and financial

practices and understand financial transactions and products. Care has also been exercised to choose the scholars from diverse geographical locations to accommodate different Islamic view points.

Scholars on the IIRA Shari'a Board

1. Justice Muhammad Taqi Usmani, Pakistan
2. Dr Abdul Sattar Abu Ghuddah, Syria
3. Dr Mohamed A. Elgari, Saudi Arabia
4. Dr Layachi Feddad, Algeria
5. Dr Ahmad Ali Abdullah, Sudan
6. Dr Nazih Hammad, Canada
7. Sheikh Mohamed Ali Al-Taskheri, Iran
8. Dr Hussein Hamed Hassan, Egypt
9. Dr Sheikh Nizam Yaquby, Bahrain
10. Dr Mohammed Daud Bakar, Malaysia
11. Professor Dr Mohamed A. Al-Sherif, Kuwait
12. Dr Abdulwahhab Al-Dailami, Yemen
13. Professor Dr Abdul Salam Al Abbadi, Jordan
14. Sheikh Mohsin Hussein Al Asfoor, Bahrain
15. Dr Mohamed Al-Habib Ibn Al-Khuja, Tunisia
16. Professor Dr Ali Moheldin Al-Quradaghi, Qatar

17. *Sheikh Abdullah Al-Manea, Saudi Arabia*

18. *Sheikh Khalil Al-Mais, Lebanon*

19. *Professor Dr Abdulaziz Bayindir, Turkey*

In Conclusion

In conclusion, the industry faces a variety of challenges if it wants to reinforce the Islamic financial infrastructure.

The supervision of Islamic banking needs strengthening in a number of areas, including the enhancement of:

- (i) *transparency and disclosures;*
- (ii) *risk management;*
- (iii) *corporate governance; and*
- (iv) *internal control systems.*

A number of *Sharia'a*-compliant support facilities need to be provided to Islamic banks, including:

- (i) *liquidity support, such as lender of last resort (LLR) facilities;*
- (ii) *neutrality regarding capital requirements to be accorded to assets of Islamic banks as compared to those of conventional banks;*
- (iii) *a Sharia'a-compliant return on bank reserves held at central banks;*
- (iv) *appropriate treatment of investment accounts for mandatory reserve and capital requirements;*
- (v) *a proper understanding of Islamic banking services and their equal treatment vis-à-vis conventional products;*
- (vi) *a clearer understanding of the Sharia'a governance structures and efforts to facilitate them further;*

- (vii)** *extension of safety net systems such as Sharia'a-compliant deposit insurance;*
- (viii)** *ensuring that the legal system is supportive; and*
- (ix)** *ensuring tax neutrality for Islamic financial contracts.*

Appendix 1

How Much Arabic do You Need to Know to Work in the Islamic Banking Industry?

You certainly do not need to be able to speak fluent Arabic. However there are a certain minimum number of terms you do need to know. These do not translate easily so the Arabic terminology is always used. The spelling of the terms also varies widely. You will find the key terms below, arranged alphabetically.

Amanah:

In *Sharia'a*, the concept of justice and faithfulness is called *Amanah*. The term *Amanah* means that reward and punishment are linked, Muslims believe, with the fulfilment of obligations incurred under the stipulations of a contract. Justice links man to Allah and to his fellow men, Muslims believe. It is this bond that forms the contractual foundation of the *Sharia'a*, which judges the virtue of justice in man not only by his material performance, but also by the essential attribute of the intention with which a Muslim enters into every contract. This intention consists of sincerity, truthfulness, and insistence on rigorous and loyal fulfilment of what he has consented to do (or not to do).

This faithfulness to one's contractual obligations is so central to Islamic believers that when the Prophet Mohammed was asked "who is the believer?", He replied that "a believer is a person in whom the people can trust their person and possessions". He is also reported to have said that "a person without

trustworthiness is a person without religion". So basic is the notion of contracts in Islam that every public office is regarded primarily as a contract and an agreement which defines the rights and obligations of the parties.

Amanah, at a more general level, is associated with trustworthiness, faithfulness and honesty.

As an important secondary meaning, *Amanah* 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, and has a long history of use in Islamic commercial law. By extension, the term can also be used to describe different financial or commercial activities such as deposit taking, custody or holding goods on consignment.

This holding of deposits in trust has important legal implications. A person can hold a property in trust for another, sometimes by express contract and sometimes by implication of a contract. *Amanah*, in this context, entails an absence of liability for loss except in the breach of duty. Current accounts are regarded as *Amanah* (trust) accounts. If a bank is given authority to use current account funds in its business, *Amanah* transforms into a loan. Banks are legally obliged to repay the full amount of current accounts.

The antonym of *Amanah* is *khayan* meaning betrayal, faithlessness, and treachery.

Arboun:

This is a sale agreement in which a security deposit, known as *Hamish gedyyah*, is provided in advance as part payment towards the price of the commodity. The deposit is forfeited if the buyer does not meet his obligations.

So *Arboun* is an amount of money paid by the purchase orderer upon the request of the seller to ensure that the orderer is serious in his order of the asset/shares. If the promise is binding and the purchase orderer declines to purchase the asset, the actual loss incurred to the seller is made good from this deposit.

Hamish gedyyah is a security deposit and is a term sometimes associated with *Arboun* but also with *Murabaha* and other *Sharia'a* nominate contracts.

'Aariyah:

'Aariyah refers to the gratuitous loan of non-fungible objects. More precisely *'Aariyah* means the loan of a particular piece of property, the substance of which is not consumed by being used, without anything taken in exchange. In other words, it is the gift of usufruct of a property or commodity that is not consumed when used. It is different from *Qard* (c.f.), which involves the loan of fungible objects which are consumed when used and in which a similar and not the same commodity has to be returned. *'Aariyah* is also deemed to be a virtuous act, like *Qard*. The borrowed commodity is treated as liability of the borrower who is bound to return it to its owner.

So *'Aariyah* is a contract in which one party loans another the use of some item for an indefinite period of time. *'Aariyah* is generally used to refer to the neighbourly lending of small articles.

'Bai':

'Bai' means sale, an agreement between two parties (the seller and the buyer) to the effect that the ownership of the sale item is transferred from the seller to the buyer in exchange for a price or payment.

'Bai' Bithaman Ajil (BBA):

This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by a client are bought by the bank which subsequently sells the goods to the client at an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle payment by instalments within a pre-agreed period, or in a lump sum. This is similar to a *Murabaha* contract, as it is a credit sale, but with payment on a deferred basis.

Bai' Muajjal:

Literally this means a credit sale. Technically it is a financing technique adopted by Islamic banks that takes the form of *Murabaha Muajjal*. It is a contract in which the seller earns a profit margin on his purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in instalments. The seller has to expressly mention the cost of the commodity and the margin of profit is mutually agreed upon. It is also applied between a wholesaler and a retailer for the supply of a number of agreed items.

Bai' Istijrar:

Under this contract a supplier agrees to deliver to a client, on a regular basis, at an agreed price and mode of payment. *Istijrar* literally means a recurring sale. It is a term used where different quantities are bought from a single seller over a period of time. Sometimes it also refers to transactions whereby the seller delivers different quantities in different instalments to complete the full purchase.

Bai' bil Wafa:

This is a sale with a right of the seller which enables him to repurchase (redeem) the property by refunding the purchase price. It is a *Bai'* in form but a pledge in substance. So it is a sale with the right of redemption, literally, a sale of honour. According to the majority of *Fuqaha* this is not a *Sharia*-compliant contract.

Bai' Muzayadah:

This is an action by a person selling an asset in the open market, which is accompanied by the process of bidding amongst potential buyers. The asset for sale will be given to the person who offered the highest price in open bidding. In other words, it is a sale and purchase transaction based on an auction/tender.

Batil:

Literally this means void or invalid. It refers to a contract which governs a transaction, or an element in such a contract, which makes it null and void.

Daman:

This is a contract of guarantee whereby a guarantor will underwrite any claim and obligation that should be fulfilled by the owner of the asset. This concept is also applicable to a guarantee provided on a debt transaction in the event a debtor fails to fulfil his debt obligation.

Darura:

Darura means necessity. In an emergency Muslims may disregard aspects of *Sharia'a* law in order to save their lives or to preserve the Islamic community, e.g. drinking alcohol or eating pork if it will save your life.

Dayn:

Dayn means debt, namely some form of debt which one is required to pay back to another. A *Dayn* comes into existence as a result of a contract or a credit transaction. It is incurred either by way of rent or sale or purchase or in any other way which results in a debt to another. *Duyun* (debts) should be returned without any profit since they are advanced to help the needy and to meet their demands. The lender should not impose on the borrower more than what he has given on credit.

Bai' al-Dayn:

Bai' al-Dayn means the sale of debt or receivables. This would be a transaction that involves the sale and purchase of securities or debt certificates that conforms with the *Sharia'a*. Securities or debt certificates are issued by a debtor to a creditor as evidence of indebtedness.

Bai' al-Dayn involves the provision of financial resources required for manufacturing, commerce and services through the sale and purchase of trade documents and commercial paper. *Bai' al-Dayn* is a short-term facility with a year or less maturity. Only documents evidencing debts arising from *bona fide* commercial transactions can be traded.

Bai' al-kali' bil-kali':

Literally this means the sale of a debt for a debt. *Bay' al-kali' bil-kali'* is a type of sale which is prohibited under the *Sharia'a*. Islamic jurists use this term to describe several different types of debt-for-debt exchanges. The most well-known of these is the exchange in which a lender extends his debtor's debt repayment period in return for an increase on the principal, i.e. interest.

The term *kali'* is a synonym for debt. *Kali* refers to something delayed and appears in a maxim (*hadith*) forbidding the sale of *al-kali' bil-kali'*, i.e. the exchange of a delayed counter value for another delayed counter value.

Counter value:

A counter value means an equivalent value. Counter values are the price and the subject matter in a *Sharia'a* contract. *Sharia'a* law requires either that the price is paid or the subject matter is delivered at the time of the contract. To validate a sale, from the perspective of the *Sharia'a*, it is necessary that at least one, if not both, of the counter values should be present at the time of the contract. Either the price or delivery of the subject matter may be postponed to a future date, but not both.

Fasid:

This refers to an action which is unsound or unviable. It refers to a forbidden term in a contract, which consequently renders the contract invalid.

Fatwa and Fatawa (Pl):

A *fatwa* is an Islamic religious ruling, a scholarly opinion on a matter of Islamic law.

A *fatwa* is issued by a recognised religious authority in Islam. But since there is no hierarchical priesthood or anything of that sort in Islam, a *fatwa* is not necessarily “binding” on the faithful. The persons who pronounce these rulings are supposed to be knowledgeable, and base their rulings on this knowledge and wisdom. They need to supply the contextual evidence from Islamic sources for their opinions, and it is not uncommon for scholars to come to different conclusions regarding the same issue.

According to the *Sharia’a* principles of jurisprudence, a *fatwa* must meet the following conditions in order to be valid:

1. *The fatwa must be in line with relevant legal proofs, deduced from Qur’anic verses and ahadiith, provided the ahadiith was not later abrogated by the Prophet Mohammad.*
2. *It must be issued by a person (or a Sharia’a board) having due knowledge and sincerity of heart.*
3. *It must be free from individual opportunism, and not depend on political servitude.*
4. *It must meet the needs of the contemporary world.*

The plural of *fatwa* is *fatawa*.

Fiqh, Faqih and Fuqaha (Pl):

Fiqh is Islamic law, sometimes incorrectly called *Sharia’a law*. It refers to the practical jurisprudence or human articulations of divine rules encompassing both law and ethics. *Fiqh* may be understood as the Islamic jurists’ interpretation of the *Sharia’a*, or jurists’ law.

A *Faqih* is a Muslim jurist, a Muslim who is an expert in *Fiqh*. This would be a Muslim who is knowledgeable of the

rules of the *Sharia'a* and knows how these rules are related to the source texts upon which they are based.

The plural of *Faqih* is *Fuqaha*.

Fiqh al Mu'amalat:

Literally this means an economic transaction. Technically it refers to the lease of land or of fruit trees for money, or for a share of the crop. *Fiqh al-Mu'amalat* is Islamic commercial jurisprudence, the rules for transacting in a *Sharia'a*-compliant manner.

It is an important source for establishing the rules for Islamic banking.

Gharar:

This refers to uncertainty, hazard, chance or risk in a contractual arrangement. It is one of the three fundamental prohibitions in Islamic finance (the other two being *riba* and *maisir*).

Gharar is an element of deception either through ignorance of the goods, the price, or through faulty description of the goods, in which one or both parties stand to be deceived through ignorance of an essential element of the exchange. Gambling is a form of *gharar* because the gambler is ignorant of the result of the gamble.

Gharar is a sophisticated concept that covers certain types of uncertainty or contingency in a contract. The prohibition associated with *gharar* is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

Gharar is divided into three types, namely *gharar fahish* (excessive), which vitiates the transaction, *gharar yasir* (minor), which is tolerated, and *gharar mutawassit* (moderate), which falls between the other two categories. Any transaction can be classified as an Islamically-forbidden activity because of excessive *Gharar*.

Technically *gharar* means the sale of a thing which is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk of hazard in which one does not know whether it will come to be or not, such as selling fish in the sea or a bird in the air. It includes deception through ignorance by one or more parties to a contract.

There are several varieties of *gharar*, all of which are *haram*. The following are some examples:

- *selling goods that the seller is unable to deliver;*
- *selling known or unknown goods against an unknown price;*
- *selling goods without giving a proper description;*
- *selling goods without specifying the price;*
- *making a contract conditional on an unknown event;*
- *selling goods on the basis of a false description;*
- *selling goods without allowing the buyer to examine them properly.*

Al Ghuḥm bil Ghuḥm:

Literally this means 'no reward without taking risks'. This principle provides the rationale for profit sharing in *Shirkah* arrangements. Earning profit is legitimised only by engaging in an economic venture involving risk sharing which ultimately contributes to economic development. See also *Kharaj bi al-Daman*.

Husab (gharar):

Literally this means pebbles. It was a type of sale practised by the Arabs in the *Jahiliyyah* (pre-Islamic times) in which the sale was determined by the casting of pebbles. It was prohibited by

the Prophet Mohammed. Classical commentators mention three forms of the *husab* sale:

1. *The seller would say to the would-be purchaser, "when I throw the pebbles in my hand, then the deal is closed and binding on you."*
2. *The seller would say to the would-be purchaser, "I shall sell you the commodity which your pebbles hit."*
3. *In a land sale, the seller would say, "I shall sell you the plot of land whose dimensions are defined by the extent to which you throw this pebble."*

The *husab* sale was ostensibly prohibited because of the *gharar* (uncertainty) which characterised the contract which governed it.

Halal:

This refers to anything permitted by the *Sharia'a*, in effect, a deed which is not prohibited by Allah.

The concept of *halal* has spiritual and religious overtones. In Islam there are activities, professions, contracts and transactions that are explicitly prohibited (*haram*) by the Qur'an. All other activities, professions, contracts and transactions are *halal*.

This concept differentiates Islamic economics from conventional economics. In Western finance, all activities are judged on economic utility. In Islamic economics, spiritual and moral factors are also involved. An activity may be economically sound but may not be allowed in Islamic society.

Haram:

Anything prohibited by the *Sharia'a*. In effect, a deed which is prohibited by Allah.

Hawala:

Legally this is a bill of exchange, promissory note, cheque, draft. More technically, a debtor passes on the responsibility of payment of his debt to a third party who owes the former a debt. Thus the responsibility of payment is ultimately shifted

to a third party. *Hawala* is a mechanism which can be usefully employed for settling international accounts by book transfer. This obviates, to a large extent, the necessity of physical transfer of cash.

The term was also used, historically, during the Abbasid period (750–1258 AD), to refer to cases where the State Treasury could not meet the claims presented to it and it directed its claimants to occupy a certain region for a certain period and procure their claims themselves by taxing the people. This method was also known as *tasabbub*. The taxes collected and transmitted to the central treasury were known as *mahmul* (i.e. carried to the treasury) while those assigned to the claimants or provinces were known as *musabbab*.

Hibab:

Gift or donation. Technically this means a transfer of a defined property (*mal*) without any material consideration. Muslims have been exhorted by the Prophet to donate gifts to others. This is one of the important values of a Muslim society. It is intended to cultivate love and cooperation among citizens, rather than rivalry and competition.

Ibra':

An act by a person to withdraw his rights, i.e. his rights to collect payment from a person who has the obligation to repay the amount borrowed from him. It usually refers to a kind of rebate. The creditor gives up part or all of his contractual rights to a debtor usually for early settlement of a debt.

Ijara:

Ijara is a form of leasing in which there is a transfer of ownership of a service for a specified period for an agreed-upon lawful consideration. Instead of lending money and earning interest, *Ijara* allows the financial institution to earn profits by charging rent on the asset leased to the customer.

So *Ijara* is leasing, the sale of a definite usufruct (c.f.) of any asset in exchange for 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. *Ijara* is an arrangement under which an Islamic bank leases equipment, buildings or other facilities to a client against an agreed rental.

In practice, there is a lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the bank by charging rent.

The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts back to the lessor.

Leasing is a lawful method of earning income, according to *Sharia'a* law. In practice, real assets such as a machine, a car, a ship, a house, can be leased by one person (lessor) to the other (lessee) for a specific period against a specific price. The benefit and cost of each party are to be clearly spelled out in the contract so as to ensure that any ambiguity (*gharar*) is avoided.

Ijara Muntahia Bittamleek (Ijara-wa-Iqtina):

These are *Ijara* contracts that end up with the transfer of ownership of leased assets to the lessee. *Ijara Muntahia Bittamleek* may take one of the following forms:

- (a) *Ijara Muntahia Bittamleek that transfers the ownership of leased assets to the lessee, if the lessee so desires, for a price represented by the rental payments made by the lessee over the lease term. At the end of the lease term, and after the last instalment is paid, legal title of the leased assets passes automatically to the lessee on the basis of a new contract.*
- (b) *Ijara Muntahia Bittamleek that gives the lessee the right of ownership of leased assets at the end of the lease term on the basis of a new contract, for a specified price. This may be for a token price.*
- (c) *Ijara agreement that gives the lessee one of three options that he may exercise at the end of the lease term:*

- purchasing the leased asset for a price that is determined based on rental payments made by the lessee;
- renewal of *Ijara* for another term; or
- returning the leased asset to the lessor (owner).

So it is a lease and purchase transaction. It is a financing instrument used in contemporary Islamic finance in which a financier purchases reusable merchandise (e.g. airplane, buildings, cars) and then leases them to clients in return for an agreed-upon rental fee (to be paid for the length of the lease period) and an agreement that the client will purchase the merchandise at the end of the lease period.

This technique is sometimes called *Ijara Thumma Bai*.

Ijma'

Literally this means consensus. In this context it would be the unanimous consensus of the Muslim *Ummah* on a given issue, usually as represented by the agreement of the jurists. *Ijma'* has traditionally been recognised as an independent source of *Sharia'a* law, along with the Qur'an, Sunnah and *Qiyas* (analogical deduction), by most of the jurists.

Ijtihad

Literally this means effort, exertion, or diligence. *Ijtihad* refers to the endeavours 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. This would be on the basis of *Nass*, or evidence, found in the Qur'an and the Sunnah.

So *Ijtihad* refers to the process by which a qualified Islamic jurist (called a *mujtahid*) endeavours to arrive at the correct *Sharia'a* ruling on a given issue by reflecting on source texts from the fundamental sources of the *Sharia'a*: the Qur'an and Sunnah.

Inab

This is a loan in the form of a sale. It is called '*inab* (meaning façade) because it is a sale in appearance only. This is

accomplished by the customer buying back what the customer has sold for a lower price than that for which the customer originally sold it. The difference, ostensibly profit, is actually a loan.

Bai al-'inah is a 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 being a loan with interest. This is deemed to be non-*Sharia*'a compliant by GCC scholars, but is acceptable in Malaysia.

It can also be applied vice versa where a financier buys an asset from a customer on cash terms. Immediately afterwards, the financier sells back the same asset to the customer on deferred payment terms at a price higher than that of the cash sale.

'Inan:

This is a form of financial partnership in which each partner contributes capital and has the right to work for the business, not necessarily on an equal basis with the other partners.

Islam:

Literally this means submission to Allah. It refers to the religion of Allah (God) i.e. the worship of Allah alone.

A person whose religion is Islam is a Muslim. A person becomes a Muslim by declaring the Shahada, i.e. "Ash-hadu an la ilaha illa-llah wa ash-hadu anna Muhammadan rasulullah" ("I testify that there is nothing rightfully worshipped except Allah and I testify that Muhammad is the Messenger of Allah").

Islam is based on five pillars. These are:

1. Shahada, *i.e. testifying that there is no god but Allah and that Muhammad is the Messenger of Allah;*
2. *undertaking Salah, i.e. prescribed prayer;*
3. *paying Zakat, i.e. giving a portion of one's wealth to the needy;*

4. the Sawm of Ramadan, i.e. fasting during the 9th month of the Islamic calendar; and
5. Hajj, i.e. making pilgrimage to the sacred precincts of Mecca, in Saudi Arabia, once in a lifetime, if one is able and can afford it.

Istihsan:

This is a doctrine of *Sharia'a* law that allows exceptions to strict legal reasoning, involving guiding choice among possible legal outcomes. It is usually applied when considerations of human welfare so demand.

Istisna'a:

Istisna'a is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery. A manufacturer or builder agrees to produce or build a clearly described good or building at a given price on a given date in the future. The price can be paid in instalments, step by step as agreed between the parties. *Istisna'a* can be used for financing the manufacture or construction of houses, plant, building of bridges, roads, power stations, etc.

Parallel Istisna'a:

If *al-mustasni'a* (the ultimate purchaser) in an *Istisna'a* contract does not stipulate in the contract that *al-sani'* (the seller) should manufacture the *al-masnoo'* (the product) by himself, then *al-sani'* may enter into a second *Istisna'a* contract in order to fulfil his contractual obligations in the first contract. The second contract is called a *Parallel Istisna'a*.

Jabala:

This refers to ignorance, lack of knowledge or indefiniteness in a contract, sometimes leading to *gharar*.

Jua'alah or Ji'alah:

Literally *Jua'alah* constitutes wages pay, stipend or reward. Legally, it is a contract for performing a given task against a prescribed fee in a given period. A similar contract is *Ujrah* in which any work is done against stipulated wage or fee. *Jua'alah* is a contract of reward. It is a unilateral contract promising a reward for a specific act or accomplishment.

Bank charges and commission have been interpreted to be a *Jua'alah* by the jurists and thus considered lawful.

Some Islamic banks give loans which involve service charges. The Council of the Islamic Fiqh Academy, established by the Organisation of Islamic Conference, in its third session held in October 1986, in response to a query from the Islamic Development Bank has resolved that it is permitted to charge a fee for loan-related service offered by an Islamic bank.

However, this fee should be related to actual expenditures and any fee in excess of this is forbidden because it is considered usurious. The service charge may be calculated accurately only after a certain period when all administrative expenditure has already been incurred, e.g. at the end of the year. Hence, it is permissible to levy an approximate charge to the client, then reimburse or claim the difference at the end of the accounting period when the actual expenses on administration become precisely known.

Kafalah (Suretyship):

Literally, *Kafalah* means responsibility, or Suretyship. Legally, in *Kafalah*, a third party becomes a surety for the payment of a debt. It is a pledge given to a creditor that the debtor will pay the debt, fine, etc. Suretyship in Islamic law is the creation of an additional liability with regard to the claim, not to the debt itself.

So *Kafala* is the assumption of the responsibility for debt repayment. It is a standard Islamic financial transaction in which X (the *kafil*) agrees to assume responsibility for the debts of Y (the *makful 'anhu*). It is similar but not identical to *hawala*.

Kharaj bi-al-Daman:

Literally this means 'with profit comes responsibility'. Sometimes it is translated as 'gain accompanies liability for loss'. It is a *hadith* forming a legal maxim and a basic principle in Islamic finance. See *Al Ghunm bil Gburm*.

Khiyar:

Literally this means option or choice. It is the option extended to one or more of the parties in a sales contract to rescind the sale in the event of a defect.

The jurists have traditionally recognised several different types of *khiyar*, including *khiyar al-majlis*, *khiyar al-shart*, *khiyar al-ru'yah* and *khiyar al-'ayb*. *Khiyar*, more explicitly referring to trading contracts, comes in several varieties:

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: *An option in a sale contract concluded at the time of signing the agreement, giving one of the two parties to the contract a right to cancel the sale within a stipulated time.*

Madhab, Madhabib (Pl):

Literally this means a way of going. It refers to a *fiqh* school of law or orientation characterised by differences in the methods by which certain Islamic source-texts are interpreted, and therefore differences in the *Sharia'a* rulings which are deduced from them.

There are four well-known *Madhabib* among Sunni Muslims, whose names are associated with the classical jurists who are said to have founded them (Hanafi, Maliki, Shafi'i and Hanbali). These are:

Hanbali: *founded by Imam Ahmad Ibn Hanbal. Followers of this school are known as Hanbalis.*

Hanafi: founded by Imam Abu Hanifa. Followers of this school are known as Hanafis.

Maliki: founded by Imam Malik Ibn Anas. Followers of this school are known as Malikis.

Shafi'i: founded by Abu Abdullah Ahmad bin Idris or Imam Shafii. Followers of this school are known as Shafi'is.

Maisir:

Maisir is gambling; any activity that involves betting money, or an item, on the outcome of an unpredictable event. The bet is forfeited if the outcome is not as predicted by the better and the person against whom the bet is made takes the stake. This activity is prohibited by the *Shari'a*.

Gambling is a game of chance. Originally it refers to a game of chance played by the Arabs before Islam. *Maisir* came to refer to any game of chance. It is one of the three fundamental prohibitions in Islamic finance (the other two being *riba* and *gharar*).

The prohibition on *maisir* is often used as the grounds for the non-permissibility of conventional financial practices such as speculation, conventional insurance and derivatives.

Makruh:

Literally this means detested. It is a technical term used by the *fuqaha'* (cf) to classify actions with regard to their desirability. The term *makruh* refers to an action in which one is rewarded Islamically for avoiding certain actions, but not punished for committing them.

Mal:

The word money is not specifically mentioned in the Qu'ran. The nearest word mentioned in the Qu'ran is *mal* meaning

wealth, money, property; any valuable thing which can be possessed. The term is used in the sense of something that has value and can be gainfully used according to the *Sharia'a*.

The term *mal* is used in a variety of contexts:

Rab-al-mal: *In a Mudaraba contract the person who invests the capital.*

Ra's al-mal: *Capital. This refers to the money or property which an investor (rab al-mal) invests in a profit-seeking venture, often in a partnership such as a Mudaraba or Musharakah arrangement;*

Bayt al-mal: *Historically this refers to the Treasury of the Muslim community. The bayt al-mal, as an institution, was developed by the early Caliphs but it soon fell into disrepair. The funds contained in the bayt al-mal were meant to be spent on the needs of the Umma, e.g. supporting the needy.*

Manfa'a:

Literally this term means benefit. It is usually used in the context of *Ijara*. It is used to refer to the yield which a utilisable property produces.

The term is often used by the *fuqaha'* to describe the usufruct (c.f.) associated with a given property, especially in leasing transactions. In a car lease, for example, the term *Manfa'a* might be used to describe the benefit which the lessee derives from the use of the car for the duration of the lease (as opposed to the actual ownership of the vehicle).

Maqasid al-Sharia'a:

This term generally refers to the objectives of *Sharia'a* law. The term *Maqasid al-Sharia'a* refers to a juristic-philosophical concept developed by the later generations of classical jurists, who attempted to formulate the goals and purposes of the *Sharia'a* in a comprehensive manner to aid in the process of investigating new cases and organising previous existing rulings.

Mithli (fungible goods):

Mithli are fungible goods, i.e. goods that can be returned in kind, such as gold for gold, silver for silver, \$US for \$US, wheat for wheat, etc.

Mudarib:

The managing partner in a *Mudaraba* contract.

Mudaraba (trust financing):

This is an agreement made between two parties, one of whom provides 100 per cent of the capital for the project and who has no control over the management of the project, and another party known as a *Mudarib*, who manages the project using his entrepreneurial skills. Profits arising from the project are distributed according to a predetermined ratio. Losses are borne by the provider of capital.

Mugharasaba (munasabah):

This refers to a type of agricultural contract in which a land owner and a worker agree that, in return for the worker planting and tending fruit-bearing trees on the landowner's field, the landowner will assign to the worker a share of the orchard's harvest. Both Hanafi and Hanbali jurists (the latter also call the transaction *munasabah*) discuss *Mugharasaba* in their *fiqh* works.

Two valid forms of the contract exist:

1. *The landowner supplies the necessary materials (e.g. tree shoots) and bears related expenses (e.g. moving fixtures) while the worker tends the trees for a fixed period. After the expiration of this period, the worker receives a fixed wage or a fixed portion of the orchard.*
2. *The worker supplies the materials and bears related expenses and receives a share of the harvest. The second more closely resembles Muzara'a (c.f.).*

Mujtabid:

Legal expert, or a jurist who expends great effort in deriving a legal opinion or interpreting the sources of *Sharia'a* law.

Murabaha:

A contract that refers to the sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase can be settled either on a deferred lump sum basis or on an instalment basis, and is specified in the original agreement.

Musawamah:

Musawamah is a sale in which the price of the commodity to be traded is bargained for between the seller and the purchaser without any reference to the price paid or cost incurred by the former.

Musharaka (joint venture financing):

A form of partnership between an Islamic bank and its clients whereby each party contributes to the capital of the partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and is due their share of the profits.

Unlike *Mudaraba*, losses are shared in proportion to the contributed capital. It is not permissible to stipulate alternative loss-sharing arrangements. The term comes in various varieties:

Constant *Musharaka:* *This is a Musharaka in which the partners' shares in the capital remain constant throughout the period, as specified in the contract.*

Diminishing *Musharaka*: This is a *Musharaka* in which the Islamic bank agrees to transfer gradually to the other partner its (the Islamic bank's) share in the *Musharaka*, so that the Islamic bank's share declines and the other partner's share increases until the latter becomes the sole proprietor of the venture. It is commonly used for Islamic mortgages.

***Musaqa*:**

A type of partnership in which the owner of an orchard agrees to share a stipulated portion of the produce of the orchard's trees with a worker, in exchange for the latter's irrigation of the orchard.

***Muzara'a*:**

Literally this means share-cropping. This is an agreement between two parties in which one party agrees to allow a portion of his land to be used by the other party in return for a part of the produce of the land.

***Muzabana*:**

Essentially, *muzabana* is a transaction in which the owner of fruit trees agrees to sell his fruit for an estimated equivalent amount of the final produce, such as fruit of the palm, dates or grapes for raisins.

Muzabanab was an agricultural practice known to the people of Medina. It was prohibited by the Prophet ostensibly because of the strong element of *gharar* present in such a transaction. Some *fugaha'*, particularly Maliki jurists, use the term *muzabana* to describe any sale in which the weight or volume of the exchange items is unspecified.

***Nisab*:**

The exemption limit for the payment of *zakat*. A Muslim who possesses wealth below the *nisab* is exempted from paying

zakat, while a Muslim who possesses wealth at or above this exemption limit is obliged to pay *zakat*. The *nisab* differs depending on the type of wealth in question.

Partnership:

This is a term with several interpretations:

Contract partnership (*sharikat al-'uqd*): *Contract partnership is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making a profit.*

Partnership of ownership (*sharikat al-milk*): *Partnership of ownership (*sharikat al-milk*) is the combination of the assets of two or more persons in a manner that creates a state of sharing the realised profit or income or benefiting from an increase in the value of the partnership assets. This combination of assets for making profit also necessitates bearing losses, if any occur. The ownership partnership is created by events beyond the partners' control such as the inheritance rights of heirs in the legacy of a deceased person. This partnership is also created by the wish of the partners, such as when two or more parties acquire common shares in a particular asset.*

Mufawada partnership: *Mufawada partnership is any partnership in which the parties are equal in all respects, such as funds contributed by them, their right to act and their liability, from the commencement of the partnership to the date of its termination.*

Sharecropping partnership: *Sharecropping is a partnership in crop cultivation in which one party provides land to another for cultivation and maintenance in consideration for a common defined share in the crop.*

Irrigating partnership: *Irrigating partnership is a partnership that depends on one party providing designated plants/trees that produce edible fruits to another party who takes responsibility for their irrigation in consideration for a common defined share in the fruits.*

Agricultural partnership: *Agricultural partnership is a partnership in which one party provides a treeless piece of land to another to plant trees on it on the condition*

that they share the revenues from the trees and fruits in accordance with a defined percentage.

See *Mugharasaba, Musaqaba, Muzara'a*

Qabdh:

Qabdh means possession in the context of a contract of exchange. Generally, *qabdh* depends on the perception of 'urf or the common practices of the local community in recognising that the possession of a good has taken place.

Qard and Qard Hasan:

Qard refers to the loan of fungible objects. Legally, *Qard* means to give anything having value for virtuous reasons so that the item/money could provide benefits to the recipient with the condition that the same or similar amount of that thing would be paid back on demand or at the agreed time.

The literal meaning of *Qard* is 'to cut'. It is so called because the property is effectively cut off when it is given to the borrower.

Qard Hasan refers to a benevolent loan. This could be a loan which a person gives to another as help, charity or advance for a certain time period. The repayment of the loan is obligatory. The Prophet is reported to have said "... Every loan must be paid ...". But if a debtor is in difficulty, the creditor is expected to extend time or even to voluntarily remit the whole or a part of the principal.

It is used as a loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed as long as this is not stated in the contract.

Most Islamic banks provide interest-free loans to customers who are in need. The Islamic view of loans (*qard*) is that there

is a moral duty to give them to borrowers free of charge, as a person seeks a loan only if he is in real need of it. Some Islamic banks give interest-free loans only to the holders of investment accounts with them; some extend them to all bank clients; some restrict them to needy students and other economically weaker sections of society; and some provide interest-free loans to small producers, farmers and entrepreneurs who cannot get finance from any other sources.

Qimar:

Qimar means gambling. Technically this is an arrangement in which possession of a something of value 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 this means measure, comparison or analogy. Technically, it means a derivation of *Sharia'a* law using the analogy of an existing law if the basis (*illah*) of the two laws is the same. It is one of the sources of *Sharia'a* law.

Rahn:

This means pledge or 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.

In the pre-Islamic contracts *Rahn* implied a type of earnest money (money guarantees) which was lodged as a guarantee and material evidence or proof of a contract, especially when there was no scribe available to put it into writing.

Restricted Investment Accounts:

With this type of account, the investment account holder imposes certain restrictions as to where, how and for what purpose his funds are to be invested, e.g. “Invest my money in Syria”. Further, the Islamic bank may be restricted from commingling its own funds with the restricted investment account funds for investment purposes. In addition, there may be other restrictions which investment account holders may impose. For example, investment account holders may require the Islamic bank not to invest their funds in *Murabaha* instalment sales transactions without guarantor or collateral requirement, or require that the Islamic bank itself should carry out the investment itself rather than do it through a third party.

Riba:

An excess or increase. Technically, it means an increase over the 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. *Riba* means an increase which is without an *‘iwad* or equal counter-value.

Any risk-free or “guaranteed” rate of return on a loan or investment is *riba*. *Riba* in all its forms is prohibited in Islam.

In Islam, *riba* is one of the most abhorrent of all sins and is absolutely prohibited. *Riba* encompasses various types of illicit gain, of which bank interest is one example.

In conventional terms, *riba* and “interest” are used interchangeably, although the legal notion extends beyond mere interest. *Riba* comes in several varieties:

Riba al-Fadl: *Also known as Riba al-hadith*

This is a sale transaction in which a commodity is exchanged for an unequal amount of the same commodity and delivery is delayed.

Riba al-Fadl, or *riba in excess*, is the quality premium obtainable when exchanging low quality with better quality goods, e.g. dates for dates, wheat for wheat, etc. In other words an excess in the exchange of Ribawi goods within a single genus. The concept of Riba al-Fadl refers to sale transactions while Riba al-Nasihah refers to loan transactions.

So Riba al-Fadl is the *riba or surplus* when exchanging goods. It refers to any commodity-for-commodity exchange transactions (i.e. barter) in which the exchanged commodities are of the same type but of unequal measure, or the delivery of one commodity is postponed.

To avoid Riba al-Fadl the exchange of commodities from both sides must be equal and instant. Riba al-Fadl was prohibited by the prophet Mohammad to forestall *riba (interest)* from creeping into the economy.

Riba al-Nasihah: Also known as *Riba al Qu'ran*.

The usury of debt was an established practice amongst Arabs during the pre-Islamic period. It can occur as an excess or increment in addition to the principal, which is incorporated as an obligatory condition of the giving of a loan.

Alternatively, it occurs when an excess amount is imposed on top of the principal if the borrower fails to repay on the due date. More time is permitted for repayment in return for an additional amount. If the borrower fails to pay again, a further excess amount is imposed, etc.

Riba al-Nasihah, or *riba of delay*, is due to an exchange not being immediate with or without excess in one of the counter values. It is an increment on the principal of a loan or debt payable. It refers to the practice of lending money for any length of time on the understanding that the borrower would return to the lender, at the end of the period, the amount originally lent together with an increase on it, in consideration of the lender having granted him time to pay.

Interest, in all modern conventional banking transactions, falls under the purview of Riba al-Nasihah. As money in the present banking system is exchanged for money with excess and delay, it falls under the definition of *riba*. There is a general accord reached among scholars that *riba* is prohibited under Sharia'a law.

Ribawi:

Goods subject to *Fiqh* rules on *riba* in sales, variously defined by the schools of *Sharia'a* law viz items sold by weight and by

measure, foods, etc. The term is used in the context of items possessing the Islamically unwanted *riba*-type characteristics.

Sadaqah:

Charitable giving. This can be compared with *zakat* which is a mandatory tax on Muslims.

Sahih:

Literally in contract law this means sound, healthy or correct. It refers to a valid *Sharia'a* contract and implies a *hadith* of the highest level of authentication.

Salaf:

The word *Salaf* literally means a loan which draws forth no profit for the creditor. In a wider sense this includes loans for specified periods, i.e. short, intermediate and long-term loans. *Salaf* is also another name for *Salam* wherein the price of the commodity is paid in advance while the commodity or the counter-value is supplied in the future. The contract creates a liability (debt) for the seller.

Salam:

Salam means a contract in which advance payment is made for goods to be delivered later. The seller undertakes to supply some specific goods to the buyer at a future date in exchange for an advance price fully paid at the time of contract.

According to the normal rules of the *Sharia'a*, no sale can be effected unless the goods are in existence at the time of the bargain. However the *Salam* sale forms an exception, given by the Prophet, to the general rule provided the goods are defined and the date of delivery is fixed. It is necessary that the quality of the commodity intended to be purchased is fully specified

leaving no ambiguity potentially leading to a dispute. The objects of the *Salam* sale are goods but cannot be gold, silver or currencies.

The latter are regarded as monetary values the exchange of which is covered under rules of *Sarf*, i.e. mutual exchange should be hand to hand without delay. With this latter exception *Salam* covers almost everything which is capable of being definitely described as to quantity, quality and workmanship.

Salam terminology:

Salam is the purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment. The following terms are used for the different parties:

al-Muslam fihi – *the commodity to be delivered;*

al-Muslam ileihi – *the seller;*

al-Muslam – *the purchaser;*

Ras-almal – *capital (cost) paid (in cash, kind or benefit) in a Salam contract, i.e. the price.*

Parallel Salam:

A Salam contract whereby al-muslam ileihi depends, for executing his obligation, on receiving what is due, in the capacity as al muslam, from a sale in a previous Salam contract without making the execution of the second Salam contract dependent on the execution of the first one.

Sarf:

Basically, in pre-Islamic times this was the exchange of gold for gold, silver for silver and gold for silver or vice versa. Under

Sharia'a 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 the sale of monetary value for monetary value, viz a foreign exchange transaction.

Sharia'a:

Alternative spellings include *Sharia*, *Shari'a*, *Shari'ah*, *Syariah*, *Syaria*, *Syari'ah*, *Syari'a*.

The term *Sharia'a* has two meanings: firstly Islamic Law and secondly the totality of divine categorisations of human acts (Islam). The second meaning of the term means that *Sharia'a* rules do not always function as rules of law in the Western sense, as they include obligations, duties, and moral considerations not generally thought of as 'law' in the Western sense. *Sharia'a* rules, therefore, admitting of both a legal and moral dimension, have as their purpose the fostering of obedience to Allah the Almighty.

In legal terminology, *Sharia'a* means the law as extracted by the *Mujtabid* from the sources of law.

A '*Sharia'a*-compliant' product meets the requirements of Islamic law.

A '*Sharia'a* Board' is the committee of Islamic scholars, mandatory for Islamic financial institution, providing guidance and supervision in the development of *Sharia'a*-compliant products.

A '*Sharia'a* Advisor' is an independent Islamically-trained scholar who advises Islamic institutions on the compliance of products and services with Islamic law.

Sharia'a is Islamic canon law derived from three primary sources: the Qur'an, the Hadith and the Sunnah.

Shirkah:

A contract between two or more persons who launch a business or financial enterprise to make profits. In the conventional books of *Fiqh*, the partnership business may include both *Musharaka* and *Mudaraba*.

Sukuk:

Similar to an asset-backed bond, *sukuk* are forms of commercial paper that provide an investor with ownership in an underlying asset, and a return based on this ownership. The issuing entity needs to identify existing assets to sell to the *Sukuk* investors via transference to a Special Purpose Vehicle (SPV). The *sukuk* investors then have a proportionate beneficial ownership in these assets. In practice, investors typically take on the credit risk of the issuer rather than real asset risk on the assets owned by the SPV.

Sukuk are certificates, which evidences the undivided pro-rata ownership of underlying assets. The *Sakk* (singular of *Sukuk*) is freely tradable at par, premium or discount.

Sukuk can be listed or unlisted, rated or unrated. *Sukuk* are typically issued by corporate issuers and some financial institutions, and also by Governments (viz Bahrain, Malaysia, and Pakistan).

Sunnah:

Literally this means custom, habit or way of life. Technically this refers to the utterances of the Prophet Mohammad other than those in the Qur'an. These are known as the *hadith*, or his personal acts or sayings of others all of which were tacitly approved by the Prophet.

Tabarru':

Literally this means a *Takaful* donation.

It is a contract where a participant agrees to donate a pre-determined percentage of his contribution (to a *Takaful* fund) to provide assistance to fellow participants. In this way he fulfils his obligation of joint guarantee and mutual help should another participant suffer a loss. This concept eliminates the element of *gharar* from the *Takaful* contract.

So *tabarru'* is a donation/gift the purpose of which is not commercial but given to seek the pleasure of Allah. Any benefit

that is given by one person to another without getting anything tangible in exchange is called *tabarru'*.

Takaful:

Takaful is Islamic insurance. It is based on the principle of mutual assistance. *Takaful* provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. *Takaful* is similar to mutual insurance in that members are the insurers as well as the insured.

Takaful is a *Sharia'a*-compliant system of insurance in which the participants donate part or all of their contributions. These are used to pay claims for damages suffered by some of the participants. A *takaful* company's role is restricted to managing the insurance operations and investing the insurance contributions.

Conventional insurance is prohibited in Islam because its dealings contain several *haram* elements, such as *gharar* and *riba*.

Tapir:

Spending wastefully on objects which have been explicitly prohibited by the *Sharia'a*, irrespective of the amount of expenditure.

Tawarruq:

This is a reverse *Murabaha*. It is used in personal financing where a client with a genuine need buys an item on credit from a bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

Unrestricted Investment Accounts:

With this type of account, the investment account holder authorises an Islamic bank to invest the account holder's funds

in a manner which the Islamic bank deems appropriate, without laying down any restrictions as to where, how and for what purpose the funds should be invested.

Under this arrangement an Islamic bank can commingle the investment account holder's funds with its own funds or with other funds the Islamic bank has the right to use (e.g. current accounts). The investment account holders and the Islamic bank generally participate in the returns on the invested funds. (See *Restricted Investment Accounts*).

Usufruct:

Usufruct is the legal right to use and derive profit or benefit from property that belongs to another person, as long as the property is not damaged. Usufruct originates from civil law, where it is a real right of limited duration on the property of another. The holder of usufruct, known as the usufructuary, has the right to use and enjoy the property, as well as the right to receive profits from the fruits of the property.

The English word *usufruct* derives from the Latin roots *usus* and *fructus*, from verbs meaning *to possess* and *to have the benefit of*, respectively.

The term *fruits* should be understood to mean any replenishable commodity on the property, including (among others) actual fruits, livestock and even rental payments derived from the property.

The term is widely used in the context of *Ijara*.

Wa'd (promise):

Wa'd is a promise, an obligation issued by one party (in *Mura-baha*, the orderer or the purchaser). The promise is binding in *Sharia'a* law on the individual who makes it, the promisor, unless an acceptable excuse arises and prevents its fulfilment. Nevertheless, a promise is binding from the juristic perspective if it is pending on a cause and the promisee has incurred costs by reason of the promise. Mutual promising is a promise against a promise.

Wadi'ah and Wad'iah Yad Dhamanah:

Wadi'ah literally means safe custody or safekeeping. Originally, safe custody was *Wadi'ah Yad Amanah*, i.e. trustee custody where, according to the *Sharia'a*, the trustee custodian has the duty to safeguard the property held in trust.

Wadi'ah changes to *Wadi'ah Yad Dhamanah* (guaranteed custody) when the trustee custodian violates the conditions for safeguarding the property. He then has to guarantee the property.

As *Wadi'ah* is a trust, the depository becomes the guarantor and, therefore guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of depositors, when demanded. The depositors are not entitled to any of the profits but the depository may provide returns to the depositors as a token of appreciation.

Under this system an Islamic bank acts as the keeper and trustee of depositors' funds. It guarantees to return the entire deposit, or any part of it, on the depositor's demand.

The bank may give the depositor a *hibah* (gift) in appreciation.

Wakala:

Wakala means agency. *Wakala* is a standard Islamic practice wherein X (the *wakil*) acts as the agent of Y. In this capacity X may execute the affairs of Y. *Wakala* is a widely applicable phenomenon in Islamic finance. It is often used in financial transactions. Whenever a party cannot personally supervise a given affair it deputises another party to execute it on its behalf.

So *Wakala* refers to absolute power of attorney where a representative is appointed to undertake transactions on another person's behalf.

In terms of *Takaful* operations, *Wakala* refers to an agency contract, which may involve a fee for the agent.

Waqf, Awqaf (Pl):

Waqf is a charitable trust. The plural is *Awqaf*. Literally the word means cessation or detention.

Technically it refers to the appropriation or tying-up of a property in perpetuity so that no proprietary rights can be exercised over the usufruct. The *waqf* property can neither be sold, nor inherited, nor donated to anyone. *Awqaf* consists of religious foundations set up for the benefit of the poor.

Waqf is a standard Islamic transaction in which one 'freezes' property such that it is considered to have been arrested in perpetuity and can neither be sold, inherited or donated. The term *waqf* frequently refers to the property itself. The use of a *waqf* (e.g. a park) is often dedicated to the relief of the poor, the public at large or other charitable ends.

Wasiyah:

Will, testament, bequest. The statement of a Muslim in which he details the manner in which his wealth is disposed of after his death.

Zakat:

Zakat is a religious tax paid by Muslims. Literally *zakat* means blessing, purification, increase, or cultivation of good deeds.

Zakat is an obligatory contribution which every wealthy Muslim is required to pay. The objective is to take away a part of the wealth of the well-to-do and to distribute it among the poor and the needy.

It is a religious obligation of alms-giving, on a Muslim, to pay 2.5% of certain kinds of wealth annually to one of eight categories of needy Muslims.

Zakat is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business.

There are two types of *zakat*:

- **Zakat al-Fitr:** *A small obligatory head-tax imposed on every Muslim who has the means. It is paid once yearly at the end of Ramadan just before Eid al-Fitr. This is also called Zakat al-Nafs (poll tax)*
- **Zakat al-Mal:** *The Muslims' wealth tax. Muslims must pay 2.5% of their yearly savings above a certain amount to the poor and needy Muslims. The zakat is compulsory on all Muslims who have saved (at least) the equivalent of 85g of 24 carat gold at the time when the annual Zakat payment is due.*

Given that *zakat* is levied on different types of wealth there are individual terms for the *zakat* being taxed. These include:

Zakatul Huboob: *Zakat of grain/corn.*

Zakatul Madan: *Zakat of minerals.*

Zakatul Rikaaz: *Zakat of treasure/precious stones.*

Zakatul-rid Tijarah: *Zakat of the profits of merchandise.*

Appendix 2
The Top 500 Islamic Financial
Institutions

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
1	1	Iran	20-Mar-08	Bank Melli Iran, Tehran	Government-owned Bank	S	59621.7
2	3	Saudi Arabia	31-Dec-08	Al Rajhi Bank	Commercial and Investment Bank	S	43981.2
3	4	Iran	20-Mar-08	Bank Saderat Iran, Tehran	Government-owned Bank	S	43067
4	5	Iran	20-Mar-08	Bank Mellat, Tehran	Government-owned Bank	S	41650.6
5	2	Kuwait	31-Mar-08	Kuwait Finance House	Commercial Bank	S	40002.6
6	6	Iran	20-Mar-08	Bank Tejarat, Tehran	Government-owned Bank	S	31807.6
7	7	Iran	20-Mar-08	Bank Sepah, Tehran	Government-owned Bank	S	26378
8	8	UAE	30-Jun-09	Dubai Islamic Bank, Dubai	Commercial & Retail Banking	S	23941.4
9	11	Iran	19-Mar-08	Parisian Bank	Commercial Bank	S	18319
10	9	Iran	20-Mar-08	Bank Keshavarzi (Agricultural Bank), Tehran	Government-owned Bank	S	16675
11	10	UK	30-Jun-09	HSBC Amanah (Global)	Commercial & Retail Banking	S	16537
12	16	Saudi Arabia	31-Dec-08	National Commercial Bank Ltd, Jeddah	Commercial Bank	W	16135.4
13	13	UAE	30-Jun-09	Abu Dhabi Islamic Bank	Commercial & Retail Banking	S	15832.1
14	15	Malaysia	n/a	Bank Rakyat	Commercial Bank	S	13080.9

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
23	59621.7	100	409.2	-24.5	0.7	n/a
32.1	43981.2	100	1739.8	1.1	4.5	1987
24.4	43067.0	100	181	-45.6	0.4	n/a
30.5	41650.6	100	272.8	165.4	0.7	1980
5.2	40002.6	100	234.4	-61.3	0.6	1977
21.3	31807.6	100	341.5	127.4	1.1	1980
11	26378	100	132	-14.8	0.5	1925
4.9	23941.4	100	225.9	-55.9	0.9	1975
40.3	18319	100	370	54.8	2.3	2002
2.3	16675	100	13	-53.5	0.0	1933
8.8	2527000	0.65	n/a	n/a	n/a	1998
55.9	59147.1	27.28	561.8	-65.1	0.9	1991
13.4	15832.1	100	125.8	-11.2	0.8	May-97
25.9	13080.9	100	386.9	56.8	3.2	2003

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
15	19	Saudi Arabia	30-Jun-09	Saudi British Bank	Commercial Bank	W	12288
16	14	Bahrain	30-Jun-09	Al Baraka Banking Group	Wholesale Bank	S	11511.3
17	17	Saudi Arabia	31-Dec-08	Bank Retail	Riyad and Commercial Bank	W	10809.1
18	18	Malaysia	n/a	Maybank Islamic Berhad	Commercial Bank	S	10666.6
19	31	Iran	20-Mar-09	Eghtesad Novin Bank	Commercial Bank	S	10237.9
20	24	Qatar	31-Dec-08	Qatar Islamic Bank	Commercial and Investment Bank	S	9215.1
21	281	Saudi Arabia	31-Dec-08	Arab National Bank	Commercial Bank	W	8933.3
22	n/a	UAE	n/a	Emirates NBD	Commercial Bank	W	8433.4
23	21	Malaysia	31-Mar-09	BIMB Holdings (Bank Islam Malaysia Berhad)	Commercial Bank	S	7459.9
24	26	Saudi Arabia	31-Dec-08	Bank Al Jazira	Commercial Bank	S	7338.5
25	30	UAE	31-Dec-08	Emirates Islamic Bank	Commercial & Retail Banking	S	7193.5
26	27	Saudi Arabia	31-Dec-08	Banque Saudi Fransi	Commercial Bank	W	7102.1
27	20	Saudi Arabia	31-Dec-08	Samba Financial Group	Commercial Bank	W	6351.4
28	22	Iran	19-Mar-08	Pasargad Bank	Commercial Bank	S	6346
29	23	Turkey	31-Mar-09	Asya Finans Kurumu AS	Commercial Bank	S	5995.3

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
16.7	32521.9	37.78	382.9	-7.4	1.1	1978
5.4	11511.3	100	122.1	n/a	1	2002
44.8	42574	25.39	703.6	-12.3	1.8	Feb-01
33.1	10666.6	100	149.1	221.5	1.5	Jan-08
127.4	10237.9	100	200.1	90	2.7	Aug-01
57.2	9215.1	100	451.1	-1.4	5.9	1982
35.6	32348.5	27.62	662.9	1	2.3	1980
59.1	76951.9	10.96	1003.1	32.8	1.3	1995
16.1	7459.9	100	49.4	-38.3	0.7	n/a
27.6	7338.5	100	50.3	-79.2	0.7	1975
55.7	7193.5	100	109.1	67.9	1.8	2004
50.9	33563.9	21.16	747.7	3.4	2.4	2005
-7.6	47704.3	13.31	1184.7	-7.5	2.6	1980
159	6346	100	187	94.7	4.2	n/a
-0.5	5995.3	100	33.1	3	0.6	1996

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
30	281	UAE	31-Dec-08	Noor Islamic Bank	Commercial and Investment Bank	S	5933
31	53	Malaysia	31-Dec-08	CIMB Islamic Bank Berhad	Commercial and Retail Islamic Banking	S	5847.6
32	25	Iran	20-Mar-07	Bank Refah	Government-owned Bank	S	5844.7
33	39	Iran	20-Mar-08	Bank Sanat Va Maadan, Tehran	Government-owned Bank	S	5456
34	35	Bahrain	31-Dec-08	Ithmaar Bank BSC	Investment Bank	S	5380.4
35	34	Malaysia	31-Dec-08	Public Bank Islamic Berhad	Retail Bank	S	5206.6
36	38	Bahrain	30-Jun-08	Arcapita Bank BSC	Investment Bank	S	5137.3
37	44	UAE	31-Dec-08	Dubai Bank (Masref Dubai)	Commercial Bank	S	5039.1
38	29	Kuwait	31-Dec-07	Investment Dar	Investment Bank	S	4749.1
39	28	Turkey	31-Dec-08	Türkiye Finans Katılım Bankası AS	Commercial & Retail Banking	S	4643.2
40	46	Qatar	31-Dec-08	Masraf Al Rayan, Al Rayan Bank	Commercial and Investment Bank	S	4606.8
41	33	Malaysia	31-Dec-08	Bank Muamalat Malaysia Berhad	Commercial Bank	S	4519
42	281	Saudi Arabia	30-Jun-09	Alinma Bank	Commercial Bank	S	4430.1
43	37	Egypt	31-Dec-08	Faisal Islamic Bank of Egypt, Cairo	Commercial Bank	S	4377.9
44	281	UAE	31-Dec-08	Amlak Finance	Credit and Finance	S	4317.8

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	5933.0	100	188.2	n/a	n/a	2007
118.5	5847.6	100	30.6	10.5	0.7	Nov-04
16.4	5844.7	100	12.7	-35.1	0.2	1961
43.8	5456	100	74	-11.9	1.6	1997
31.9	5380.4	100	94.4	-54.6	2	1984
n/a	5206.6	100	107	n/a	n/a	Nov-08
35	5137.3	100	357.2	15.7	7.9	1997
69.4	5039.1	100	61.6	7.2	1.5	2007
20.8	4749.1	100	474.5	35.7	10.9	1994
-3.2	4643.2	100	104.9	-16.4	2.5	1991
64.5	4606.8	100	251.9	-23.1	6.8	Oct-06
9.9	4519	100	13.2	-31.8	0.3	n/a
n/a	4430.1	100	149.6	n/a	n/a	May-08
9.2	4377.9	100	15.6	n/a	0.3	1977
67.3	4317.8	100	54.4	-34	1.5	2006

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
45	32	Saudi Arabia	31-Dec-08	Bank Albilad	Commercial Bank	S	4280.4
46	51	UAE	31-Dec-08	Sharjah Islamic Bank	Commercial Bank	S	4227.7
47	56	Malaysia	31-Dec-08	Malaysia Islamic Bank Berhad	Commercial Bank	W	4202.5
48	40	Malaysia	31-Mar-09	AMMB Holdings	Commercial Bank	W	4085.2
49	45	Malaysia	31-Mar-09	Amlslamic Bank Berhad	Commercial Bank	S	4074
50	58	Turkey	31-Dec-08	Kuwait Turkish Evcaf Finance House	Commercial Bank	S	4058.6
51	42	Kuwait	31-Dec-08	Kuwait International Bank	Commercial & Retail Banking	S	4010.5
52	200	Iraq	31-Dec-08	Kurdistan International Bank for Investment and Development	Commercial Bank	S	3814.9
53	76	Iran	20-Mar-08	Iran Export Development Bank	Government-owned Bank	S	3806
54	62	Qatar	31-Dec-08	Qatar National Bank	Commercial Bank	W	3570.3
55	60	Iran	20-Mar-09	Karafarin Bank	Commercial Bank	S	3551.8
56	49	Qatar	31-Dec-08	Qatar International Islamic Bank, Doha	Commercial and Investment Bank	S	3528.1
57	47	Bangladesh	31-Dec-08	Islami Bank Bangladesh Limited (IBBL)	Commercial Bank	S	3349.9

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
-3.5	4280.4	100	33.3	72.6	0.7	n/a
42.5	4227.76	100	63.1	-23.2	1.7	2002
14.9	10853.9	38.7	176.8	9.7	1.6	n/a
21.9	25980.6	15.7	351.9	-2.4	1.4	Apr-06
22.5	4074	100	61.6	8.5	1.7	May-06
41.6	4058.6	100	82.6	27.2	2.4	1983
14.2	4010.5	100	73.3	10.1	1.9	Jul-07
65.1	3814.9	100	185.6	118.4	6	Aug-05
134.5	3806	100	109	94.6	4	1991
81.31	3570.3	100	190.6	72.9	6.8	2006
27.4	3551.8	100	122.6	52.2	3.9	1999
29.1	3528.1	100	137.6	4.4	4.4	1990
20.1	3349.9	100	92.1	67	3.0	Aug-05

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
58	63	Bahrain	31-Dec-08	Kuwait Finance House (Bahrain) BSC	Commercial Bank	S	3298.1
59	55	UAE	31-Dec-08	Tamweel	Credit and Finance	S	3235.2
60	50	Brunei	31-Dec-08	Bank Islam Brunei Darussalam Berhad	Commercial Bank	S	3201.3
61	281	Syria	31-Dec-08	Syrian International Islamic Bank Albarakah Tur	Commercial and Retail Islamic Banking	S	3197.3
62	43	Turkey	31-Dec-08	Albarakah Tur	Commercial Bank	S	3130.1
63	52	Kuwait	31-Dec-08	Bank Boubyan	Commercial Bank	S	3112.8
64	57	Jordan	31-Dec-08	Jordan Islamic Bank for Finance and Investment	Commercial Bank	S	3056.3
65	65	Malaysia	31-Dec-08	Kuwait Finance House (Malaysia) Berhad	Commercial and Investment Bank	S	3017.8
66	66	Saudi Arabia	31-Dec-08	Saudi Hollandi Bank	Commercial Bank	W	2982.4
67	59	Bahrain	31-Dec-08	Shamil Bank	Commercial and Investment Bank	S	2884.9
68	64	Sudan	31-Dec-08	Omdurman National Bank	Commercial Bank	S	2868.7
69	281	Iran	20-Mar-07	Saman Bank	Commercial Bank	S	2835.5
70	54	Malaysia	31-Mar-09	RHB Islamic Bank Berhad	Commercial Bank	S	2826.3
71	75	Kuwait	31-Dec-08	AREF Investment Group	Investment Company	S	2782.6
72	41	Bahrain	30-Jun-09	Gulf Finance House BSC	Investment Bank	S	2700.9

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
70.4	3298.1	100	101.1	17.6	3.8	Jan-02
39.4	3235.2	100	125.5	2.1	4.5	Mar-04
16.4	3201.3	n/a	67.6	-2.5	n/a	Feb-07
206.4	3197.3	100	18.5	192.3	0.8	Sep-07
-0.7	3130.1	100	89	22.6	3.2	1984
12.6	3112.8	100	7.1	-89.6	0.2	2004
12.6	3056.3	100	70.5	45.7	2.4	1978
60.8	3017.8	100	12	32.6	0.4	Feb-06
59.1	16382.9	18.2	326.3	179	2.1	1926
41.0	2884.9	100	26.1	-69.5	1.1	1982
-0.8	2868.7	100	0.2	8.8	1.1	1993
81.3	2835.5	100	28.1	4.5	1.2	n/a
12.9	2826.3	100	3.1	-93.4	0.1	2005
59.4	2782.6	100	226.5	82.5	10.1	1975
-23	2700.9	100	-92.1	-141.8	-2.9	Oct-99

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
73	69	Malaysia	31-Dec-08	Hong Leong Islamic Bank	Commercial Bank	S	2545.7
74	71	Bahrain	31-Dec-08	Bahrafin Islamic Bank BSC	Commercial Bank	S	2299.9
75	68	Malaysia	31-Dec-08	Eoncap Islamic Bank Berhad	Commercial Bank	S	2224.2
76	61	Kuwait	31-Dec-08	Aayan Leasing and Investment Company	Investment Company	S	2220.6
77	n/a	UAE	30-Jun-09	HSBC Middle East	Commercial & Retail Banking	W	2216
78	78	Iran	20-Mar-07	Iran Insurance Company	Insurance Company	S	2151.6
79	73	Egypt	31-Dec-08	Egyptian Saudi Finance Bank, Cairo	Commercial Bank	S	1915.9
80	67	Malaysia	31-Dec-08	Affin Islamic Bank	Commercial Bank	W	1902.6
81	281	UAE	31-Dec-08	Mashreqbank, UAE	Commercial Bank	W	1878.0
82	70	Saudi Arabia	9-Jan-08	Islamic Development Bank	Development Bank	S	1791.5
83	74	Pakistan	30-Jun-07	National Investment Trust Ltd, Karachi	Investment Bank	S	1724.6
84	80	Malaysia	31-Dec-08	Standard Chartered Saadiq Malaysia Berhad	Commercial Bank	S	1679.8
85	83	Qatar	31-Dec-08	Qatar Real Estate Investment Company	Investment Company	S	1600.7
86	93	Indonesia	31-Dec-08	PT Bank Syariah Mandiri	Commercial Bank	S	1558.5

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
37.4	2545.7	100	27.4	13.4	1.2	n/a
32.6	2299.9	100	100.5	52.6	4.9	Mar-79
21.9	2224.2	100	8.3	-44.1	0.4	n/a
7.5	2220.6	100	17.1	-81.1	0.8	1998
15.3	415	5.3	0	n/a	0	1998
13.7	2151.6	100	21.7	-65.9	1.1	1935
16.9	1915.9	100	-1.9	-329.7	-0.1	n/a
2	1902.6	100	12.9	-24.7	0.6	Apr-06
155.2	25406.9	7.3	476.1	-18	1.9	2006
10	1793.9	100	43.6	32.4	2.5	1975
39.2	1724.6	100	190.7	27.1	12.8	n/a
n/a	1679.8	108.7	4.9	n/a	n/a	Oct-08
31.8	1600.7	100	85.5	3.9	6.1	n/a
13.9	1558.5	100	25.9	45.3	1.9	1999

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
87	103	Malaysia	31-Dec-08	Al Rajhi Banking & Investment Corp (Malaysia) BHD	Commercial Bank	S	1504.5
88	79	Malaysia	30-Jun-09	HSBC Bank (M) Berhad	Commercial Bank	W	1464
89	81	Bahrain	31-Dec-08	ABC Islamic Bank	Wholesale Bank	S	1461.3
90	90	Bahrain	31-Dec-08	Al Salam Bank	Investment Bank	S	1459.1
91	281	Iran	20-Mar-08	Sarmaye Bank (Capital)	Commercial Bank	S	1302.6
92	86	Sudan	31-Dec-08	Bank of Khartoum	Commercial Bank	S	1293.1
93	99	Jordan	31-Dec-08	Islamic International Arab Bank	Commercial Bank	S	1276.4
94	107	Bahrain	31-Dec-08	Khaleeji Commercial Bank	Commercial and Investment Bank	S	1223.6
95	89	Malaysia	31-Dec-08	OCBC Al-Amin Bank	Investment Bank	S	1170.5
96	92	Kuwait	31-Dec-08	The Securities House Company	Investment Company	S	1169.2
97	87	Yemen	31-Dec-07	Tadhamon International Islamic Bank	Commercial Bank	S	1163.8
98	85	UK	30-Jun-09	Bank of London and the Middle East	Investment Bank	S	1118.4
99	125	Qatar	31-Dec-08	Commercial Bank of Qatar	Commercial & Retail Banking	W	1116.9
100	88	Pakistan	31-Dec-08	Meezan Bank Limited	Commercial Bank	S	1078.1
101	98	Kuwait	31-Dec-08	Alafco Aviation Lease and Finance Company	Credit and Finance	S	1041.5

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
98.9	1504.5	100	-20.0	-36.6	-1.7	Feb-07
-28.6	152	9.5	160.6	-32.1	1.1	n/a
7.1	1461.3	100	25.8	-49.4	1.8	1985
39.4	1459.1	100	67.2	10.3	5.3	Jan-06
104	1302.6	100	50.7	-10.1	5.2	n/a
15.1	1293.1	100	4.4	-73.9	0.3	n/a
52.6	1276.4	100	16	-29.2	1.5	1997
72.5	1223.6	100	71.8	31	7.4	Nov-04
n/a	1170.5	100	-0.7	n/a	n/a	Dec-08
11.5	1169.2	100	-94.8	-193.7	-8.5	1982
24.1	1163.8	100	14.6	6.2	1.4	1995
-7.5	1118.4	100	-14	-503.9	-1.4	Jul-07
139.3	16841.1	6.6	467.7	22.4	3.1	2005
-2.1	1078.1	100	12.5	-39.7	1.3	1947
14.7	1041.5	100	45.4	34.4	4.6	2000

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
102	96	Malaysia	30-Jun-09	Alliance Islamic Bank Berhad	Commercial Bank	S	1036.4
103	97	Malaysia	n/a	Alliance Bank Malaysia Berhad	Commercial Bank	W	1029.4
104	n/a	Bahrain	31-Dec-08	First Energy Bank BSC	Wholesale Bank	S	1021.1
105	94	Malaysia	30-Jun-07	Syarikat Takaful Malaysia Bhd	Insurance Company	S	1015.4
106	91	Bahrain	31-Dec-08	Al Baraka Islamic Bank (EC)	Commercial Bank	S	1001.4
107	105	Bangladesh	31-Dec-08	BSC Export Import Bank of Bangladesh	Specialised Bank	S	993.1
108	127	Bahrain	31-Dec-08	Unicorn Investment Bank BSC	Investment Bank	S	978.7
109	101	Switzerland	31-Dec-08	DMI Trust	Commercial and Retail Islamic Banking	S	956.4
110	48	Kuwait	30-Jun-08	International Leasing and Investment Company	Credit and Finance	S	949.5
111	95	Mauritius	31-Dec-07	Bamis	Commercial Bank	S	943.5
112	102	Kuwait	31-Dec-08	First Investment Company	Asset Management	S	927.9
113	111	Qatar	31-Dec-08	Doha Bank	Commercial & Retail Banking	W	905.2
114	117	Malaysia	31-Dec-08	KAF Investment Bank Berhad	Investment Bank	W	889
115	n/a	Qatar	31-Dec-08	Qinvest	Investment Bank	S	888.4
116	100	Algeria	2007	Banque Al Baraka D'Algerie	Investment Bank	S	837.5

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
15.2	1036.4	100	5.3	92.9	0.5	2008
16.7	9976.2	10.3	95.5	-35.8	1.1	Mar-07
n/a	1021.1	100	0	n/a	n/a	Jun-08
17.1	1015.4	100	7.6	-36.6	0.7	1984
-3.6	1001.4	100	2.3	-55.1	0.2	1991
32.2	993.1	100	28.8	22.3	3.3	Sep-05
119.1	978.7	100	35	-29.4	4.9	Jan-04
15.2	956.4	100	10	-79.9	1.1	1981
57.7	949.5	100	20.7	-52.1	2.6	1999
29.1	943.5	100	0.1	n/a	0	1985
16.1	927.9	100	11.9	-87.2	1.3	1997
40.7	10715.1	8.4	260.1	2.1	2.7	2005
47.5	2548	34.8	16.2	-57.4	0.7	n/a
n/a	888.4	100	19.1	n/a	2.9	2007
30.6	837.5	100	6.4	17.7	0.9	1991

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
117	124	Bangladesh	31-Dec-08	National Credit & Commercial Bank Ltd	Commercial Bank	S	832.3
118	119	Malaysia	31-Dec-08	Bank Pembangunan Malaysia Berhad	Development Financial Institutions	W	818.1
119	110	UAE	31-Dec-08	Islamic Arab Insurance Company-Salama	Insurance Company	S	795.2
120	281	Bahrain	31-Dec-08	Arab Investment Company SAA	Investment Company	W	736
121	106	Saudi Arabia	31-Dec-04	The Company for Co-operative Insurance	Insurance Company	S	732.2
122	132	Qatar	31-Dec-08	First Finance Co	Credit and Finance	S	721.4
123	143	Sudan	31-Dec-08	Faisal Islamic Bank (Sudan)	Commercial and Private Banking	S	710.6
124	104	Kuwait	31-Dec-08	Al Madina for Finance and Investment Company	Investment Company	S	709.7
125	185	Malaysia	31-Dec-08	CIMB Aviva Takaful Bhd	Insurance Company	S	708
126	121	Malaysia	31-Dec-08	Malaysia Building Society	Building Society	W	704.4
127	108	Kuwait	31-Dec-07	Al Safat Investment Company	Investment Company	S	703.5
128	10	UK	30-Jun-09	HSBC	Commercial & Retail Banking	S	698

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
34.5	832.3	100	25.9	30.7	3.5	Oct-05
41.9	7621.1	10.7	301.2	32.1	4	n/a
16.2	795.2	100	-0.1	-100.2	-0.02	1979
-35.7	3533.3	20.8	42.4	-54.5	1.0	1974
24.9	733.2	100	46.7	3.6	7.1	1986
55.3	721.4	100	39.7	39.2	6.7	1999
41.3	710.6	100	21.5	-29.2	3.6	May-78
-6.8	709.7	100	77.6	178.7	10.5	1980
11.2	708	100	-24.7	-943.9	-3.6	n/a
37.2	2297.2	30.6	20	60.3	0.9	n/a
193.5	703.5	100	91.7	210.1	19.4	2003
22.4	873000	0.1	0	n/a	0	1998

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
129	133	Bangladesh	31-Dec-08	Shahjalal Islami Bank Ltd	Commercial Bank	S	656.1
130	113	Syria	31-Dec-07	Cham Bank	Commercial Bank	S	641.3
131	116	Singapore	31-Dec-07	Islamic Bank of Asia	Commercial Bank	S	618
132	148	Qatar	31-Dec-08	Ahli Bank	Commercial & Retail Banking	W	602.4
133	118	Iran	20-Mar-06	Credit Institution for Development	Government-owned Bank	S	590.2
134	115	Kuwait	31-Dec-08	Al Madar Finance and Investment Company	Credit and Finance	S	572.2
135	139	Malaysia	31-Dec-08	Asian Finance Bank Berhad	Commercial Bank	S	571.9
136	129	Bangladesh	31-Dec-08	Al-Arafah Islami Bank Limited	Commercial Bank	S	568.1
137	120	Bahrain	31-Dec-06	Al Baraka Islamic Investment Bank	Commercial and Investment Bank	S	559.6
138	112	UK	30-Jun-09	European Islamic Investment Bank	Investment Bank	S	555.3
139	114	Kuwait	31-Dec-08	International Investment Group (IIG)	Investment Bank	S	552.1
140	109	Kuwait	31-Dec-08	The International Investor, Safat	Investment Bank	S	535.2
141	n/a	Bahrain	31-Dec-08	Inovest BSC	Investment Business Firm	S	527.5

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
58.7	656.1	100	22.7	28.1	4.2	Nov-05
n/a	641.3	100	-22.6	n/a	n/a	May-07
n/a	618	100	3.8	n/a	n/a	May-07
88	4889.9	12.3	116.9	40.6	2.5	2006
37.9	590.2	100	4.7	47.3	0.9	n/a
-9.5	572.2	100	26.8	-19.9	4.4	1998
53.4	571.9	100	-6.4	-307.7	-1.3	Jan-07
29.1	568.1	100	18.2	114.9	3.6	Dec-05
9.4	559.6	100	0.7	-89.6	0.1	1984
-12.3	555.3	100	-27.4	-452.7	-4.6	Jan-05
-14.1	552.1	100	78.3	-10.4	13.1	1993
-27.2	535.2	100	-122.3	-356.9	-19.2	1992
151.8	527.5	100	91.1	101.7	24.7	Sep-08

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
142	151	Kuwait	31-Dec-08	Sokouk Holding Company	Investment Company	S	515.1
143	123	Thailand	31-Dec-07	Islamic Bank of Thailand	Commercial Bank	S	495.5
144	130	Pakistan	31-Dec-08	Bank Alfalah Ltd	Commercial Bank	W	483.4
145	161	Sudan	31-Dec-08	Al Salam Bank Sudan	Commercial and Private Banking	S	460.1
146	165	Bahrain	31-Dec-08	Global Banking Corporation	Investment Bank	S	455.8
147	131	Malaysia	31-Dec-08	Bank Perusahaan Kecil & Sederhana Malaysia Berhad	Commercial Bank	W	454.7
148	138	Kuwait	31-Dec-08	Gulf Investment House	Investment Bank	S	449.9
149	128	Malaysia	31-Dec-07	Malaysian Industrial Development Finance Berhad	Finance Company	W	445.1
150	281	Kuwait	31-Dec-08	Al Manar Financing & Leasing Company	Credit and Finance	S	437.9
151	142	Bangladesh	31-Dec-08	Social Investment Bank Ltd	Commercial Bank	S	432.5
152	153	Malaysia	31-Dec-08	CIMB Investment Bank Berhad	Investment Bank	W	428.5
153	135	Sudan	31-Dec-06	Tadamon Islamic Bank of Sudan	Commercial Bank	S	407.7

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
-19.6	515.1	100	-2.9	-108.3	-0.5	1998
106.2	495.5	100	-8.4	14.3	-2.2	Oct-02
10.8	4412	10.9	22.6	-69.5	0.5	n/a
15.4	460.1	100	12.2	-22.5	2.8	2005
93	455.8	100	21.2	-40.8	6.1	Jun-07
6.1	1589.9	28.6	18.8	18.7	1.2	n/a
17.6	449.9	100	6.7	-87.5	1.6	1998
-18.5	2738.8	16.2	52.4	51.8	1.7	n/a
6.1	437.9	100	11.7	-12.3	2.7	2003
20.8	432.5	100	5.1	31.8	1.3	Jan-06
52.8	1678.9	25.5	45.6	-65.1	3	n/a
52.4	407.7	100	19.6	33.2	5.4	1981

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
154	163	Pakistan	31-Dec-08	Dubai Islamic Bank Pakistan Ltd	Commercial and Private Banking	S	405.1
155	281	Kuwait	31-Dec-07	Al Aqeelah Finance Leasing and Investment Company	Investment Company	S	395.7
156	146	UK	30-Jun-09	Islamic Bank of Britain	Commercial and Private Banking	S	393.8
157	136	Kuwait	31-Dec-07	Muthanna Investment Company (MIC)	Investment Company	S	384.3
158	145	Sudan	31-Dec-08	Islamic Co-operative Development Bank	Development Bank	S	381.5
159	n/a	Bahrain	31-Dec-08	Seera Investment Bank	Investment Bank	S	376.7
160	156	Indonesia	31-Dec-08	PT Bank Negara Indonesia	Commercial Bank	W	366.8
161	n/a	UAE	31-Dec-08	Ajman Bank	Commercial & Retail Banking	S	364.6
162	144	Tunisia	31-Dec-06	Best Bank	Investment and Commercial Bank	S	352.4
163	166	Bahrain	31-Dec-07	Solidarity Group	Insurance Company	S	347.5
164	149	UAE	31-Dec-08	Mawarid Finance	Credit and Finance	S	343.2
165	77	Saudi Arabia	31-Dec-08	Saudi Investment Bank	Commercial Bank	W	333.1

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
15.9	405.1	100	-3.4	63.1	-1	2006
n/a	395.7	100	62.6	n/a	n/a	2006
14.6	393.8	100	-9.2	-51.1	-2.5	Aug-04
88.3	384.3	100	16.1	48.7	5.3	Mar-99
10.5	381.5	100	1.6	-60.9	0.4	1982
-1.7	376.7	100	2.4	-88.3	0.6	2006
35.6	18423.8	1.9	176.4	12.2	1	n/a
n/a	364.6	100	-2.3	n/a	n/a	Dec-08
41.6	352.4	100	8	102.1	2.6	1976
53.0	347.5	100	5.8	36.2	2	2003
10.7	343.2	100	9.6	-38.4	2.9	Dec-06
-29.2	14292.3	2.3	141.3	-35.5	1	1976

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
166	184	Kuwait	31-Dec-08	Warba Investment Company (KSCC)	Investment Company	S	312.9
167	197	Malaysia	31-Mar-09	Takaful Ikhlas Sdn Bhd	Insurance Company	S	309.1
168	140	Pakistan	31-Dec-08	Al Baraka Islamic Bank (EC) BSC-Pakistan	Commercial Bank	S	305.9
169	150	Palestine Territories	31-Dec-08	Arab Islamic Bank	Commercial Bank	S	304.4
170	169	Sudan	31-Dec-08	Al Baraka Sudan	Commercial Bank	S	302.7
171	281	Saudi Arabia	30-Jun-09	Jadwa Investment	Investment Bank	S	297.2
172	160	Bangladesh	31-Dec-08	The Oriental Bank	Commercial Bank	S	286.4
173	155	Indonesia	31-Dec-08	PT Bank Shyariah Mega Indonesia	Commercial Bank	S	282.7
174	154	Tunisia	31-Dec-05	Best Retakaful	Insurance Company	S	279.8
175	122	Malaysia	30-Sep-07	Citibank Berhad	Commercial Bank	W	279.7
176	168	Bahrain	31-Dec-08	Liquidity Management Centre	Investment Bank	S	276.7
177	n/a	Bahrain	31-Dec-08	Capivest Investment Bank	Investment Bank	S	259.5
178	171	Lebanon	31-Dec-08	Arab Finance House	Commercial and Investment Bank	S	257.4

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
-22	312.9	100	42.1	2.4	11.7	Mar-05
55.1	309.1	100	4.3	41.8	1.6	Jul-03
-15.5	305.9	100	-0.9	-119.2	-0.3	1991
0.9	304.4	100	6.9	52.4	2.2	1995
6.1	302.7	100	7.8	159.6	2.7	1984
n/a	297.2	100	10.3	n/a	n/a	2007
12.3	286.4	100	-12.9	-244.8	-4.7	Feb-06
3.9	282.7	100	2.1	-83.6	0.8	n/a
43.5	279.8	100	6.6	46.6	2.8	1985
-46.6	15902.8	1.7	157.3	-8.2	1.1	2005
-6.3	276.7	100	1.0	-90.6	0.3	Jul-02
-19.9	259.5	100	9.3	-41.8	3.2	1981
26.8	257.4	100	3.9	60.7	1.7	2003

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
179	158	Kuwait	31-Dec-07	Al Aman Investment Company	Asset Management	S	256.1
180	281	Bahrain	31-Dec-08	Bank Muscat International	Commercial Bank	W	255.2
181	203	Bahrain	31-Dec-08	Venture Capital Bank	Venture Capital	S	243.5
182	172	Sudan	31-Dec-08	United Capital Bank Sudan	Investment Bank	S	242.5
183	164	Pakistan	31-Dec-08	Bank Islami Pakistan Limited	Commercial Bank	S	241.3
184	162	South Africa	31-Dec-08	Al Baraka South Africa	Commercial and Private Banking	S	231.1
185	n/a	Bahrain	31-Dec-08	International Investment Bank	Investment Bank	S	218.7
186	178	Pakistan	31-Dec-08	Emirates Global Islamic Bank Ltd	Commercial Bank	S	209.1
187	215	Qatar	31-Dec-08	Islamic Financial Securities	Stock and Commodity Brokers	S	208.5
188	170	Sudan	31-Dec-06	Animal Resource Bank	Specialised Bank	S	204.6
189	159	Qatar	30-Jun-09	Al Khaleej Insurance & Reinsurance Co	Insurance Company	S	197.3
190	n/a	Indonesia	31-Dec-08	PT Ansuransi Jasindo (Takaful)	Insurance Company	S	193.9
191	281	Bahrain	31-Dec-08	Elaf Bank BSC	Wholesale & Investment Bank	S	193

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
39.7	256.1	100	32.6	275.3	14.5	2005
86.5	2144.3	11.9	-7.8	-161.1	-0.4	2005
9.7	243.5	100	47	45.4	20.2	Oct05
27.9	242.5	100	14.2	53.1	6.7	Aug06
1.8	241.3	100	-0.6	-10.1	-0.3	Mar05
-7.5	231.1	100	3.8	-4.1	1.7	1989
-15	218.7	100	13.5	-35.9	5.6	Oct03
42.5	209.1	100	-4.9	260.5	-3.0	Feb07
215.7	208.5	100	5.1	75	3.6	2003
7.7	204.6	100	1.2	-9.3	0.6	1993
-22.9	197.3	100	13.1	-55.5	5.7	1978
5.1	193.9	100	14.9	34.4	8.4	n/a
-6.1	193	100	2.3	-48.1	1.1	Mar07

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
192	173	Iran	2004	Alborz Insurance Co	Insurance Company	S	189.8
193	180	Qatar	31-Dec-08	National Leasing Company (Alijarah)	Credit and Finance	S	189.1
194	187	Kuwait	31-Dec-08	Al Masar Leasing and Investment Company KSC (Closed)	Investment Company	S	184.6
195	281	Malaysia	30-Jun-09	Maybank Investment Bank	Investment Bank	W	183.5
196	191	Bahrain	30-Jun-09	First Leasing Bank	Wholesale Bank	S	177.1
197	177	Canada	1-Oct-09	UM Financial	Private Bank	S	170
198	126	Iran	20-Mar-08	Parsian Insurance Co	Insurance Company	S	169.3
199	175	Qatar	31-Dec-08	Qatar Islamic Insurance Company	Insurance Company	S	160.5
200	n/a	Jordan	31-Dec-08	Jordan Dubai Islamic Bank	Development Bank	S	160.5
201	174	Kuwait	31-Dec-08	Orient Investment Company (KSCC)	Investment Company	S	157.1
202	176	UAE	31-Dec-07	Dubai Islamic Insurance and Reinsurance Company	Insurance Company	S	156.8
203	281	Indonesia	31-Dec-08	PT Bank BTN	Commercial Bank	W	142.1
204	181	Kuwait	31-Dec-07	Al Ritaj Investment Company	Investment Company	S	141.4

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
17.6	189.8	100	n/a	n/a	n/a	n/a
33.6	189.1	100	15.1	0.5	9.1	2003
16.6	184.6	100	10.2	13.7	5.9	n/a
-55.5	1468.5	12.50	30.4	-43	1.6	Aug-05
52.4	177.1	100	1.4	19.4	0.9	Oct-04
13.3	170	100	0.3	-40	0.2	2004
39.4	169.3	100	40.7	7.1	28.0	n/a
0.8	160.5	100	18.8	54.3	11.7	1995
n/a	160.5	100	7.7	n/a	n/a	2008
-11.2	157.1	100	-21.8	-154.8	-13.1	Nov-04
39.4	156.7	100	11.3	402.5	8.4	2002
69.7	4108.8	3.4	60.7	-4.8	1.6	n/a
n/a	141.4	100	14.4	n/a	n/a	Jun-06

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
205	281	Bahrain	31-Dec-08	Capital Management House	Investment Company	S	140.8
206	198	Bosnia-Herzegovina	31-Dec-08	Bosna Bank International	Commercial Bank	S	138.6
207	183	Indonesia	31-Dec-08	PT Bank Bukopin	Commercial Bank	W	132.8
208	186	Pakistan	31-Mar-09	Dawood Islamic Bank Ltd	Commercial Bank	S	130.4
209	214	Pakistan	31-Dec-08	Askari Bank Limited	Commercial Bank	W	126.8
210	n/a	Kuwait	31-Dec-08	Osoul Investment Co KSCC	Credit and Finance	S	122.6
211	n/a	Bahrain	31-Dec-08	Capinnova Investment Bank	Investment Bank	S	120.5
212	193	Indonesia	31-Dec-08	PT Bank Niaga (CIMB Niaga)	Commercial Bank	W	120.4
213	189	Bangladesh	31-Dec-07	Prime Bank Ltd	Commercial Bank	W	119.1
214	202	Bahrain	31-Dec-08	Real Estate Finance Co-Reef BSC (c)	Financing Company	S	118.7
215	211	Indonesia	31-Dec-08	PT Bank Permata	Commercial Bank	W	118.5
216	192	Sudan	31-Dec-08	Financial Investment Bank	Commercial and Investment Bank	S	117.3
217	84	Indonesia	31-Dec-08	PT Bank Muamalat Indonesia, Jakarta	Commercial Bank	S	115.0
218	244	UK	31-Dec-08	Gatehouse Bank	Investment Bank	S	107.8

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
49.9	140.8	100	14.4	155.6	12.2	Feb-07
17.7	138.6	100	0.1	-78.5	0.1	Dec-06
95.4	2980.1	4.4	50.3	-12.8	1.6	n/a
2.4	130.4	100	-0.5	-244.6	-0.4	2007
69.7	2606.7	4.8	5.8	-84.5	0.2	1991
-46	122.6	100	29.2	-674.3	16.7	1999
1028.9	120.5	100	-0.7	n/a	-1.1	Jan-09
10.1	9424.4	1.2	99	-55.2	1.1	n/a
11.5	1159.5	10.2	34.1	35.6	3.3	Dec-95
6.8	118.7	100	4.9	-33.2	4.2	2005
56.8	4936.9	2.4	68.9	-11.8	1.6	n/a
23.4	117.3	100	8.8	-20.6	8.5	1997
-90.2	115	100	0	22.6	0	1992
625.4	107.8	100	-16.9	-94.5	-27.6	May-07

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
219	196	Sudan	31-Dec-04	Sheikan Insurance & Reinsurance Co Ltd	Insurance Company	S	105.6
220	82	Pakistan	31-Dec-08	Habib Metropolitan Bank	Commercial Bank	W	104.2
221	237	Bahrain	31-Dec-08	Ahli United Bank	Commercial Bank	W	98.6
222	199	Jordan	31-Dec-06	Beit Al Mal Saving and Investment for Housing	Investment Company	S	96.8
223	179	Bahrain	31-Dec-08	Investors Bank EC	Investment Bank	S	95
224	205	Indonesia	31-Dec-08	PT Bank Danamon	Commercial Bank	W	94
225	190	Indonesia	31-Dec-08	PT Bank Rakyat Indonesia	Commercial Bank	W	89.8
226	204	Switzerland	31-Dec-06	Faisal Private Bank	Private Bank	S	84.1
227	206	Pakistan	30-Jun-07	First Habib Bank Modaraba	Commercial Bank	S	82
228	209	Yemen	31-Dec-06	Islamic Bank of Yemen for Finance and Investment	Commercial Bank	S	78.9
229	210	Pakistan	31-Dec-08	The Bank of Khyber	Commercial Bank	W	76.7
230	216	UAE	30-Sep-08	Abu Dhabi National Takaful Co	Insurance Company	S	76.7
231	213	Yemen	31-Dec-05	Shamil Bank of Yemen and Bahrain	Commercial Bank	S	75

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
74.4	105.6	100	10.9	29.3	13.1	1983
-4.5	2302.3	4.5	59.9	-13.0	2.6	n/a
325.8	23582.7	0.42	306.4	-17.6	1.3	May-07
37.9	96.8	100	n/a	n/a	n/a	1983
-30.6	95	100	-34.8	-240	-30.1	Oct-97
15.8	9796.2	0.9	244.5	-30.4	2.7	2002
-28.9	22472.7	0.4	0	n/a	0	n/a
6.7	84.1	100	-2.8	-127.4	-3.5	n/a
28.1	82	100	2.7	5.4	3.7	n/a
-18.4	78.9	100	n/a	n/a	n/a	Apr-95
-2	396.1	19.3	2.6	74.3	0.6	1991
12.5	76.7	100	3.7	30.6	5.2	Nov-03
29.5	75	100	1.4	6540.2	2.1	2002

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
232	281	Bahrain	31-Dec-08	Citi Islamic Investment Bank Wholesale	Investment Bank	S	72.9
233	207	Kuwait	31-Dec-08	Wethaq Takaful Insurance Company (KCSC)	Insurance Company	S	68.7
234	217	Saudi Arabia	31-Dec-04	Saudi Arabian Insurance Company Ltd	Insurance Company	S	67.7
235	223	Bahrain	31-Dec-08	Takaful International Company	Insurance Company	S	63.3
236	n/a	Bangladesh	31-Dec-08	AB Bank (ABBL)	Specialised Bank	W	61.2
237	218	Kuwait	31-Dec-05	Gulf Takaful Insurance Co KCSC	Insurance Company	S	61
238	219	Kuwait	31-Dec-05	Bayt Al Mal Holding Company	Investment Company	S	59.9
239	221	Indonesia	31-Dec-08	PT Bank DKI	Commercial Bank	W	56.2
240	222	Iran	21-Sep-07	Amin Reinsurance Co	Insurance Company	S	53
241	224	Malaysia	31-Dec-07	Prudential BSN Takaful Berhad	Insurance Company	S	48.9
242	247	UAE	30-Jun-07	Tejoori	Investment Company	S	44.7
243	228	Pakistan	31-Dec-08	UBL Ameen	Commercial Bank	W	43.5
244	220	Kuwait	31-Dec-08	First Takaful Insurance Co	Insurance Company	S	42.9

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
5.9	72.9	100	4.1	-77.5	5.8	Jun-96
-15.5	68.7	100	-9.7	-562.1	-13	2000
-15.9	67.7	100	4.7	-16.3	6.4	1980
24	63.3	100	0.2	28.1	0.5	1989
90.1	1219.5	5	52.2	27.1	4.8	Mar-06
n/a	61	100	5.7	n/a	n/a	2004
n/a	59.9	100	n/a	n/a	n/a	1999
2.4	1237.1	4.5	15.7	-1.7	1.3	n/a
21.7	53	100	6.8	19.3	14.3	2003
43.3	48.9	100	-3.9	-7.9	-9.3	Aug-06
4.4	12.1	100	0.9	179.2	8.1	2005
29.1	7216.7	0.6	177.6	-21.5	2.5	Dec-06
-27.1	42.9	100	0.9	-86.2	1.9	2000

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
245	225	Pakistan	31-Dec-08	Standard Chartered Modaraba	Commercial Bank	S	38.8
246	235	Bangladesh	31-Dec-08	Premier Bank Ltd	Commercial Bank	W	38
247	236	Bangladesh	31-Dec-08	Southeast Bank Ltd	Commercial and Private Banking	W	37.6
248	227	US	31-Dec-07	University Bank Islamic Financial Corporation	Commercial Bank	S	35.6
249	212	Malaysia	31-Mar-09	Alliance Investment Bank Berhad	Investment Bank	W	35.1
250	281	Indonesia	31-Dec-08	PT BPD Sumatera Utara	Commercial Bank	W	33.3
251	229	Indonesia	31-Dec-08	PT Bank International Indonesia	Commercial Bank	W	32.3
252	226	Pakistan	31-Dec-08	Bank Al Habib Lmt	Commercial Bank	W	31.8
253	230	Malaysia	30-Jun-07	Hong Leong Tokio Marine Takaful Berhad	Insurance Company	S	30.1
254	250	Bangladesh	31-Dec-08	The City Bank Ltd	Commercial Bank	W	29.2
255	231	Iran	20-Mar-07	Karafarin Insurance Co	Insurance Company	S	28.9
256	232	Australia	30-Jun-07	Muslim Community Cooperative Australia Ltd	Co-operatives	S	27.2

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
-7.4	38.8	100	1.2	-8.7	3.5	1987
23.5	561.8	6.7	17.8	130.5	3.4	Apr-06
49.1	1177.9	3.1	31.2	-17.4	2.9	May-06
59.8	35.6	100	-0.3	227.2	-1.2	Jun-02
-51.4	657.2	5.3	-9.1	-460.2	-1.3	2006
51.1	806.1	4.1	34.3	11.5	4.2	n/a
0.6	5192.2	0.6	56.8	75.5	1.1	May-03
-23.7	2241.8	1.4	44.6	-10.6	2.3	n/a
n/a	30.1	100	-0.7	n/a	n/a	Jun-06
153.4	828.7	3.5	14.7	24.8	1.9	Jun-06
37.8	28.9	100	3.9	26.5	16.1	2001
19.5	27.2	100	0.7	38.2	2.7	1989

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
257	233	Saudi Arabia	19-Jan-07	Islamic Corp for the Insurance of Investment and Export Credit	Credit Guarantee Organisation	S	26.5
258	234	Bangladesh	2005	Farast Islami Life Insurance	Insurance Company	S	25.7
259	281	Indonesia	31-Dec-08	PT Bank Riau (Syariah)	Commercial Bank	W	21.8
260	238	Bahrain	31-Dec-04	Arabia ACE Insurance Company Ltd EC	Insurance Company	S	21.4
261	239	Jordan	31-Dec-04	Al Amin for Investment	Investment Company	S	21.1
262	82	Pakistan	31-Dec-08	Habib Bank	Commercial Bank	W	20.4
263	241	Bangladesh	31-Dec-07	Islamic Finance & Investment Limited	Investment Company	S	19.4
264	242	Gambia	30-Jun-06	Arab Gambian Islamic Bank	Commercial and Development Bank	S	18.7
265	245	Indonesia	31-Dec-04	PT Asuransi Syari'a Mubarakah	Insurance Company	S	14.8
266	147	Malaysia	31-Mar-09	AmlInvestment Group Berhad	Investment Bank	W	14.8
267	246	Sudan	31-Dec-04	Islamic Insurance Company Ltd	Insurance Company	S	13.2
268	253	Pakistan	31-Dec-08	RBS Pakistan	Commercial Bank	W	12.1
269	248	Saudi Arabia	31-Dec-05	Allied Cooperative Insurance Group	Insurance Company	S	11.9

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
1.5	26.5	100	0.3	-49.1	1.2	1994
43.6	25.7	100	n/a	n/a	n/a	n/a
34.8	1199.3	1.8	30.6	-4	2.7	n/a
18.9	21.4	100	2.4	-41.5	12.6	1989
n/a	21	100	5.6	n/a	n/a	1999
-3.4	9581.9	0.2	278.5	12.1	3	n/a
33	19.4	100	0.9	13.2	5.3	2001
47.7	18.7	100	0.2	130.6	1.6	1997
-9.3	14.8	100	-0.1	73.1	-1.1	1993
-95.1	534.2	2.7	3.9	-96.1	0.1	Jun-04
51.8	13.2	100	2.3	339.3	20.9	1979
19.7	1366.5	0.8	-7.1	68.5	-0.5	2007
275.7	11.9	100	-1.4	-200.9	-19.3	Jan-05

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
270	249	India	31-Mar-07	Parsoli Corporation Ltd	Non-banking Financial Institution	S	11.7
271	257	Pakistan	31-Dec-08	National Bank of Pakistan	Commercial Bank	W	11.2
272	n/a	Senegal	31-Dec-04	Salama Assurances Senegal	Insurance Company	S	10.5
273	252	Jordan	31-Dec-06	Al Baraka Takaful Insurance Company	Insurance Company	S	10.2
274	256	Sri Lanka	31-Dec-08	Amana Takaful	Insurance Company	S	9.7
275	254	Sudan	31-Dec-04	The National Reinsurance Company	Insurance Company	S	8.7
276	255	Sudan	31-Dec-04	The Sudanese Insurance & Reinsurance Co Ltd	Insurance Company	S	8.4
277	258	Sudan	31-Dec-04	The United Insurance Co (Sudan) Ltd	Insurance Company	S	7.8
278	259	Iran	20-Mar-05	Export & Investment Insurance Co	Insurance Company	S	7.5
279	260	Sudan	31-Dec-04	Juba Insurance Company Ltd	Insurance Company	S	7.5
280	n/a	UAE	31-Aug-09	Arab Bank UAE	Diversified Financial Services	S	7.4
281	261	Malaysia	30-Jun-07	Asean Retakaful International (I) Ltd	Insurance Company	S	7.1

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
116.3	11.7	100	1.3	35.1	15.7	n/a
41.5	10338.2	0.1	290.7	-36.8	2.9	2006
22.7	10.5	100	n/a	n/a	n/a	1987
-5.7	10.2	100	n/a	n/a	n/a	1996
15.8	9.7	100	-0.4	65.4	-5.3	1998
26.3	8.7	100	0.1	128.5	0.7	1973
n/a	8.4	100	0.1	n/a	n/a	1967
23.6	7.8	100	1.3	2300.4	18.7	1968
41.5	7.5	100	0	-98.7	0.1	1994
23.9	7.5	100	0.4	-23.7	6.3	1981
n/a	3317	0.2	38.6	n/a	n/a	2009
3.2	7.1	100	0.5	-3.3	7.3	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
282	262	Egypt	31-Dec-04	Egyptian Saudi Insurance House	Insurance Company	S	5.7
283	263	India	31-Mar-07	Seyad Shariat Finance Ltd	Credit and Finance	S	5.1
284	264	US	2003	Neighborhood Development Center	Non-Profit Institute	S	4.7
285	278	Indonesia	31-Dec-07	PT Syarikat Takaful Indonesia	Insurance Company	S	4.7
286	267	Indonesia	31-Dec-08	PT BPD NTB	Commercial Bank	W	4.5
287	265	Bangladesh	2005	Prime Islami Life Insurance Ltd	Insurance Company	S	4.1
288	279	Indonesia	31-Dec-07	PT Ansuransi Takaful Keluarga	Insurance Company	S	4
289	n/a	Qatar	31-Aug-09	Arab Bank Qatar	Diversified Financial Services	W	3.4
290	268	Sudan	31-Dec-04	Al Baraka Insurance Co (Sudan) Ltd	Insurance Company	S	3
291	269	Sudan	31-Dec-04	Watania Co-operative Insurance Co Ltd	Insurance Company	S	2.1
292	270	Saudi Arabia	31-Dec-04	Arabia ACE Insurance Company Ltd	Insurance Company	S	2.1
293	271	Sudan	31-Dec-04	Red Sea Insurance Company Limited	Insurance Company	S	2.1

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
43.3	5.7	100	-0.2	-9.8	-4.4	2001
7.8	5.1	100	0.3	45.2	6.2	n/a
n/a	4.7	100	n/a	n/a	n/a	1993
11.6	4.7	100	0.1	-30.3	1.4	1994
51.8	171.1	2.6	8.4	31.5	4.8	n/a
81.7	4.1	100	n/a	n/a	n/a	n/a
12.5	4	100	0.1	-29.3	1.3	1994
n/a	1249	0.2	24.5	n/a	n/a	2008
56.8	3	100	0.1	27.6	7.3	1985
329.4	2.1	100	-0.2	-349.4	-20.1	1989
18.9	2.1	100	0.2	-41.5	12.6	n/a
7.2	2.1	100	0.2	-67.4	9.9	1989

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
294	272	Sudan	31-Dec-04	The Blue Nile Insurance Co Ltd	Insurance Company	S	1.9
295	12	Iran	20-Mar-07	Bank Maskan Iran, Tehran	Government-owned Bank	S	1.4
296	273	Saudi Arabia	31-Dec-04	Tokio Marine and Nichido Fire Insurance Company Ltd	Insurance Company	S	1.2
297	279	Indonesia	31-Dec-07	PT Ansuransi Takaful Umum	Insurance Company	S	0.9
298	274	Sudan	31-Dec-03	El Nilein Insurance Co Ltd	Insurance Company	S	0.7
299	281	Qatar	31-Dec-08	Al Jazeera Islamic Finance Company	Credit and Finance	S	0.6
300	275	Sudan	31-Dec-04	Savanna Insurance Co Ltd	Insurance Company	S	0.6
301	276	Yemen	31-Dec-05	Saba Islamic Bank	Commercial Bank	S	0.3
302	277	Yemen	31-Dec-04	Yemen Islamic Insurance Company (YSC)	Insurance Company	S	0.2
303	281	Afghanistan	31-Dec-08	Kabul Bank	Commercial Bank	W	n/a
303	281	Afghanistan	31-May-08	Azizi Bank	Commercial Bank	W	n/a
303	n/a	Afghanistan	n/a	FINCA Afghanistan	Microfinance Institute	S	n/a
303	281	Algeria	n/a	Al Salam Bank – Algeria	Commercial Bank	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
26	1.9	100	n/a	n/a	n/a	1965
n/a	1.4	100	0	n/a	n/a	1938
n/a	1.2	100	-1.9	n/a	n/a	2004
3	0.9	100	0	195.1	4	1994
303.9	0.7	100	0.1	25.4	37.2	1981
93.6	0.6	100	0	78	5.4	1989
-1.7	0.6	100	0	37.9	0.7	1989
43.5	0.3	100	n/a	n/a	n/a	1997
93.7	0.2	100	0	50.1	-6.5	2001
n/a	708.3	n/a	12.8	69.3	1.9	Apr-06
n/a	194.6	n/a	-1.3	52.9	-1	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Oct-06

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Australia	n/a	ICFA (Islamic Co-operative Finance Australia) Ltd	Co-operatives	S	n/a
303	281	Australia	n/a	Balance Finance	Credit and Finance	S	n/a
303	n/a	Australia	n/a	National Australia Bank	Commercial & Retail Banking	W	n/a
303	281	Bahrain	31-Dec-08	Gulf International Bank BSC	Investment Bank	W	n/a
303	n/a	Bahrain	n/a	Al Amin Bank	Investment Bank	S	n/a
303	281	Bahrain	n/a	Yazi Capital BSC	Investment Business Firm	S	n/a
303	n/a	Bahrain	n/a	CIMB Middle East	Investment Bank BSC	S	n/a
303	n/a	Bahrain	n/a	Fajr Investment Advisory BSC	Investment Advisory Firm	S	n/a
303	n/a	Bahrain	n/a	Global Islamic Clearing Company	Clearing House	S	n/a
303	n/a	Bahrain	n/a	Islamic Finance Consultants	Investment Advisory Firm	S	n/a
303	n/a	Bahrain	n/a	MCB Capital BSC	Financial Brokerage	S	n/a
303	n/a	Bahrain	n/a	First Investment Bank BSC	Under Formation	S	n/a
303	281	Bahrain	31-Dec-08	TAIB Bank of Bahrain	Private Bank & Asset Management	W	n/a
303	281	Bahrain	31-Dec-08	United Gulf Bank	Investment Bank	W	n/a
303	n/a	Bahrain	n/a	AIG Takaful-Enaya	Insurance Company	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	25033	n/a	-387	48.9	-1.4	1975
n/a	n/a	n/a	n/a	n/a	n/a	1987
n/a	n/a	n/a	n/a	n/a	n/a	Feb-08
n/a	n/a	n/a	n/a	n/a	n/a	Feb-06
n/a	n/a	n/a	n/a	n/a	n/a	Jan-08
n/a	n/a	n/a	n/a	n/a	n/a	Oct-05
n/a	n/a	n/a	n/a	n/a	n/a	Mar-99
n/a	n/a	n/a	n/a	n/a	n/a	Jul-02
n/a	n/a	n/a	n/a	n/a	n/a	Nov-07
n/a	370.4	n/a	-65.3	-529.1	-15.4	1979
n/a	2869.1	n/a	214.6	-20	7.7	1980
n/a	n/a	n/a	n/a	n/a	n/a	Oct-06

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Bahrain	n/a	Gulf One Investment Bank	Investment Bank	S	n/a
303	281	Bahrain	n/a	Al Masref	Commercial Bank	S	n/a
303	281	Bahrain	31-Dec-08	Bank of Bahrain & Kuwait	Commercial Bank	W	n/a
303	281	Bahrain	n/a	Sakana Holistic Housing Solutions BSC (c)	Credit and Finance	S	n/a
303	281	Bahrain	n/a	Yazi Investment Bank	Investment Bank	S	n/a
303	281	Bahrain	n/a	Masrafy (First Investment Bank for Women in Bahrain)	Investment Company	S	n/a
303	281	Bahrain	n/a	Arab Islamic Bank EC (not operating)	Commercial Bank	S	n/a
303	281	Bahrain	n/a	Faysal Islamic Bank of Bahrain	Commercial Bank	S	n/a
303	n/a	Bahrain	n/a	Islamic Trading Company	Unclassified	S	n/a
303	281	Bahrain	n/a	Kuwait Turkish Evkaf Finance house Inc.	Offshore Banking Units	S	n/a
303	281	Bahrain	n/a	Noriba Bank BSC © (closed in 2006)	Investment Bank	S	n/a
303	281	Bahrain	n/a	BNP Paribas Najmah	Commercial Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	5699.4	n/a	71.9	-8.7	1.2	1971
n/a	n/a	n/a	n/a	n/a	n/a	Dec-06
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	Jun-06
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Feb-02
n/a	n/a	n/a	n/a	n/a	n/a	2002
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Bahrain	n/a	Saudi National Commercial Bank	Commercial Bank	W	n/a
303	n/a	Bahrain	n/a	Allianz Takaful (Bahrain) BSC	Insurance Company	W	n/a
303	n/a	Bahrain	n/a	Solitary Islamic Takaful & Retakaful Co	Insurance Company	S	n/a
303	223	Bahrain	n/a	Takaful and Retakaful International Investment Company	Insurance Company	S	n/a
303	n/a	Bahrain	n/a	Al Khabeer International Company	Investment Business Firm	S	n/a
303	n/a	Bahrain	n/a	Tharawat Investment House BSC	Investment Business Firm	S	n/a
303	n/a	Bahrain	n/a	Tadhamon Capital BSC	Investment Business Firm	S	n/a
303	n/a	Bahrain	n/a	Universal Financing Services BSC	Financing Company	S	n/a
303	281	Bangladesh	31-Dec-08	Dhaka Bank	Commercial Bank	W	n/a
303	n/a	Botswana	31-Dec-08	First National Bank of Botswana	Commercial Bank	W	n/a
303	n/a	Brunei	n/a	Takaful IBB Berhad	Insurance Company	S	n/a
303	n/a	Brunei	n/a	Islamic Bank of Brunei Berhad (merger)	Commercial Bank	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Mar-07
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Nov-08
n/a	n/a	n/a	n/a	n/a	n/a	Jun-08
n/a	n/a	n/a	n/a	n/a	n/a	Jul-08
n/a	n/a	n/a	n/a	n/a	n/a	Oct-08
n/a	1032.1	n/a	27.1	21.4	2.9	Jul-06
n/a	1655.5	n/a	70.2	-4.6	4.4	Jan-07
n/a	n/a	n/a	n/a	n/a	n/a	Mar-07
n/a	n/a	n/a	n/a	n/a	n/a	Apr-07

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Brunei	n/a	Islamic Development Bank of Brunei Berhad (merger)	Commercial Bank	S	n/a
303	281	Brunei	n/a	Perbadanan Tabung Amanah Islam Brunei (TAIB)	n/a	S	n/a
303	n/a	Brunei	n/a	Insurans Islam TAIB Sdn Bhd	Insurance Company	S	n/a
303	281	Cayman Islands	n/a	Al-Tawfeek Company for Investment Funds Ltd	Investment Company	S	n/a
303	n/a	China	n/a	Bank of Ningxia	Commercial & Retail Banking	W	n/a
303	281	Djibouti	n/a	Banque Al Baraka Djibouti	Commercial Bank	S	n/a
303	n/a	Djibouti	n/a	Salaam African Bank (Salaam)	Commercial Bank	S	n/a
303	281	Egypt	n/a	Arab Union Investment Company of Egypt	n/a	W	n/a
303	281	Egypt	n/a	Amlak Finance and Real Estate Investment	Credit and Finance	S	n/a
303	281	Egypt	31-Dec-07	Alwatany Bank of Egypt, Cairo	Commercial and Investment Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	May-07
n/a	n/a	n/a	n/a	n/a	n/a	Jun-07
n/a	n/a	n/a	n/a	n/a	n/a	Jul-07
n/a	n/a	n/a	n/a	n/a	n/a	Sep-07
n/a	n/a	n/a	n/a	n/a	n/a	Oct-07
n/a	n/a	n/a	n/a	n/a	n/a	Nov-07
n/a	n/a	n/a	n/a	n/a	n/a	Dec-07
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Jun-07
n/a	2256.3	n/a	44.7	161.4	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Egypt	31-Dec-07	National Bank for Development, Cairo	Commercial Bank	W	n/a
303	281	Egypt	n/a	Arab Investment Bank	Commercial Bank	W	n/a
303	281	Egypt	31-Dec-08	Crédit Agricole Egypt (Merged Egyptian American Bank)	Commercial Bank	W	n/a
303	281	Egypt	n/a	Misr Exterior Bank SAE	Commercial Bank	W	n/a
303	281	Egypt	n/a	United Bank of Egypt	Commercial Bank	W	n/a
303	281	Egypt	30-Jun-07	National Bank of Egypt	Commercial Bank	W	n/a
303	281	Egypt	30-Jun-05	Banque Misr	Commercial Bank	W	n/a
303	281	France	31-Dec-08	BNP Paribas	Commercial and Investment Bank	W	n/a
303	281	France	31-Dec-08	Société Générale	Investment Bank	W	n/a
303	281	France	n/a	Tayseer Bank	Commercial Bank	S	n/a
303	281	Germany	31-Dec-08	Deutsche Bank AG	Commercial and Investment Bank	W	n/a
303	n/a	India	n/a	Kotak Mahindra Asset Management Company	Asset Management	W	n/a
303	n/a	Indonesia	31-Dec-08	PT Ansuransi Jiwa Panin Life (Syariah)	Insurance Company	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	1729978.4	n/a	-60	120.4	-0.01	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	3951.3	n/a	96.3	2181.9	2.8	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	37453.7	n/a	82.3	6.8	0.2	n/a
n/a	18486.7	n/a	38.2	40.6	0.2	n/a
n/a	2882709.7	n/a	5450	-66.4	0.2	2003
n/a	1569448.6	n/a	5566.6	100.7	0.4	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2009
n/a	3058920.8	n/a	-7973.6	-161.9	-0.3	n/a
n/a	n/a	n/a	0	n/a	n/a	May-07
n/a	575.7	n/a	35.7	-5.5	6.4	2005

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	266	Indonesia	n/a	PT Bank IFI	Commercial Bank	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa Asih Great Eastern	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa BNI Jiwaseraya (Syariah)	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa Bringin Jiwa Sejahtera (Syariah)	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa Bumiputera 1912	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa Eka Life (Syariah)	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Jiwa Mubarakah	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT Ansuransi Perusahaan Tri Pakarta (Syariah)	Insurance Company	W	n/a
303	n/a	Indonesia	n/a	PT MA Life Ansurance (Syariah)	Insurance Company	W	n/a
303	281	Indonesia	31-Dec-06	BPD Aceh	Commercial Bank	W	n/a
303	281	Indonesia	31-Dec-06	HSBC (Syariah)	Commercial Bank	W	n/a
303	281	Indonesia	31-Dec-06	PT Bank Jawa Barat	Commercial Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	1231.3	n/a	29.9	188.5	2.9	2004
n/a	2935.8	n/a	69.6	-17.4	2.5	n/a
n/a	2360	n/a	64	23.1	3.1	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Indonesia	31-Dec-06	PT BPD Kalimantan Selatan	Commercial Bank	W	n/a
303	281	Indonesia	31-Dec-06	PT BPD Sumatera Selatan	Commercial Bank	W	n/a
303	281	Indonesia	31-Dec-05	PT BPD Kalimantan Barat	Commercial Bank	W	n/a
303	281	Iran	n/a	Postbank of Iran	Government-owned Bank	S	n/a
303	n/a	Iran	n/a	Asia Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Bimeh Makarzi Iran	Insurance Company	S	n/a
303	n/a	Iran	n/a	Dana Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Day Insurance Company	Insurance Company	S	n/a
303	n/a	Iran	n/a	Hafez Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Mellat Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Omid Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Razi Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Saman Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Sina Insurance Co	Insurance Company	S	n/a
303	n/a	Iran	n/a	Toseh-eh Insurance Co	Insurance Company	S	n/a
303	281	Iran	n/a	Sepah Investment Company (PJS)	Investment Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	345.7	n/a	8.6	101.2	3.1	n/a
n/a	761.4	n/a	8.4	72.1	1.3	n/a
n/a	193.3	n/a	4.7	-0.4	2.8	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1971
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2004
n/a	n/a	n/a	n/a	n/a	n/a	2002
n/a	n/a	n/a	n/a	n/a	n/a	2002
n/a	n/a	n/a	n/a	n/a	n/a	2003
n/a	n/a	n/a	n/a	n/a	n/a	2002
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Aug-91

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Iraq	n/a	Albilad Islamic Bank	Commercial Bank	S	n/a
303	281	Iraq	n/a	Iraqi Islamic Bank for Investment and Development	n/a	S	n/a
303	281	Iraq	n/a	Ilat Islamic Bank	n/a	S	n/a
303	281	Iraq	n/a	National Islamic Bank	n/a	S	n/a
303	281	Iraq	n/a	Tigris and Euphrates Bank for Develm't and Investm't	n/a	S	n/a
303	281	Iraq	n/a	Bank of Regional Cooperation Islamic for Develm't and Investm't	n/a	S	n/a
303	n/a	Iraq	n/a	Al Furat Bank	n/a	S	n/a
303	n/a	Iraq	n/a	Al Watan Islamic Bank	n/a	S	n/a
303	n/a	Ireland	n/a	Oasis Global Fund Manager (Dublin)	Asset Management	W	n/a
303	n/a	Jordan	n/a	The Islamic Insurance Company PLC	Insurance Company	S	n/a
303	n/a	Jordan	n/a	Al Sanabel Int'l Company For Islamic Financial Investment	Asset Management	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	Oct06
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2000
n/a	n/a	n/a	n/a	n/a	n/a	1996
n/a	n/a	n/a	n/a	n/a	n/a	Oct06

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Jordan	n/a	First Finance Company, Jordan	Credit and Finance	S	n/a
303	n/a	Jordan	n/a	First Insurance Company	Insurance	S	n/a
303	n/a	Kazakhstan	30-Sep-09	Al-Hilal Islamic Bank	Commercial & Retail Banking	S	n/a
303	281	Kenya	31-Dec-07	Barclays Bank of Kenya Ltd	Commercial Bank	W	n/a
303	281	Kenya	31-Dec-06	K-rep Bank	Commercial Bank	W	n/a
303	281	Kenya	31-Dec-08	Kenya Commercial Bank	Commercial Bank	W	n/a
303	281	Kenya	30-Jun-08	Dubai Bank	Commercial Bank	W	n/a
303	281	Kenya	30-Jun-08	I&M Bank	Commercial Bank	W	n/a
303	281	Kenya	n/a	Gulf African Bank	Commercial Bank	S	n/a
303	281	Kenya	n/a	The First Community Bank Limited	Commercial Bank	S	n/a
303	n/a	Kuwait	30-Sep-09	Warba Bank	Commercial & Retail Banking	S	n/a
303	n/a	Kuwait	31-Dec-08	Kuwait Financial Centre (Markaz)	Asset Management	W	n/a
303	281	Kuwait	31-Dec-08	Global Investment House	Investment Company	W	n/a
303	281	Kuwait	31-Dec-08	National Bank of Kuwait	Commercial Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2009
n/a	2519.5	n/a	112.9	78.6	5.1	Dec-05
n/a	73.4	n/a	2.1	199.1	3.4	n/a
n/a	2460.5	n/a	69.4	12.6	3.5	Jul-06
n/a	22	n/a	0.3	-10.8	1.9	n/a
n/a	531.3	n/a	23.4	22.3	4.9	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Sep-07
n/a	n/a	n/a	n/a	n/a	n/a	Jun-07
n/a	n/a	n/a	n/a	n/a	n/a	Jul-09
n/a	489.7	n/a	-69.5	-169.5	-11.7	Mar-07
n/a	4639.8	n/a	338.3	27.9	8.4	n/a
n/a	43389.4	n/a	974.1	-6.4	2.3	1952

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Kuwait	31-Dec-08	Bank of Kuwait and the Middle East	Commercial Bank	W	n/a
303	281	Kuwait	31-Dec-08	Commerical Bank of Kuwait	Commercial Bank	W	n/a
303	281	Kuwait	31-Dec-08	Gulf Bank	Commercial Bank	W	n/a
303	n/a	Kuwait	n/a	Boubyan Takaful Insurance Company	Insurance Company	S	n/a
303	281	Kuwait	n/a	Al Imtiaz Investment Company	Investment Company	S	n/a
303	n/a	Kuwait	n/a	Al Safat Takaful Insurance Company	Insurance Company	S	n/a
303	n/a	Kuwait	n/a	Adeem Investment Company	Asset Management	S	n/a
303	281	Kuwait	n/a	Gulf North Africa Holding Company	Investment Company	S	n/a
303	n/a	Kuwait	n/a	Al Watania Takaful Insurance Company	Insurance Company	S	n/a
303	281	Kuwait	n/a	Al Farabi Investment Company	Investment Company	S	n/a
303	281	Kuwait	n/a	Amar Finance and Leasing Company	Credit and Finance	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	8285.2	n/a	190.2	6.61	2.3	1941
n/a	15950.5	n/a	390.7	-15.4	2.4	Jun-60
n/a	18322.2	n/a	-1331.4	-375.6	-7.2	1960
n/a	n/a	n/a	n/a	n/a	n/a	Jun-06
n/a	n/a	n/a	n/a	n/a	n/a	Apr-05
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	May-05
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	2003
n/a	n/a	n/a	n/a	n/a	n/a	2004
n/a	n/a	n/a	n/a	n/a	n/a	2004

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Kuwait	n/a	National Takaful Insurance Company	Insurance Company	S	n/a
303	n/a	Kuwait	n/a	Al Ain Takaful Insurance Company	Insurance Company	S	n/a
303	281	Kuwait	n/a	Manafa'e Investment Company	Investment Company	S	n/a
303	281	Kuwait	n/a	Jaber Islamic Bank	Commercial Bank	S	n/a
303	281	Kuwait	n/a	Sabaek Leasing & Investment Company	Credit and Finance	S	n/a
303	n/a	Kuwait	n/a	Al Fajer Retakaful Insurance Co	Insurance Company	S	n/a
303	281	Kuwait	n/a	SorooH Investment Company	Investment Company	S	n/a
303	134	Kuwait	n/a	Al Dar Asset Management (ADAM)	Asset Management	S	n/a
303	n/a	Kuwait	n/a	Wared Lease & Finance Company	Credit and Finance	S	n/a
303	n/a	Kuwait	n/a	Rasameel Structured Finance KSC	Financial Advisory Services	S	n/a
303	281	Kuwait	n/a	Athman Investment Company	Investment Company	S	n/a
303	281	Kuwait	n/a	Ajal Finance & Investment Company	Investment Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	June-07
n/a	n/a	n/a	n/a	n/a	n/a	Apr-07
n/a	n/a	n/a	n/a	n/a	n/a	Jul-06
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	2004
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	Jan-06
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Kuwait	n/a	A'Ayan Capital Investment Company	Investment Company	S	n/a
303	281	Kuwait	n/a	Investment Liquidity Management House Co KSC	n/a	S	n/a
303	281	Kuwait	n/a	AlRaya Investment Company KSCC	n/a	S	n/a
303	281	Kuwait	n/a	Murabahat Investment Co	Investment Company	S	n/a
303	281	Kuwait	n/a	Gulf Arab Investment Group Company KSCC	Investment Company	S	n/a
303	281	Kuwait	n/a	Al-Buraq Investment Company	Investment Company	S	n/a
303	281	Kuwait	n/a	Alraya Investment Company	Investment Company	S	n/a
303	281	Kuwait	31-Dec-07	Kuwait Investment Co	Investment Bank	W	n/a
303	n/a	Kuwait	31-Dec-07	Industrial Bank of Kuwait	Specialised Bank	W	n/a
303	281	Lebanon	n/a	Blom Development Bank (A subsidiary of Blom Bank)	Commercial Bank	W	n/a
303	281	Lebanon	n/a	Al Baraka Lebanon	Commercial Bank	S	n/a
303	n/a	Lebanon	n/a	Al Aman Takaful Insurances	Insurance Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2008
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2008
n/a	n/a	n/a	n/a	n/a	n/a	2008
n/a	1349.7	n/a	165.8	74.9	12.9	1961
n/a	2074.6	n/a	85.6	28.5	4.4	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	1992
n/a	n/a	n/a	n/a	n/a	n/a	1988

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Lebanon	n/a	Lebanese Islamic Bank (LIB)	Commercial Bank	S	n/a
303	281	Lebanon	31-Dec-07	Bank of Beirut	Commercial and Investment Bank	W	n/a
303	n/a	Luxembourg	n/a	Takafol (Luxembourg) SA	Insurance Company	S	n/a
303	80	Malaysia	31-Dec-08	Standard Chartered Bank Malaysia Berhad	Commercial Bank	W	n/a
303	n/a	Malaysia	31-Dec-08	Affin Investment Bank Berhad	Investment Bank	W	n/a
303	n/a	Malaysia	n/a	CIMB Bank Berhad	Commercial Bank	W	n/a
303	281	Malaysia	31-Dec-08	Royal Bank of Scotland Berhad	Commercial Bank	W	n/a
303	208	Malaysia	n/a	Mayban Discount Berhad	Discount House	W	n/a
303	89	Malaysia	31-Dec-08	OCBC Bank (Malaysia) Berhad	Commercial Bank	W	n/a
303	281	Malaysia	31-Dec-08	Public Bank Berhad	Commercial Bank	W	n/a
303	281	Malaysia	31-Dec-08	Kenanga Investment Bank Berhad	Investment Bank	W	n/a
303	281	Malaysia	n/a	HSBC Amanah Takaful (Malaysia) Sdn. Berhad	Commercial Bank	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a		n/a	n/a	n/a	Feb-04
n/a	5250.2	n/a	54.7	17.9	1.1	1963
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	12638.7	n/a	300.2	35.4	2.3	2000
n/a	953.6	n/a	-1.2	-106.7	-0.1	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	1955.3	n/a	49.5	554	1.8	2005
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	13982.2	n/a	265.9	24.5	1.9	n/a
n/a	52256.6	n/a	908.3	7.1	1.7	n/a
n/a	753.3	n/a	-18.7	-156.5	-2.6	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Malaysia	n/a	Etiqa	Insurance Company	W	n/a
303	n/a	Malaysia	n/a	Amanah Capital Malaysia Bhd	Asset Management	S	n/a
303	n/a	Malaysia	n/a	Bayt Al Mal Asset Management Company (BAMC)	Asset Management	S	n/a
303	n/a	Malaysia	n/a	MAA Takaful	Insurance Company	S	n/a
303	n/a	Malaysia	n/a	Bank Pertanian Malaysia	Development Financial Institutions	S	n/a
303	n/a	Malaysia	n/a	Bank Simpanan Nasional Berhad	Development Financial Institutions	S	n/a
303	281	Malaysia	n/a	Al-Hidayah Investment Bank	Offshore Islamic Investment Bank	S	n/a
303	n/a	Mauritius	n/a	SMAI Islamique	Insurance Company	S	n/a
303	n/a	Mauritius	n/a	Taamin Assurances Islamiques	Insurance Company	S	n/a
303	281	Oman	31-Dec-08	National Bank of Oman	Commercial Bank	W	n/a
303	281	Oman	31-Dec-08	Oman International Bank SAOG	Commercial Bank	W	n/a
303	281	Oman	31-Dec-08	Oman Arab Bank	Commercial Bank	W	n/a
303	281	Oman	31-Dec-07	United Finance Company SAOG	Finance Company	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	1993
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	Jul-07
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Jun-02
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1999
n/a	5222.3	n/a	135.9	2.4	2.9	n/a
n/a	2679.4	n/a	87.3	4.9	3.1	n/a
n/a	2008.1	n/a	73.4	27.0	3.9	n/a
n/a	289.7	n/a	11.2	155.7	4.8	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Pakistan	31-Dec-08	Allied Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-08	Faysal Bank Ltd, Pakistan	Commercial Bank	W	n/a
303	188	Pakistan	31-Dec-08	MCB Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-08	Mybank LTD	Commercial Bank	W	n/a
303	281	Pakistan	n/a	PICIC Commercial Bank	Commercial Bank	W	n/a
303	n/a	Pakistan	n/a	Prime Commercial Bank	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-08	SME Bank	Commercial Bank	W	n/a
303	243	Pakistan	31-Dec-08	Soneri Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	n/a	Al Faysal Investment Bank Ltd, Islamabad	Investment Bank	S	n/a
303	n/a	Pakistan	n/a	Al Towfeek Investment Bank Ltd	Investment Bank	S	n/a
303	281	Pakistan	n/a	Qaiser Islamic Bank	Commercial Bank	S	n/a
303	n/a	Pakistan	n/a	Crescent Standard Investment Bank	Investment Bank	W	n/a
303	281	Pakistan	n/a	Union Bank Ltd	Commercial Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	4635.6	n/a	77.3	-20.7	1.8	Dec-42
n/a	1747.6	n/a	22.7	-48.6	1.2	n/a
	5608.2	n/a	276.4	-20.9	5.1	Jan-03
n/a	503.2	n/a	-9.6	-360.5	-1.8	n/a
n/a	n/a	n/a	0	n/a	n/a	n/a
n/a	n/a	n/a	0	n/a	n/a	2006
n/a	72.781	n/a	-1.6	-166.8	-2.1	n/a
	1023.7	n/a	12.1	-50.2	1.2	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Pakistan	n/a	Pak-Kuwait Takaful Company Limited	Insurance Company	S	n/a
303	281	Pakistan	n/a	Islamic Capital Partners	Investment Bank	S	n/a
303	n/a	Pakistan	31-Dec-08	Samba Bank Ltd	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-08	NIB Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	30-Jun-07	Oman International Bank SAOG	Commercial Bank	W	n/a
303	281	Pakistan	30-Jun-07	Punjab Provincial Cooperative Bank	Commercial Bank	W	n/a
303	n/a	Pakistan	n/a	Silk Bank	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-07	Zarai Taraqati Bank Limited	Commercial Bank	W	n/a
303	n/a	Pakistan	30-Jun-07	Industrial Development Bank of Pakistan	Specialised Bank	S	n/a
303	281	Pakistan	30-Jun-07	Citibank, NA	Commercial Bank	W	n/a
303	281	Pakistan	30-Jun-07	Deutsche Bank AG	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-07	First Women Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-07	JS Bank Limited	Commercial Bank	W	n/a
303	281	Pakistan	31-Dec-08	KASB Bank Limited	Commercial Bank	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	2003
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	208.4	n/a	-12.7	-43.2	-5.5	n/a
n/a	2,261.8	n/a	-94.4	-908.4	-4.2	n/a
n/a	44.9	n/a	-1.1	n/a	n/a	n/a
n/a	n/a	n/a	2.1	n/a	n/a	n/a
n/a	703.4	n/a	-13.9	-74.3	-2	n/a
n/a	1,532.1	n/a	29.5	174.6	2	n/a
n/a	155.7	n/a	-19.7	n/a	n/a	n/a
n/a	1,742.9	n/a	15.4	n/a	n/a	n/a
n/a	153.2	n/a	7.1	n/a	n/a	n/a
n/a	147.3	n/a	3.9	-7.40	2.6	n/a
n/a	333.4	n/a	-1	-15166.8	-0.3	n/a
n/a	654.8	n/a	-23.3	-2273.9	-3.9	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Pakistan	31-Dec-07	The Bank of Punjab	Commercial Bank	W	n/a
303	281	Pakistan	30-Jun-07	The Bank of Tokyo-Mitsubishi	Commercial Bank	W	n/a
303	281	Pakistan	30-Jun-07	HSBC Pakistan	Commercial Bank	W	n/a
303	281	Palestine Territories	n/a	Aqsa Islamic Bank	Commercial Bank	S	n/a
303	281	Palestine Territories	n/a	Palestine Islamic Bank	Commercial Bank	S	n/a
303	281	Qatar	n/a	The First Investor	Investment Bank	S	n/a
303	281	Qatar	n/a	Dlala Islamic Brokerage Company	Stock and Commodity Brokers	S	n/a
303	n/a	Qatar	n/a	Islamic Takaful Insurance Co	Insurance Company	S	n/a
303	281	Qatar	n/a	United Bank Ltd	Commercial Bank	W	n/a
303	281	Russia	n/a	Badr-Forte Bank	Commercial Bank	S	n/a
303	281	Saudi Arabia	n/a	Amlak Int'l for Real Estate Develm't and Finance Company	Credit and Finance	S	n/a
303	n/a	Saudi Arabia	n/a	Al-Tawfeek Company for Investment Funds Ltd	Asset Management	S	n/a
303	n/a	Saudi Arabia	n/a	Al Sagr Saudi Insurance Company	Insurance Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	3,854.4	n/a	79.4	1.23	2.4	n/a
n/a	95.8	n/a	0.9	n/a	n/a	n/a
n/a	474.9	n/a	2.8	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Jan-98
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1999
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1991
n/a	n/a	n/a	n/a	n/a	n/a	Jun-07
n/a	n/a	n/a	n/a	n/a	n/a	May-92
n/a	n/a	n/a	n/a	n/a	n/a	1998

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Saudi Arabia	n/a	Saudi Fransi Cooperative Insurance Company	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Saudi IAIC Cooperative Insurance Company	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Falcon Financial Services	Asset Management	S	n/a
303	n/a	Saudi Arabia	n/a	KSB Capital Group	Asset Management	S	n/a
303	281	Saudi Arabia	n/a	Mullak Arabia	Credit and Finance	S	n/a
303	n/a	Saudi Arabia	n/a	Saudi National Insurance Co EC	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Al Ahlia Insurance Co for Co-operative Insurance	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Arabian Malaysian Takaful	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Bank Aljazira – Takaful Ta'wani	Insurance Company	W	n/a
303	n/a	Saudi Arabia	n/a	International Islamic Insurance Co	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Islamic Arab Insurance Co	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Saudi Islamic Insurance Methaq	Insurance Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	Oct06
n/a	n/a	n/a	n/a	n/a	n/a	Oct06
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	1974
n/a	n/a	n/a	n/a	n/a	n/a	Nov06
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2001
n/a	n/a	n/a	n/a	n/a	n/a	1980
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	n/a	Saudi Arabia	n/a	Takafol Insurance Company EC	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Alahli Takaful Company	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	SABB Takaful Company	Insurance Company	S	n/a
303	n/a	Saudi Arabia	n/a	Commercial Services Company Arabia	Insurance Company	S	n/a
303	281	Saudi Arabia	n/a	Rusd Group	Investment Bank	S	n/a
303	n/a	Saudi Arabia	n/a	Gulf Union Cooperative Insurance Company	Insurance Company	S	n/a
303	281	Saudi Arabia	n/a	Al Baraka Investment and Development	Investment Company	S	n/a
303	281	Saudi Arabia	n/a	Islamic Corporation for the Develm't of the Private Sector	Investment Company	S	n/a
303	281	Saudi Arabia	n/a	Saudi Economy and Development Company	Investment Company	S	n/a
303	281	Saudi Arabia	n/a	Siraj Capital	Investment Company	S	n/a
303	n/a	Saudi Arabia	n/a	Bear Stearns Arabia Asset Management	Asset Management	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Dec-06
n/a	n/a	n/a	n/a	n/a	n/a	Oct-06
n/a	n/a	n/a	n/a	n/a	n/a	1981
n/a	n/a	n/a	n/a	n/a	n/a	2003
n/a	n/a	n/a	n/a	n/a	n/a	Oct-06
n/a	n/a	n/a	n/a	n/a	n/a	1982
n/a	n/a	n/a	n/a	n/a	n/a	2000
n/a	n/a	n/a	n/a	n/a	n/a	1976
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	2009

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Saudi Arabia	n/a	Arbah Capital	Islamic Wealth Management	S	n/a
303	281	Senegal	n/a	Banque Islamique du Senegal	Commercial Bank	S	n/a
303	281	Singapore	31-Dec-08	OCBC BANK	Commercial Bank	W	n/a
303	281	South Africa	31-Dec-08	ABSA Group	Commercial and Private Banking	W	n/a
303	n/a	South Africa	n/a	Oasis Global Fund Manager	Asset Management	S	n/a
303	n/a	Sri Lanka	n/a	Amana Investment Ltd	Financial Solutions	S	n/a
303	281	Sri Lanka	n/a	Ceylinco Islamic Investment Corporation	n/a	S	n/a
303	281	Sri Lanka	n/a	Muslim Commercial Bank	Commercial Bank	S	n/a
303	n/a	Sri Lanka	n/a	National Asset Management Limited	Asset Management	W	n/a
303	n/a	Sri Lanka	n/a	First Global Investments Group	Islamic Banking Solutions	W	n/a
303	281	Sri Lanka	n/a	ABC Investments	n/a	W	n/a
303	281	Sudan	n/a	El Nilein Industrial Development Bank	Commercial and Investment Bank	S	n/a
303	281	Sudan	n/a	Emirates and Sudan Bank	Commercial Bank	S	n/a
303	n/a	Sudan	n/a	Al Salama Insurance Co Ltd	Insurance Company	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1983
n/a	113,940	n/a	2,085	-17.8	1.9	1998
n/a	96,266.4	n/a	1,881.8	-9.7	2.1	1991
n/a	n/a	n/a	n/a	n/a	n/a	Oct97
n/a	n/a	n/a	n/a	n/a	n/a	1997
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Mar93
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	1993

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	Sudan	n/a	Farmers Commercial Bank	Commercial Bank	S	n/a
303	n/a	Sudan	n/a	General Insurance Company (Sudan) Ltd	Insurance Company	S	n/a
303	n/a	Sudan	n/a	The Middle East Insurance Co (Sudan) Ltd	Insurance Company	S	n/a
303	n/a	Sudan	n/a	Arab Sudanese Bank	Commercial & Retail Banking	S	n/a
303	281	Switzerland	31-Dec-08	Credit Suisse	Investment and Private Bank	W	n/a
303	281	Syria	n/a	Albaraka Bank Syria	Commercial Bank	S	n/a
303	n/a	Syria	n/a	Al Aqeelah Takaful Insurance Company	Insurance Company	S	n/a
303	n/a	Syria	n/a	Noor Takaful Insurance	Insurance Company	S	n/a
303	n/a	Syria	n/a	Syrian Qatar Takaful Insurance	Insurance Company	S	n/a
303	n/a	Thailand	31-Mar-07	Bank for Agriculture and Agricultural Cooperative	Specialised Bank	W	n/a
303	281	Thailand	31-Dec-06	The Government Saving Bank	Commercial Bank	W	n/a
303	n/a	Tunisia	n/a	Banque Islamique Zitouna	Commercial Bank	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	Aug-99
n/a	n/a	n/a	n/a	n/a	n/a	1963
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Aug-08
n/a	1,182,171.7	n/a	-69.6	-100.8	-0.01	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Jan-08
n/a	n/a	n/a	n/a	n/a	n/a	Jan-07
n/a	n/a	n/a	n/a	n/a	n/a	Mar-07
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	16,410	n/a	84.5	83	0.5	Oct-99
n/a	19,738.7	n/a	279.3	-7.1	1.4	Dec-98
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	141	UAE	n/a	Finance House PJSC	Finance Company	S	n/a
303	281	UAE	31-Dec-08	Shuaa Capital	Investment Company	W	n/a
303	281	UAE	31-Dec-08	Abu Dhabi Commerical Bank	Commercial Bank	W	n/a
303	n/a	UAE	31-Dec-08	Al Ain Ahlia Insurance Co	Insurance Company	W	n/a
303	281	UAE	31-Dec-08	National Bank of Abu Dhabi	Commercial Bank	W	n/a
303	281	UAE	n/a	Amlak Investments	Investment Company	S	n/a
303	281	UAE	n/a	Al Safwa Islamic Financial Services	Stock and Commodity Brokers	S	n/a
303	281	UAE	n/a	Sharjah Islamic Financial Services	Stock and Commodity Brokers	S	n/a
303	281	UAE	n/a	Al Wifaq Finance Company	Credit and Finance	S	n/a
303	281	UAE	31-Dec-08	Commercial Bank International	Commercial Bank	W	n/a
303	281	UAE	n/a	Aseel Finance	Credit and Finance	S	n/a
303	281	UAE	n/a	Al Hilal Bank (the Crescent Bank)	Credit and Finance	S	n/a
303	281	UAE	n/a	Emirates Financial Services	Credit and Finance	W	n/a
303	n/a	UAE	n/a	Takaful Re Ltd	Insurance Company	S	n/a
303	281	UAE	n/a	UBS Islamic Finance	Commercial and Private Banking	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	Mar-04
n/a	1,192.5	n/a	-161.5	-249.3	-11.6	2006
n/a	40,252.9	n/a	370.1	-34.8	1.1	2006
n/a	593.7	n/a	39.201	-30.8	7	n/a
n/a	44,864.9	n/a	1,037.5	45.8	2.5	1968
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	3,058.8	n/a	34.6	-60.3	1.1	Sep-06
n/a	n/a	n/a	n/a	n/a	n/a	Feb-07
n/a	n/a	n/a	n/a	n/a	n/a	Jun-08
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Sep-05
n/a	n/a	n/a	n/a	n/a	n/a	n/a

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	UAE	n/a	Badr Al-Islami Banking	Commercial Bank	S	n/a
303	281	UAE	n/a	Amanah Capital	Investment Bank	S	n/a
303	281	UAE	n/a	Injazat Capital	Investment Bank	S	n/a
303	281	UAE	n/a	National Bonds Corporation	Investment Company	S	n/a
303	281	UAE	n/a	Makaseb Islamic Financial Services	Stock and Commodity Brokers	S	n/a
303	281	UAE	n/a	Ta'jeer Company	Credit and Finance	S	n/a
303	281	UAE	n/a	Tabarak	Credit and Finance	S	n/a
303	281	UAE	n/a	Daman Investments	Investment Company	W	n/a
303	281	UAE	n/a	Al Rayan Investment	Investment Company	S	n/a
303	n/a	UAE	n/a	Oasis Global Fund Manager (Dubai)	Asset Management	W	n/a
303	281	UAE	n/a	Millennium Finance Corporation	Investment Bank	S	n/a
303	281	UK	30-Jun-09	Lloyds Banking Group	Commercial & Retail Banking	W	n/a
303	n/a	UK	n/a	Takafol (UK) Ltd	Insurance Company	S	n/a
303	281	UK	n/a	Ansar Finance Group	Credit and Finance	S	n/a
303	281	UK	n/a	Halal Financial Services	Stock and Commodity Brokers	S	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	2006
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Nov-06
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	n/a	n/a	n/a	n/a	n/a	1988
n/a	n/a	n/a	n/a	n/a	n/a	2004
n/a	n/a	n/a	n/a	n/a	n/a	May-07
n/a	n/a	n/a	n/a	n/a	n/a	2004
n/a	n/a	n/a	n/a	n/a	n/a	1997
n/a	n/a	n/a	n/a	n/a	n/a	2005
n/a	1,518,755.7	n/a	11,900	893.3	n/a	Feb-05
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Oct-94
n/a	n/a	n/a	n/a	n/a	n/a	Jun-05

Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	UK	n/a	Halal Mortgages	Credit and Finance	S	n/a
303	n/a	UK	n/a	British Islamic Insurance Holdings	Insurance Company	S	n/a
303	n/a	UK	n/a	Alburaq	Savins and Home Finance	W	n/a
303	201	UK	n/a	European Finance House	Asset Management & Corporate Finance	S	n/a
303	281	UK	n/a	HBOS	Commercial & Retail Banking	W	n/a
303	281	UK	31-Dec-08	Barclays	Commercial & Retail Banking	W	n/a
303	281	UK	31-Dec-08	Royal Bank of Scotland	Commercial & Retail Banking	W	n/a
303	281	UK	n/a	United National Bank	Commercial & Retail Banking	W	n/a
303	281	UK	n/a	Dawney Day Global Investment	n/a	W	n/a
303	281	UK	n/a	IBJ International London	n/a	W	n/a
303	n/a	UK	n/a	J Aron & Co	Commodity Trading	W	n/a
303	281	UK	n/a	Standard Chartered Saadiq	n/a	W	n/a

% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	2009
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Feb-08
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	4,106,058	n/a	12,070	-15.1	0.3	n/a
n/a	4,437,386	n/a	-16,254	-190.6	-0.4	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

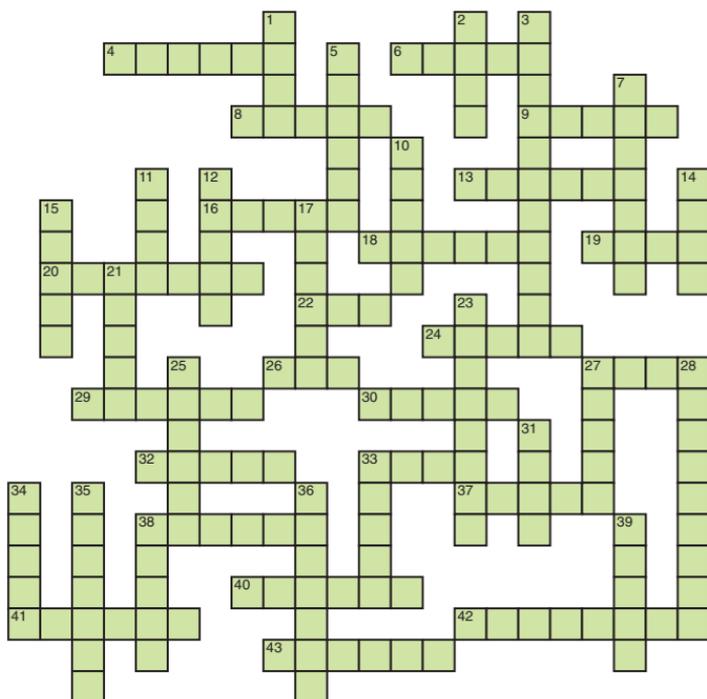
Ranking		Country	Date of result	Institution	Type of institution	S: full Islamic banks, W: Islamic windows	Sharia-compliant assets US\$m
Latest	Previous						
303	281	UK	31-Mar-08	Bristol & West	Mortgage Provider	W	n/a
303	n/a	UK	31-Mar-08	West Bromwich Building Society	Mutual Building Society	W	n/a
303	281	US	n/a	Ameen Housing Co-operative	Credit and Finance	S	n/a
303	281	US	n/a	American Finance House, La Riba	Finance House	S	n/a
303	281	US	n/a	Anchor Finance Group	Finance House	S	n/a
303	281	US	n/a	Bank Of Whittier	Commercial Bank	W	n/a
303	281	US	n/a	Calyx Financial	Finance House	W	n/a
303	281	US	30-Jun-09	Devon Bank	Commercial Bank	W	n/a
303	281	US	n/a	Guidance Financial Group	Finance House	S	n/a
303	281	US	n/a	Reba Free LLC	Finance House	S	n/a
303	281	US	n/a	Shape Financial Corp	Finance House	S	n/a
303	281	US	n/a	Shariah Capital Inc	Finance House	S	n/a
303	281	US	n/a	Wafra Investment Advisory Group, Inc	Finance House	W	n/a
303	281	US	n/a	Capitas Group LLC	Finance House	S	n/a
303	n/a	US	30-Sep-06	World Relief	Non Profit Inst	W	n/a
303	281	Yemen	n/a	The International Islamic Union Bank	Commercial and Investment Bank	S	n/a

The Banker, November 2009, "Top 500 Islamic Financial Institutions", pp. 34–50
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% change	Total assets US\$m	% of sharia-compliant assets to total assets	Pre-tax profits US\$m	% change	Return on assets (%)	Year started service
n/a	258.8	n/a	11.1	5769.8	0.03	n/a
n/a	18,999.2	n/a	63.7	52.3	0.3	n/a
n/a	n/a	n/a	n/a	n/a	n/a	1996
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	Apr-05
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	304.9	n/a	n/a	n/a	0	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	24.4	n/a	n/a	n/a	n/a	n/a
n/a	0.000	n/a	n/a	n/a	n/a	2009

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Islamic Banking Crossword



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ACROSS

- 4 A follower of Islam
 6 Islamic leasing
 8 Ship of the desert
 9 Arabic money
 13 Uncertainty in Islam
 16 The Arabic name for God
 18 Capital city of Bahrain
 19 Islamic Law
 20 Pillar of Islam
 22 Multilateral development bank in Jeddah (acronym)
 24 Nature of Islamic calendar
 26 Islamic holiday
 27 Religious leader in the Muslim community
 29 Saying of the Prophet
 30 Pillar of Islam
 32 Religious ruling

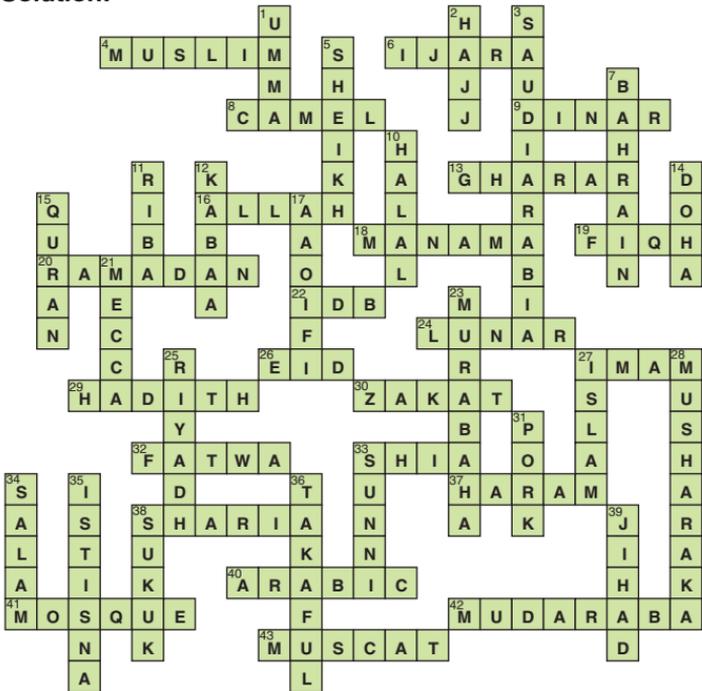
- 33 Dominant sect in Iran
 37 Forbidden in Arabic
 38 Source of rules governing daily life of Muslims
 40 Language of prayer
 41 Place of worship
 42 Profit share technique
 43 Capital city of Oman

DOWN

- 1 The nation of Islam
 2 Pillar of Islam
 3 Location of the two holiest sites in Islam (2 words)
 5 An Arab chief
 7 Largest Islamic banking centre
 10 Permissible in Arabic
 11 Excess
 12 The Sacred House

- 14 Capital city of Qatar
 15 Holiest book in Islam
 17 Islamic accounting body
 21 Holiest city in Islam
 23 Cost-plus sale
 25 Capital city of Saudi Arabia
 27 To submit
 28 Partnership mode of finance
 31 Forbidden chops
 33 Dominant sect in Islam
 34 Forward sale contract
 35 Project financing technique
 36 Islamic insurance
 38 Islamic Bond
 39 To struggle and strive to practise Islam

Solution:



Index

- AAOIFI *see* Accounting and Auditing
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