

# A STUDY OF INTEREST FREE BANKING

## TRENDS IN THE WORLD

Thesis submitted to the  
Institute of Social Sciences  
in partial fulfillment of the requirements  
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by  
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To My Dear Family, DOOPLY  
Ismail mahmood DOOPLY (FATHER),  
Katizabibi DOOPLY (MOTHER),  
Shainaazid DOOPLY (YOUNGER SISTER),  
Shakeer DOOPLY (YOUNGER BROTHER)  
Aung THEIN @ Bilal DOOPLY

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1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.
2. The program of advanced study of which this thesis is part has consisted of:
  - i) Research Methods course during the undergraduate study
  - ii) Examination of several thesis guides of particular universities both in Turkey and abroad as well as a professional book on this subject.

Aung THEIN

January, 2012

# **ABSTRACT**

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## **A STUDY OF INTEREST FREE BANKING TRENDS IN THE WORLD**

It is commonly explained the interest free banking trends in both Muslim and Non Muslim countries in five different kinds of region and after 2008 global financial crisis situation. In this thesis, it is developed historical, qualitative and quantitative distinctions about interest free banking system between Muslim and Non Muslim countries. Upon presenting the definition of interest and its kinds, it is also presented the interest-free banking system and financial policies, what the Islamic banking is, how interest free banking works, differences between interest free banking and conventional bank, modes of financing in Islamic banking and system components. The results show that Islamic banking system will grow in the future in both Muslim and Non Muslim countries. The results also show that Islamic banks have not been affected by the global financial crisis substantially but effects of it has been very limited due to the nature of Islamic banking.

Key words: interest, interest free banking, financial crisis

## **KISA ÖZET**

Aung THEIN

Ocak 2011

### **DÜNYADA FAİZSİZ BANKACILIK EĞİLİMLERİ ÜZERİNE BİR ÇALIŞMA**

Bu tezde, dünyanın beş farklı bölgesinde bulunan, Müslüman olan ve Müslüman olmayan ülkelerdeki 2008 küresel mali kriz durumu sonrası faizsiz bankacılık eğilimleri açıklanmıştır. Faiz ve türlerinin tanımlanmasını ardından, faizsiz bankacılık sistemi, mali politikaları, bu sistemin nasıl işlediği, faizsiz bankacılık ve ticari bankacılık arasındaki farklar, İslami bankacılıkta yatırım araçları ve sistem bileşenleri, Müslüman olan ve Müslüman olmayan ülkelerde faiz bankacılık sistemi sunulmuştur. Sonuç bölümünde, İslami bankacılığın gelecekte hem Müslüman olan hem de Müslüman olmayan ülkelerde daha da yaygınlaşacağı vurgulanmıştır; ayrıca, İslami bankacılığın küresel mali krizden büyük oranda etkilenmediği, aksine yapısı gereği bu durumdan çok az etkilendiği araştırmalar sonucu ortaya konmuştur.

Anahtar kelimeler: Faiz, Faizsiz Bankacılık, Finansal Kriz

i.

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## **LIST OF ABBREVIATIONS**

i.e	In other words
WFASs	Western financial accounting standards
ICRS	Islamic corporate reports
IFASB	Islamic Financial Accounting Standard Board
VAS	Value Added Statement
ISRS	Islamic Social Reports
AAOIFI	Accounting and Auditing organization for Islamic Financial Institutions
KFH	Kuwait Finance House
SFA	Statement of financial Accounting
SSB	Shariah Supervisory Board
GCC	Gulf Cooperation Council
TFKB	Turkiye Finans Katilim Bankasi
AMF	Financial Markets Authority
CIS	Common wealth independent State

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## **INTRODUCTION**

Western banking system was introduced into the Muslim countries at a time when they were politically and economically depression in the late 19th century. Muslim people became difficult to engage in trade and other activities without making use of western banking system. Muslim people started to introduce Islamic banking system or interest free banking system in Egypt in 1971. Islamic banking idea continued to develop theoretically until 1975 when the Islamic Development Bank (IDB), Dubai Islamic Bank and Islamic investment Bank. Islamic bank were driven by the Islamic law (Shariah). Islamic law prohibited interest (Riba of Arabic term). There are two type of Riba discussed by Islamic jurists. The first one increased in capital without any service provider and risk taking which is prohibited by the Quran and the second one exchanged the commodity in unequal quantities which is prohibited by the Sunnah.

Starting from 1980s various Islamic banks and Islamic financial institutions have begun their operations in mainly Islamic countries. While the countries of Iran Saudi arabia and Pakistan has decided to apply Islamic banking in the whole banking sector, other countries have permitted Islamic banking institutions operate with the other traditional bank. Malaysia is the first country to issue bonds on Islamic basis. Malaysian goverment allowed conventional bank to offer Islamic instruments. Indonesia(south east asia region), Bangladesh(south region) and Azerbaijan(caucasus region) countries have very high muslim population in muslim country. So the goverment allowed to open Islamic banks as well . Luxembourg is the first country to issue bonds on Islamic basis in non-muslim country and also United Kingdom has the successful Islamic banks in non-muslim country too. India(south region), Thailand(south east asia region) and South africa(africa region) countries have very high muslim population in non muslim country. So the goverment allowed conventional bank to offer Islamic windows as well if they want. Phillipine has firstly started Islamic bank in non muslim

country. United State of America, canada, Australlia, Russia and Japan really interested interest free banking system and islamic economic financial policies because of the 2008 global financial crisis situation.

## **SUBJECT**

The subject of the thesis is to analyze a study of interest free banking trends in the world. These thesis is divided into four chapters in accordance with its subject and aim. The third chapter comprises the scope of the thesis at the same time. In the first chapter, Defination of interest and its kinds comparing with Islamic theroy and western theory, kind of interest in Islam, Usury, Riba in the quran and hadith, Islamic alternative for debt. In the second chapter, Modes of financing in Islamic Banking, Different between interest free bank and conventional bank, accounting policies for Islamic Banks in Some countries. What is the Islamic banking and financial policies, how to work interest free banking system are also examined descriptively. In the third chapter, Brief History of interest free banking system, Diffusion of Islamic Banking, the interest free banking trends in the world explaining with five different kinds of muslim countries regions and non muslim countries regions, 2008 global financial crisis situation did not affect Islamic bank and Islamic banking system can help minimize the difficulty and frequency of such a crisis in the future. In the fourth chapter, the thesis is concluded.

## **AIM**

The aim of this thesis, we have to learn brief history of Interest free banking, how to diffuse interest free banking in selected countries, which non Muslim country firstly started Islamic bond and also which non Muslim country firstly started Islamic bank, How is the situation of Islamic banks in Muslim countries, which countries have Islamic banking system or Islamic window system in conventional bank, commercial bank and central bank. Which non

Muslim countries have really accepted Islamic financial system, what level of Muslim (India) people wanted to invest Islamic bank in non Muslim country, what is the situation of Muslim minority in non Muslim countries, which countries have a best Islamic bank in Muslim countries, what is the situation of 2008 global financial crisis, why was not affected in 2008 global financial crisis in Islamic banks comparing with commercial banks.

## **THE SCOPE OF THE THESIS**

The reader can get all kinds of islamic bank and islamic law in this thesis and also defination of interest in Islam, how to use capital and goods in Islam, Different kinds of interest in Islam, Christian ad Judasim, Different kinds of debt in Islam, modes of financing in Islamic Banking, Different between interest free bank and conventional bank, Islamic economic and financial system. The world financial credit crisis 2008 shows that Islamic banking system was not affected by credit crisis. Islamic banking system operates based on partnership between the client and the banks. There is a social commitment within the Islamic banking and finance. The main scope of the thesis is the Islamic banking trends in the world including five different kinds of Muslim countries region and five different kinds of non Muslim countries region and also financial bubble would not happen both the paying and receiving of interest as well as the artificial creation of money using the process of fractional reserve. The fractional reserve banking lends more money than they actually have in deposits. This is the big problem to make financial bubble.

# CHAPTER I

## DEFINITION OF INTEREST AND ITS KIND

### 1.1 Definition of Interest

Western world people cannot think of any economic system without interest.

#### 1.1.1 Western Theories of Interest

**Adam Smith** condemned an outright legal prohibition of interest. He favored a low rate of interest because this would increase the chance for saving to go into new investments rather than into debts. **Keynes** was also accepted low rate of interest. **Samuelson** states that Interest is the price of rental for the use of money.<sup>1</sup> **Don Patinkin** gives the following definition: "Interest is one of the forms of income from property, the other forms being dividends, rent and profit."<sup>2</sup> **J.M. Keynes** defined the rate of interest "The percentage of excess of a sum of units of money contracted for forward units of time over the spot or cash price of the sum thus contracted for forward delivery"<sup>3</sup>.

Interest was forbidden in the early days of the Roman Empire but appeared with the rise of the merchant class. It was strictly prohibited up to 13 century while the church was important. 16<sup>th</sup> century, the concept of interest gained support with the steady decline of the authority of the church and the rise of secular power. The word "usury" was replaced by "interest" on the request of human weakness<sup>4</sup>.

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<sup>1</sup> Samuelson, P., Economics, 10th Edition, MCGraw Hill, New York, 1976, P.50 (5 January 2011)

<sup>2</sup> Patinkin, D., Studies in Monetary Economics, Harper and Row, New York, 1972, p.118 (5 January 2011)

<sup>3</sup> Keynes, J.M., The General Theory of Employment, Interest and Money, London, 1936, p.22 (5 January 2011)

<sup>4</sup> Qureshi, Iqbal (1970). Islam and the Theory of Interest, 2nd ed., Lahore: Ashraf Publication, page 6-8 (8 January 2011)

**The Abstinence Theory of interest**, means refraining from unproductive use of a resource or sacrificing present over future and argued that interest was the price for the abstinence (not doing something) .Marshall replaced the word "waiting for abstinence"<sup>5</sup>.

**Marginal Productivity theory of interest**<sup>6</sup>, regarded productivity as an inherent property of capital and argued that the productivity of capital is the cause of interest.

**The Austrian Theory of interest**<sup>7</sup> set forth by Bohm-Bawerk is a very powerful theory of interest. He contributed two concepts to the theory of interest (a) the capitalistic mode of production as a time consuming process and (b) capital is nothing but a combination of intermediate goods.

**Fisher's theory of interest**<sup>8</sup> was largely a clarifying restatement of ideas developed originally but less cogently by Bohm-Bawerk. Fisher considered the interest rate "as determined by impatience to spend income and opportunity to invest. He made the distinction between a "nominal rate of interest and a "real rate of interest which corrected the former for price changes.

Conclusion, Western economists about the rationale and role of interest and this makes interest a complex issue in economics. All theories of interest has a weakness .This is so because an efforts has been made to explain something which is difficult to justify<sup>9</sup> .

---

<sup>5</sup> Qureshi, Iqbal (1970). Islam and the Theory of Interest, 2nd ed., Lahore: Ashraf Publication ,P.16-18 (10 January 2011)

<sup>6</sup> The Marginal Productivity Versus the Impatience Theory of Interest: available at [www.jstor.org/stable](http://www.jstor.org/stable) (8 January 2011)

<sup>7</sup> The Austrian Theory of Interest: *Fromchestofbooks.com/finance* (7 January 2011)

<sup>8</sup> Fisher theory of interest: available at [www.sjsu.edu/faculty/watkins/fisher1.htm](http://www.sjsu.edu/faculty/watkins/fisher1.htm) (7 January 2011)

<sup>9</sup> Uzair, Mohammad, (1980), "Some Conceptual and Practical Aspects of Interest – Free banking," in K. Ahmed, ed., Studies in Islamic Economics, Leicester, The Islamic Foundation.(10 January 2011)

### 1.1.2 Islamic Theory of Interest

Socio-economic justice is an important characteristic of a true Muslim society<sup>10</sup>. The Quran and Hadith strongly urges Muslims not to acquire each other's property wrongfully. Riba represents a evident source of unjustified benefit in the value system of Islam<sup>11</sup>. Interest has the same meaning as Riba in accordance with the consensus of all jurists without any exception. Riba has been extended from Raba. We have to know not every increase or growth which has been prohibited by Islam. In *Islamic view Abu Saud defines* interest as "the excess of money paid by the borrower to the lender over and above the principal for the use of the lender's liquid money over a certain period of time".<sup>12</sup>

Table 1 Defination of terms

Term	Definition
Shariah	"The Path", term of Islamic law consists of Islamic instructions based on the Holy Quran and Sunnah
Quran	The holy book of Muslims, delivered by Allah Almighty on His last prophet Muhammad (peace be upon him)
Sunnah	The example of the Prophet Muhammad as contained in his hadiths or sayings, including his actions and silent approval of actions done in his presence
Zakat	Compulsory annual payment/contribution by Muslims according to Islamic principles
Riba	Interest, usury or any additional benefit than principal amount

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 Available online at <http://www.academicjournals.org/AJBM>  
 ISSN 1993-8233 ©2011 Academic Journals (10 January 2011)

<sup>10</sup> Haque, Z., (1989). "Riba and Interest", Journal of Islamic banking and Finance, 6(1),p.7-10. (10 January 2011)

<sup>11</sup> Chapra, Ummer (1985). Towards a Just Monetary System, leicester, United Kingdom, The Islamic Foundation ,P 55( 12 January 2011)

<sup>12</sup> Abu Saud , M., "Money, Interst and Qirad in Islam", *Studies in Islamic Economics*, The Islamic Foundation , Leicester,, UK , 1983. p.64 (15 January 2011)



## 1.2 Kinds of interest

Interest of debts is an extra payment in return for a certain time (or) for the extension of the time. Debt starts from a loan, the price or cost of purchased goods or any other liability<sup>13</sup>.

The extra payment is paid the lender independently of the business (regardless of this outcome being very high, very low, zero or even minus) Business climate is always full of uncertainties and risks due to the continually changing economic, political and natural conditions. So, while a high interest rate naturally causes a lot of damage to the person who pays the interest in the unfavorable market conditions, a low interest rate damages the capital owner, the person who receives the interest in the good market conditions. A balanced result or medium way which both parties are satisfied with is just one of the many possibilities.

Credit interest, which is the first to come into mind when take about interest today and generally in capitalism. There is no different between the interest prohibited by the Koran and today's bank interests, interests of bonds and securities.

Interest of exchange is the kind of interest that occurs when goods and currencies are bought and sold hand to hand or for a fixed term.

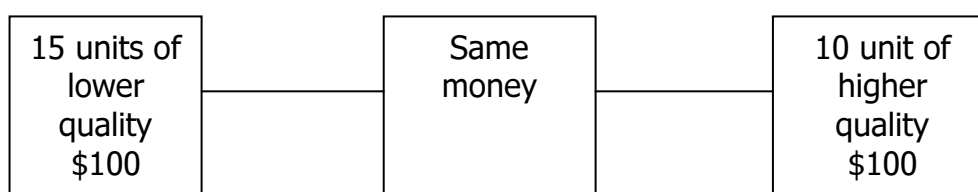
*Sell dates in exchange of equivalent dates, sell wheat in exchange of equivalent wheat, but if a person transacts in excess, it will be usury(Riba). However, sell gold for silver anyway you please on the condition it is hand to hand (spot) and sell barely for date anyway Sell gold in exchange of equivalent gold, sell silver in exchange of equivalent silver, you please on the condition it is hand to hand (spot).*<sup>14</sup>

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<sup>13</sup> Ismail OZSOY, ISLAMIC APPROACH TO INTEREST ,12th world Congress of Accounting Historians,Istanbul-TURKEY,20-24 JULY 2008 , p4 (20 January 2011)

<sup>14</sup> Dr. Muhammad Imran Ashraf Usmani Ph.D. Islamic Finance ,(2002), Meezan bank's Guide to Islamic Banking ,available at Idaratul ma'arif,darul uloom,korangi,Karachi , chapter 2:riba ,its prohibition & classifications (09 December 2011)

The prophet ordered that their market values should be measured not by the goods of the same kind but by money, which is more objective. E.g 10 units of high quality dates with 15 units of low quality dates; instead of the prophet commanded the selling of the lower quality good in hand and the purchase of other high quality good of the same kind with that money. I thought that the quantity will be reduce



Interest of surplus, It is excess in one of the exchanged items when the same kinds of money or goods are exchanged hand to hand in the place market.

Interest of delay, Interest occurs in any forward sale where one or both of the exchanged items have a term except when money is included: it does not matter whether the items are of the same or different kinds, whether the amounts are equal or different.

### **1.3 Usury**

Usury is defined as excessive charging; English Dictionary defines as an excessive or inordinate premium for the use of money borrowed or the practice of taking exorbitant<sup>15</sup>. In Arabic\Turkish language, Fayda means not interest and usury means Riba.

---

<sup>15</sup>Usury : available at <http://www.submission.org/islam/usury.html> (30 January 2011)

### Usury(Riba) in Islam

Riba<sup>16</sup> means one of the sense of usury. Riba is forbidden in Islamic economic jurisprudence fiqh and considered as a religious. There are two types of riba discussed by Islamic jurists 1. an increase in capital without any services provided and risktaking which is prohibited by the Quran and 2. Commodity exchanged in unequal quantities which is prohibited by the Sunnah.

### Usury(interest) in Christianity

Usury<sup>17</sup> is the practice of charging excessive and often illegal interest rates on loans. The charging of interest was still forbidden by Christian churches, usury simple meant the charging of interest at any rate. In countries where the charging of interest became acceptable, the term came to be used for interest above the rate allowed by law.

### Usury (neshekh/marbit/tarbit/ribbit) in Judaism

The biblical Hebrew<sup>18</sup> terms for interest are neshekh (bite) and marbit/tarbit which specifically refers to the gain by the creditor. Neshekh referred to interest that was charged by deducting it from the loaned money itself .while marbit/tarbit referred to interest that was charged by adding it to the amount due to be repaid. The word marbit/tarbit became ribbit in later Hebrew and Modern Hebrew.

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<sup>16</sup> Riba available at [www.en.wikipedia.org](http://www.en.wikipedia.org) (17.02.2012)

<sup>17</sup> Usury available at [www.en.wikipedia.org](http://www.en.wikipedia.org) (17.02.2012)

<sup>18</sup> Loans and interest in Judaism available at [www.en.wikipedia.org](http://www.en.wikipedia.org) (17.02.2012)

## **1.4 Riba in the quran and hadith**

### **Riba in the quran**

First Revelation (Sūrah al-Rūm, verse 39)

That which you give as interest to increase the people wealth increase not with God; but that which you give in charity, seeking the goodwill of God , multiplies manifold . (30:39)

Second Revelation (Surah al-Nisa , verse 161)

And for their taking interest even though it was forbidden for them, and their wrongful appropriation of other people's property, We have prepared for those among them who reject faith a grievous punishment (4:161)

Third Revelation (Surah Al `Imran, verse 130-2)

O believers, take out doubled and redoubled interest and fear God so that you may prosper. Fear the fire which has been prepared for those who reject faith, and obey God and the Prophet so that you may receive mercy. (3: 130-2)

Fourth Revelation (Surah al-Baqarah, verse 275-6)

Those who benefit from interest shall be raised like those who have been driven to madness by the touch of the Devil; this is because they say: "Trade is like interest" while God has permitted trade and forbidden interest.<sup>19</sup>

Fifth Revelation (Surah al-Baqarah, verse 278-9)

O you (who claim to be) believers! Fear God and give up riba that remains outstanding if you are true believers. Watch out! If you do not obey this commandment, then God declares war against you from Himself and from His Prophet. But, if you give up your outstanding riba, then you can claim your principals. Neither should you inflict harm (due to riba) to others, nor others should do harm to you.

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<sup>19</sup> Towards a Just Monetary System,"A discussion of money, banking and monetary policy in the light of Islamic teachings "M UMER CHAPRA THE ISLAMIC FOUNDATION 223 LONDON ROAD LEICESTER, UK. Book gets from Fatih university library (1 February 2011)

### **Riba in the hadith**

Abu Hurayrah: The Prophet, peace be upon him, said: "There will certainly come a time for mankind when everyone will take riba and if he does not do so, its dust will reach him." (*Abu Dawud, Kitab al-Buyu, Bab fi ijtinabi al-shubuhah; in Ibn Majah*)

Abu Hurayrah: The Prophet, peace be upon him, said: "God would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes riba, he who usurps an orphan's property without right, and he who is undutiful to his parents." (*Mustadrak al-hakim, Kitab al-Buyu*)

The Prophet said: "In any society, when riba becomes common, it causes hunger and poverty in it. And in any society, when bribery becomes common, it makes it depressed (as compared to other nations)."<sup>20</sup>

The Prophet said: "While exchanging gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, exchange like for like (in equal measure) and exchange at spot. Whosoever paid more than what he received or demanded more than what he gave, verily he dealt in riba. Both the payee and the receiver are equal in violating the Law of God."<sup>21</sup> (Muslim 2971)

Two traders asked the Prophet about their mutual barter trade. He said: "If it is at spot, it is all right. But, if it involves loaning then it is not permissible."<sup>22</sup>

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<sup>20</sup> Shafi, Mufti Muhammad (1996) [*The Issue of Interest*] in Urdu language Idara Muarif, Karachi (Pakistan) (5 February 2011)

<sup>21</sup> Muslim: From <http://www.adithcollection.com/sahihmuslim/>...Sahih%20Muslim%20Book%20(5 February 2011)

## **1.5 Some issues of interest**

### **1.5.1 Goods Subject to interest**

#### **Fungible goods**

As goods of interest, the basic features of fungible goods are as follows:

- (a) They can be objectively measured by commonly accepted units of measure,
- (b) When they are exchanged with/for each other, they can be compared with each other if they are of the same kind, and
- (c) Thus, it is possible to determine that the exchanged items are equal or either is fewer/less or more than the other.

#### **Non fungible goods**

Non fungible goods are not freely exchangeable for or replaceable by, another of the like nature or kind in the satisfaction of a financial obligation. For example, a horse can be changed for a car hand to hand but not on a forward/deferred basis.

### **1.5.2 The right of the capital**

Islam does not deny the right of the capital that causes increase in the outcome by being engaged in the production process. The prohibition of interest to the capital by Islam does not mean that the capital does not have a cost, that is opportunity cost and it is not given any share from the outcome.<sup>23</sup> What Islam prohibits is the fixed income allocated to the capital at the beginning, independent of the result of the production.

The first one is to increase his capital by adding for the production and circulation. The second way is to give his capital for entrepreneur and bear

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<sup>22</sup> Shafi, Mufti Muhammad (1996) [*The Issue of Interest*] in Urdu language Idara Muarif, Karachi (Pakistan) (5 February 2011)

<sup>23</sup> Ahmad, Ausaf, Contemporary Practices of Islamic Financing Techniques, Jeddah 1412H(1993),p.17 (10 February 2011)

the risk having shared profit and loss; having shared the profit at the end of the activity if it has turned out to be profitable or share the loss if it has turned out to a loss.

### **1.5.3 Interest for the Purpose of Production or Consumption**

“Some of these tradesmen carried out their commercial activities using their own capital stock, some by borrowing money at interest, and others traded in the goods of other people and shared the profit. In fact, The Prophet took part in these journeys, traded in the goods of the rich Meccan woman Khadijah, whom he later married, and shared the profit<sup>24</sup>.” Whether the loans are taken for the purpose of production or consumption. The interest taken with the purpose of consumption is harmful.

Commercial interest (Tijarti Sood): Interest paid on loan taken for productive & profitable purpose<sup>25</sup>

Interest free loan is the ideal Islamic alternative of interest. As interest is a giving device, its alternative can only be an interest-free giving device just as the only alternative of zina is nikah. Surprisingly present Islamic economists and bankers do not realize that interest cannot be finished without providing interest-free loan facility to loan seekers just as zina cannot be finished without providing nikah facility to all men and woman<sup>26</sup>.

### **1.5.4 Relation between Inflation and Interest**

First, the loss of value in money due to the inflation is calculated by on the day of repayment according to the realized rate of inflation for the past period. This explanation is accepted by the majority of the jurists.

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<sup>24</sup> **Abu Zehra**, Muhammed, **Tahreem al-Riba Tanzeem al-Iktisadi**, Maktaba al-Manan, Kuveyt, p. 41-5 (11 Feburary 2011)

<sup>25</sup> Dr. Muhammad Imran Ashraf Usmani , Ph.D. Islamic Finance ,(2002), “ Meezan bank’s Guide to Islamic Banking” ,available at Idaratul ma’arif,darul uloom,korangi,Karachi , chapter 7: Commercial interest and (11 Feburary 2011)

<sup>26</sup> Khan Abdul Wadood , Prohibition of interest in islam and role of Islamic banks in eliminating interest : From <http://www.realislamicbanking.com> ,page 2 , (11 Feburary 2011)

Second, the future rate of inflation cannot be known or estimated in advance. So it is not permitted to take for future inflation money from now. This condition will be interest.

In short, interest is a *prospective transaction* that is intended to be valid for the future period, the compensation for the loss of value in money is a *retrospective transaction* that is applicable to the past. Therefore it is completely wrong to establish a connection between interest and inflation in that sense<sup>27</sup>.

### **1.5.5 Relation between “Increased Future Price” and Interest**

If a certain price out of different prices for various terms offered by the seller is accepted by the buyer during the bargaining by starting that “this term, this price” and is agreed by the seller, then this increased future price is permissible and interest does not occur by any means in this transaction. This is not like the case with which a 100 liras is sold, or lent, for a 110 liras for a certain term ; because this is like selling, say, 1 meter for 11 cm for a term. And this is a clear interest forbidden by Islam. If the good is sold for a future 110 liras instead of cash 100 liras, here 10 liras exactly corresponds to the increase in the value of the good because of demand and supply conditions<sup>28</sup>.

### **1.5.6 Comparison of Interest with Rent**

If the thing is non-consumable and capable of being used without changing its essence and without damaging its intactness, the advantage would be a good consideration for the wage. This advantage may be a service rendered

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<sup>27</sup> ÖZSOY İsmail, Türkiye’de Katılım bankacılığı , Asya Finans Kültür Yayınları:1 İstanbul, Ekim 1997 (ISBN 975-6949007)P.12 (15 February 2011)

<sup>28</sup> ÖZSOY İsmail, Türkiye’de Katılım bankacılığı , Asya Finans Kültür Yayınları:1 İstanbul, Ekim 1997 (ISBN 975-6949007)P.12 (15 February 2011)



by persons or a usufruct<sup>29</sup> (right to use) of things. On the other hand, the borrowed/rented thing is consumable and perishes when it is used. The rental paid using amount of money and perishing amount of money. This excess (perishing amount of money) is not interest, it is called rental<sup>30</sup>. On balance predetermined amount of rent would be a kind of riba. The landlord did not know how the actual yield from land the same way as the banker did not know actual return from business<sup>31</sup>.

### **1.5.7 Comparison of Interest with profit**

When the owner of capital participates in a business only with his capital, he has to take risks of loss in that business to deserve a profit. Therefore, profit can be seen as the return for bearing risk. The business can be see profit is a result of a positive result, interest has nothing to do with the result of the business regardless it is positive or a negative sum game.

In profit, when the investment results in a loss, the owner of capital is directly affected by it, whereby the community is indirectly affected. In interest, when there is a loss, capital is not affected by it, although that loss directly concerns the capital itself and all the community is affected by it.

Interest payment cannot be shown in normal life and macroeconomic level. Today, Savings largely come from the middle classes who contribute to pension funds, take insurance policies, buy units and put money in fixed

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<sup>29</sup> Usufruct is a legal right to use and enjoy the profit of any property belonging to someone else provided that the property itself is not injured or damaged in any way.

<sup>30</sup> Homoud, op. cit. p. 133-34 (30 February 2011)

<sup>31</sup> Hasan, Zubair (1983), .Theory of Profit: The Islamic Viewpoint., *Journal of Research in Islamic Economics*, Vol. 1, No. 1 pp. 1-16. (30 February 2011)

Hasan, Zubair (2002): .Maximization Postulates and Their Efficacy for Islamic Economics.; *American Journal of Islamic Social Sciences*, Volume 19, No. 1 pp. 95-118. (30 February 2011)

Hasan, Zubair (2006): .Labor as a Source of Value and Capital Formation: Ibn Khaldun, Ricardo, and Marx . A Comparison.; JKAU: Islamic Economics, Vol. 20, No. 2 (1 March 2011)

deposits. Saving small goes to be the successful business man. If man made business. Interest rates are kept low<sup>32</sup>.

### **1.5.8 Voluntary Extra Payment (husn-I eda)**

The extra payment made voluntarily by the debtor without being conditioned beforehand is not regarded as interest<sup>33</sup>. As a matter of fact the Prophet paid his creditor an extra amount. The reason why it is not regarded as interest is that one of the parties did not propose anything to this effect and the extra payment is completely voluntary. It is obvious that an extra payment made voluntarily cannot be regarded the same as a compulsory payment based on a mutual agreement<sup>34</sup>.

### **1.5.9 Interest and Football**

Ozsoy explain that We can resemble the interest mechanism to a football game that has so strange rules as that A Team – standing for capital- is decided to have scored virtual, say, three goals at the beginning of the game. However, it cannot score any more goals and it will only defense its goal against the attacks of the B Team – standing for labor-entrepreneur- As for B Team, even if it actually scores two goals, it is still taken to be defeated. It can win the game only if it scores at least four goals. Even when the score is 4-3 for B Team, it may not be a fair result for A Team since it might have scored more than three goals if it were not limited to virtual three goals, Is it possible to get any just and fair result from such as football game?<sup>35</sup>

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<sup>32</sup> Hasan, Zubair (1975); *Theory of Profit*; New Delhi; Vikas Publishing House (Out of print) (3 March 2011)

<sup>33</sup> Bilmen , Ömer Nasuhi, *Hukuk-i İslamiyye ve İstilahat-ı Fikhiyye Kamusu*, Bilmen Yayınevi, İstanbul, without date, VI, p. 100. (5 March 2011)

<sup>34</sup> OZSOY Dr İsmail , *ISLAMIC APPROACH TO INTEREST 12<sup>TH</sup> WORLD CONGRESS OF ACCOUNTING HISTORIANS*, Department of Economics, Fatih university, Istanbul, TURKEY, ISTANBUL-TURKEY, 20-24 JULY 2008, p.13(3 March 2011)

<sup>35</sup> OZSOY İsmail , "Islamic Banking : Background , Theory and Practice", Department of Economics, Fatih university, Istanbul, TURKEY, ISTANBUL , p. 7 (10 March 2011)

Determining a fixed interest rate for capital and limiting income is not fair for B Team (standing for labor-entrepreneur) . So we can say that the prohibition of interest by Islam has its origins in the ultimate sensitivity of the Quran to 'right' and its protection, with an all- embracing vision.

## **1.6 Islamic alternative for debt**

Interest is not a subject without trade and commerce. Islam encourages trade and commerce to make lawful (halaal) boundary. Islam already showed a complete set of rules for trade and commerce. Islam has encouraged men to earn their own provision and to provide it to their families<sup>36</sup>.Islamic rules of trade and commerce according to the conditions set by the Shariah. This all rules can be found in the books of jurisprudence. Interest is related all this conditions which all dealing must be free from.

### **1.6.1 Islam discourages heavy debt**

Islamic point of view, accruing debt is a serious matter and should not be undertaken except in cases of real necessity. You get debt providing finance to do so in a responsible manner and to not overburden borrowers.

*"Eat and drink, but waste not by excess, for God loveth not the prodigals".(7:31)*

*Squander not wastefully, surely the squanderers are the devil's brethren."(17:26-27)*

It is worth emphasizing that incurring debt to fund luxury and extravagance is contrary to core Islamic values that condemn excess and waste.

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<sup>36</sup> Darul-Uloom, Bury, UK ,p.1 :available at <http://www.kantakji.com/figh/Files/Riba/intrst.htm> (15 March 2011)

### **1.6.2 Islam encourages debt forgiveness**

The quran and hadith is strongly prohibited debt cancellation (who is genuinely unable to meet debt payments).

“If the debtor is in difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, that is best for you if you only knew”(2:280)

The prophet Muhammad (peace be upon him) said, “If anyone would like Allah to save him from the hardships of the Day of Resurrection, he should give more time to his debtor who is short of money, or remit his debt altogether.” (reported by Muslim)

### **1.6.3 Islam stimulates wage forgiveness**

Ibn Khaldun, Adam Smith, David Ricardo and Karl Marx all agreed that labor combining with nature was alone the source of value and capital formation. Islam commands that workers must have the fairest possible chance under the contract to receive their due share in output.

Islamic insistence on the right to sustenance and fulfillment of basic needs must inspire the measure. The outcome of economic activity is uncertain sharing the route to justice for the participants. In manufacturing workers must have a share in profits because market determined wages can be shown commensurate with what labor contributes to output<sup>37</sup>.

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<sup>37</sup> Online at <http://mpra.ub.uni-muenchen.de/8129/> MPRA Paper No. 8129, posted 08. April 2008 / 07:13 ,Hasan Zubair International Islamic Univeristy, Malaysia (IIUM) Theory of profit from Islamic perspective 2008(20 March2011)

## **CHAPTER II**

### **INTEREST FREE BANKING SYSTEM AND FINANCIAL POLICIES**

#### **2.1 Introduction**

Islamic economics favors a genuine free market where prices are freely determined by supply and demand, profit maximization in Islamic banking and other economic activities is only limited by social and moral values<sup>38</sup>. All three major revealed religions e.g Islam, Christianity and Judaism have strongly condemned and prohibited interest (Riba). So we have to know the prohibited interest (Riba). Interest free banking is operated by the principles of Islam. Interest free banking made the equal distribution of income and wealth.

#### The general knowledge of interest free banking

Interest free banking is defined as banking system which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept representing a number of banking instruments or operations which avoid interest. Interest free banking avoids unethical and un-social practices. In practical sense, Interest free Banking is the transformation of conventional money lending into transactions based on actual assets and real services. The model of interest free banking system leads towards the achievement of a system which helps achieve economic wealth<sup>39</sup>.

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<sup>38</sup> ISLAMIC BANKING:BACKGROUND,THEORY AND PRACTICE Prof.Dr .Ismail OZSOY.Department of Economics, Fatih university, Istanbul, TURKEY p. 25 (25 March 2011)

<sup>39</sup> Ahmad Imran and Shabbir Ghulam ,Islamic banking artical,Islamic Banking Department Stat Bank of Pakistan , Karachi p.4 (30 March 2011)

## 2.2 Modes of financing in Islamic Banking

Islamic banks have to be equity oriented. The losses are shared by the financier along with the entrepreneur in the ratio of their respective capitals. The profits are shared in an agreed ratio.

### Participatory modes of finance

- (a) Mudarabah(profit and loss sharing)
- (b) Musharakah(equity participation)

### Non participatory modes of finance<sup>40</sup>

- (a) Murabaha(cost-plus or mark up)
- (b) Musawamah(the negotiation of a selling price)
- (c) Salam(a contract in which advance payment is made for goods to be delivered later on)
- (d) Istisna
- (e) Ijarah thumma albai(hire purchase)
- (f) Ijarah-wal-Iqtina
- (g) Juala(Loans with a service charge)

### Sub contracts

- (a) Wakalah(power of attorney)
- (b) Kafalah(guarantee)
- (c) Rahn

### Participatory modes of finance

- (a) Mudaraba (Profit and loss sharing)

Mudarabah is an arrangement between capital and labor in the Islamic View that it should not be only the borrower who bears all the risks and costs of a

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<sup>40</sup> Ahmad Imran and Shabbir Ghulam ,islamic banking artical,Islamic Banking Department Stat Bank of Pakistan , Karachi p19 (30 March 2011)

failure in business, resulting in a balanced distribution of income and not allowing lender to monopolize the economy<sup>41</sup>.

(b) Musharakah (joint venture or equity participation)

Musharakah is a partnership contract by the mutual consent of the parties for sharing of profits and losses in a joint business. The profit is distributed among the partners in pre-agreed ratios, while the loss is born by each partner strictly in proportion to respective capital contributions.

Non participatory modes of finance

(a) Murabaha(cost-plus or mark-up)

Conventional Bank

The bank finances the purchase of a good or asset by buying it on behalf of its client and adding a mark-up before reselling it to the client on a cost-plus basis. Mark-up is just another term for interest as charged by conventional banks.

Interest free banking

Interest free banking are regarded as quite different from those of a conventional bank .Lends money bought the good. It looks likes collaterals and mortgages. *Mark-up* where the bank buys an item for a client and the client agrees to repay the bank the price and an agreed profit later on.

(b) Musawamah(the negotiation of a selling price)

*Musawamah* is the negotiation of a selling price between two parties without reference by the seller to either costs or asking price<sup>42</sup>. While the seller may

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<sup>41</sup>A.L.M. Abdul Gafoor , ISLAMIC BANKING article , p 4 (1 April 2011)

<sup>42</sup> Islamic bank, available at [http://en.wikipedia.org/wiki/Islamic\\_banking](http://en.wikipedia.org/wiki/Islamic_banking)

or may not have full knowledge of the cost of the item being negotiated, they are under no obligation to reveal these costs as part of the negotiation process. This difference in obligation by the seller is the key distinction between Murabahah and Musawamah with all other rules as described in Murabahah remaining the same. Musawamah is the most common type of trading negotiation seen in Islamic commerce.

(c) BaiSalam

*Bai salam* means a contract in which advance payment is made for goods to be delivered later on<sup>43</sup>. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute. The objects of this sale are goods and cannot be gold, silver, or currencies based on these metals. Barring this, Bai Salam covers almost everything that is capable of being definitely described as to quantity, quality, and workmanship.

(d) Istisna

It is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance future delivery or future payment. Price can be paid in installment step by step as agreed between the parties<sup>44</sup>.

(e) Ijarah thumma albai(Hire-purchase)

where the bank buys an item for the client and hires it to him for an agreed rent and period, and at the end of that period the client automatically becomes the owner of the item<sup>45</sup>.

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<sup>43</sup> Islamic bank, from [http://en.wikipedia.org/wiki/Islamic\\_banking](http://en.wikipedia.org/wiki/Islamic_banking)

<sup>44</sup> SBP Publication, 'Islamic Banking and Finance: Theory and Practice' by Muhammad Ayub, Sr. J.D. IBD, SBP(30 March 2011)

<sup>45</sup> A.L.M. Abdul Gafoor , ISLAMIC BANKING artical ,p5 (1 April 2011)



(f) Ijarah-wal-Iqtina

A contract under which an **Islamic bank** provides equipment, building, or other assets to the client against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The undertaking or the promise does not become an integral part of the lease contract to make it conditional. The rentals as well as the purchase price are fixed in such manner that the bank gets back its principal sum along with profit over the period of lease<sup>46</sup>.

(g) Juala (Loans with a service charge)

Islamic bank does not normally lend money except interest-free loans which are termed as Benevolent loans while loans on service charge, not exceeding the actual administrative cost of such loans have also been permitted by Muslim Scholars<sup>47</sup>.

Islamic bank's own money is not involved are provided on a commission or charges basis.

Service Charge<sup>48</sup>:  $E \times A$

where

E: Administrative expenses during the year

A: Average assets during the year

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<sup>46</sup> [http://en.wikipedia.org/wiki/Islamic\\_banking#Wakalah\\_.28power\\_of\\_attorney.p.29](http://en.wikipedia.org/wiki/Islamic_banking#Wakalah_.28power_of_attorney.p.29) (5 April 2011)

<sup>47</sup> Dr. Shahid Hasan Siddiqui, Islamic Banking: True Modes of Financing, Eminent Pakistani Banker & Economist, p 2 (10 April 2011)

<sup>48</sup> AUSAF AHMAD, CONTEMPORARY PRACTICES OF ISLAMIC FINANCING TECHNIQUES, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia, page 36 (15 April 2011)

## Sub contracts

### (a) wakalah (power of authority)

A contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually against a certain fee<sup>49</sup>.

### (b) Kafalah(guarantee)

Kafalah means responsibility, amenability or suretyship. Legally in Kafalah a third party becomes surety for the payment of 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 or the assumption only of a liability and not of the debt<sup>50</sup>.

### (c) Rahn(Pledge, Collateral, Legally)

Rahn means physical property of material value, in accordance with the law 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<sup>51</sup>. In the pre-Islamic time, Rahn is the type of money which was lodged as a guarantee and material evidence or proof of a contract. Rahn was not accepted in Islamic law and the common Islamic doctrine recognized Rahn only as a security for the payment of a debt. Rahn cannot wirt with paper.

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<sup>49</sup> Islamic Banking and Finance: Theory and Practice'by Muhammad Ayub, Sr. J.D. IBD, SBP publication p.7 (15 April 2011)

<sup>50</sup> Islamic Banking and Finance: Theory and Practice' by Muhammad Ayub, Sr. J.D. IBD, SBP publicaition p.7 (15 April 2011)

<sup>51</sup> Islamic Banking and Finance: Theory and Practice' by Muhammad Ayub, Sr. J.D. IBD, SBP publication p7 (15 April 2011)

## 2.3 Different between interest free bank and conventional bank

Table 2 Different between Islamic banking and Conventional bank

Main difference	Islamic bank	Conventional bank
Principles	Islamic banks follow the Principles of Sharia'h given by Allah Almighty to perform operations and activities.	Conventional banks follow man made principles to perform operations and activities.
Source of earnings	Profit, service charges and consultancy fee is the main source of earnings of Islamic banks. Profit is variable which may be negative in case of loss.	Interest is the main source of income for conventional banks that is charged on different types of loans/products.(Difference between interests charged from borrowers and paid to depositors).It assures a predetermined rate of interest.
Risk sharing	Risk is shared among borrower, lender and bank.	Risk is fully transferred to others.
Profit maximization	It aims at maximizing the profit but subject to principles of Sharia'h.	It aims at maximizing the profit without any restriction even at the cost of other stakeholders.
Objectives	Islamic bank works as a trading concern to generate its income.	It generates income as financial intermediary. Its prime goal is the maximization of shareholders' value at any cost.
Nature of earnings	Income of Islamic banks varies depending upon business borrowers and environment. It may be negative in case of loss	Income of conventional bank is constant even if business borrowers suffer from loss because it charges fixed rate of interest irrespective of profit volume

Source: African Journal of Business Management Vol. 5(5), pp. 1763-1767, 4 March, 2011  
Available online at <http://www.academicjournals.org/AJBM>

ISSN 1993-8233 ©2011 Academic Journals

Interest is set as a compound rate per unit of time. Just as there is a remarkable different between accounting profit and economic profit; there is an essential difference between profit charged by an interest free banking

and interest charged by a conventional bank. Interest free banking may change a fixed mark up in murabaha financing, the thing provided may not be repossessed, payment delays/ defaults will not justify any compensatory claims and the client may not claim rebates for early settlement. Of course, the bank can make resource to some covers in order to protect its financing. The studies suggest that banks in an Islamic system face fewer solvency and liquidity risks than their conventional counter parts. Islamic banking services are able to provide nearly all the service available in the conventional banks. The non-payment of interest on deposit accounts seems to be no serious problem. Bank Lending is limited to either no-cost loans including overdrafts or loans with service charges only. Interest free banking are expected to engage in investment and trade financing activities only on a profit-loss sharing basis<sup>52</sup>

- 1 Participating in long-term low-yield projects.
- 2 Financing the small business man
- 3 Granting non-participating loans to running businesses
- 4 Financing government borrowing

These four points is difficult to finance under the profit and loss sharing.

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<sup>52</sup> Ozsoy ismail, 'ISLAMIC BANKING: BACKGROUND, THEORY AND PRACTICE' Prof. Dr. Department of Economics, Fatih University, Istanbul, TURKEY, ([jozsoy@fatih.edu.tr](mailto:jozsoy@fatih.edu.tr))p.5 (16 April 2011)

## 2.4 Interest free banking system

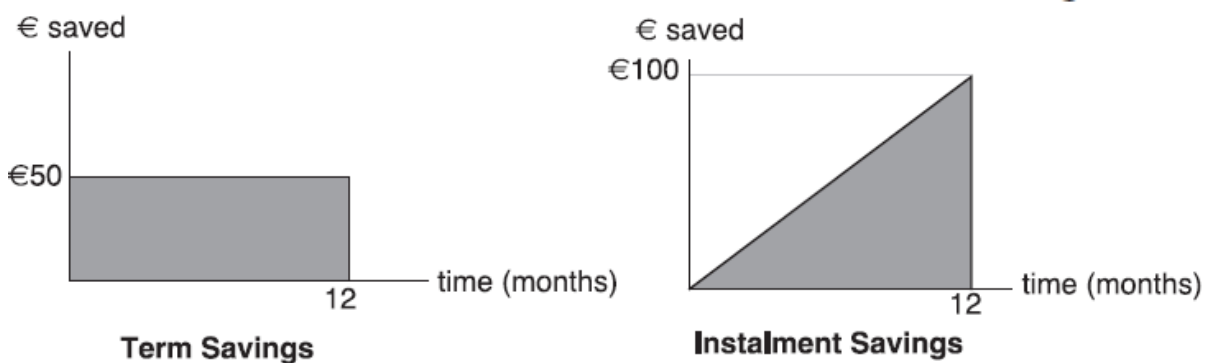
A bank can operate successfully if it does not charge interest on its loans?<sup>53</sup>

### 2.4.1 Saving point

The type of savings account the member has selected and is lower (about 0.7) for a demand account from which savings can be withdrawn at any time. For example, assuming a Savings Factor of 0.9, we have

$$€100 \times 1 \text{Month} \times 0.9 = 90 \text{ Savings Points}$$

FIGURE 1 Term Savings and Installment Savings

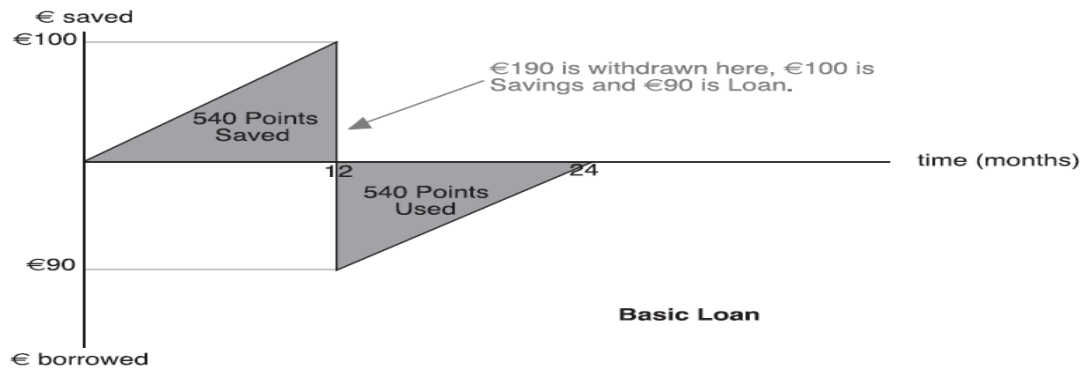


Source : "How interest free banking works" the case of JAK by Ana Carrie page 149

After saving for a minimum of six months, a member may apply for a loan. In order to borrow €1 for one month, one Savings Point must be redeemed. The amount borrowed and the time taken to repay are entirely up to the member, provided that the appropriate Savings Points are available. For example, borrowing €90 over 1 year uses as many savings points as borrowing €45 with repayments spread over 2 years.

A Basic Loan .

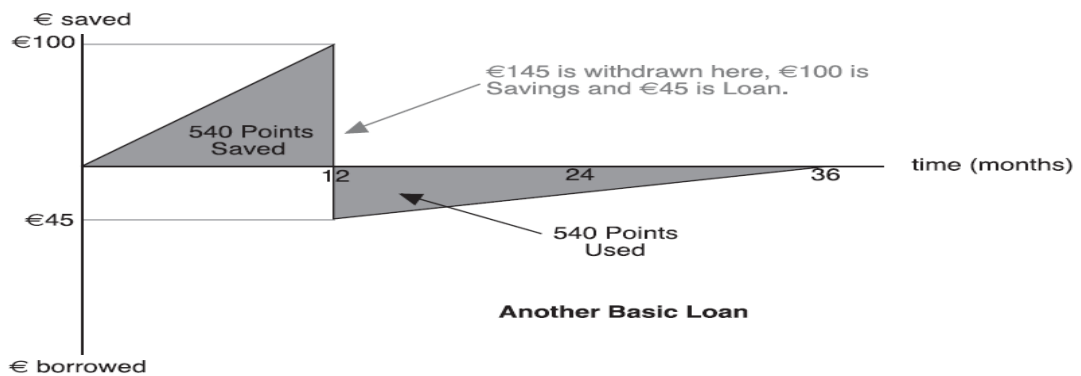
FIGURE 2 Basic Loan



Source : "How interest free banking works" the case of JAK by Ana Carrie ,page 149

An alternative basic loan, borrowing half as much but repaying it over a longer period .

FIGURE 3 Another Basic Loan



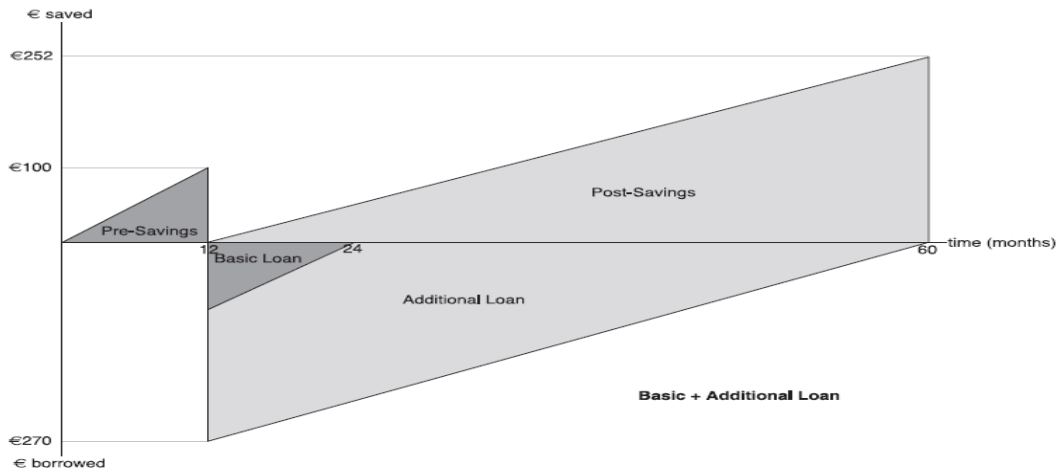
Source : "How interest free banking works" the case of JAK by Ana Carrie ,page 150

Each loan repayment includes a savings installment and the payment is structured so that when the loan is fully repaid, all necessary Savings Points have been earned.

<sup>53</sup> How interest free banking works, the case of JAK by Ana Carrie:From internet google search

## A Basic Loan with an Additional Loan

FIGURE 4 Basic + Additional Loan



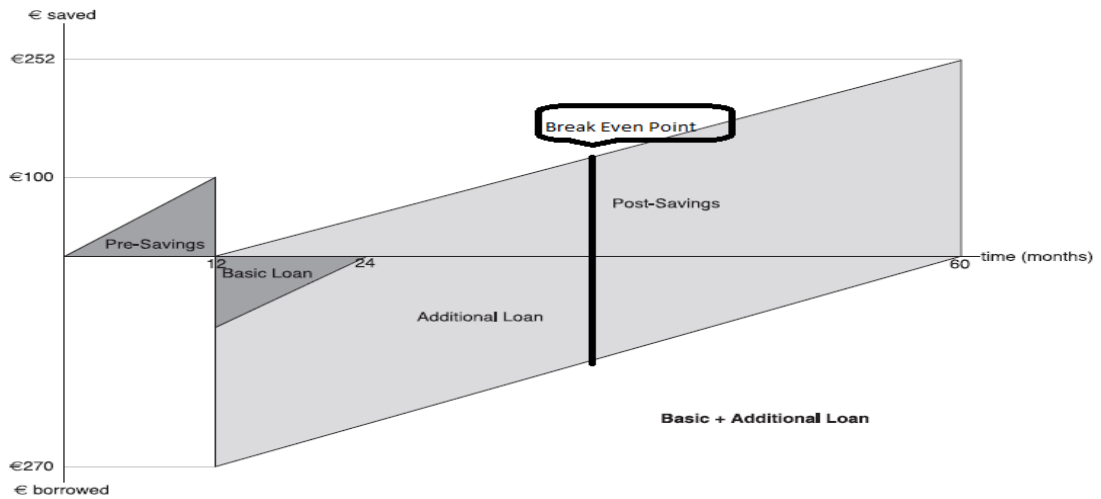
Source : "How interest free banking works" the case of JAK by Ana Carrie ,page 151

There is no interest charged on a loan, of course, but members must place 6% of the value of the loan on deposit for the duration of the loan, and additionally pay a loan fee to cover administration costs.

### 2.4.2 Credit control

In general, people who can save regularly are good performers when it comes to loan repayments. The interest free banking system where saving must proceed borrowing is therefore ideally suited to attracting these regular savers. In addition, around half-way through repayment of a loan there is a break-even point where the Post-Savings on deposit are equal to the balance outstanding on the loan, and from this point forward the loan is fully secured by the member's savings.

FIGURE 5 Break Even Point



Source : "How interest free banking works" the case of JAK by Ana Carrie ,page 152

Many feel quite strongly about the idea of interest-free banking and this common bond goes a long way towards encouraging good behavior.

### 2.4.3 Liquidity

Firstly, what if a saver wants their money back before the borrower has finished with it?

The first question is generally dealt with in the banking system by having a reasonably large number of savers and making sure that enough money is set aside to cope with those who, on any given day, want some of their money back. Interest free banking policy to keep a minimum of 20% of pre-savings available in either a bank account or in government bonds, either of which can be made available almost immediately<sup>54</sup>. Post-savings do not need to have a component on reserve since these can only be withdrawn at specified times. Interest free banking also encourages stability from its savers by offering a higher Savings Factor in Long-term deposit accounts. Example 6, 12 and 24 month deposit accounts.

<sup>54</sup> How interest free banking works, the case of JAK by Ana Carrie, get from internet google search



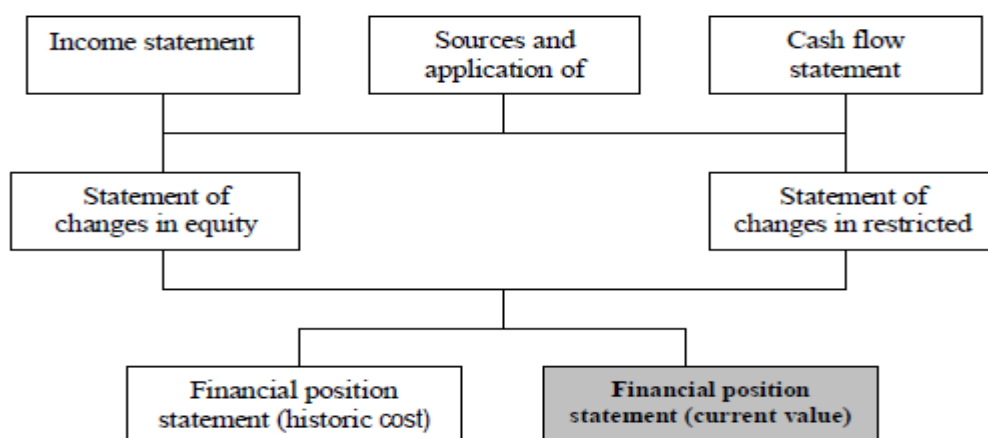
Secondly, what if there are not enough or too many borrowers relative to savers?

The Second question has a more difficult balancing act between saving and borrowing than other banks, due to the fact that the two are intimately linked by Savings Points. Most people save with the intention of borrowing in the future. An excess of saving today could indicate too much demand for borrowing next year.

## 2.5 Islamic banking corporate report components

Baydoun and Willet (2000) tried to develop a theory about the form and the content of the financial information that should be contained in Islamic financial statement<sup>55</sup>. Financial statement and income statement are still adopted Western financial accounting standards (WFASs). They argued that ICRS (Islamic corporate reports) should be added by current value balance sheets because zakah was levied based on the current value (calculation of shares in Mudharabah contract) of assets. Islamic corporate reports (ICRs) are tried to attack the framework for financial reports of Islamic banks by Islamic Financial Accounting Standard Board (IFASB).

Figure 6: Form of Islamic Corporate Reports as Amanded of IFASB



Source: Baydoun and Willet (2000: 86)

<sup>55</sup> Baydoun, Nabil. & Willet, Roger. (2000), "Islamic corporate reports", *Abacus*, Vol. 36, No. 1, pp. 71-

Baydoun and Willet (2000) encouraged the substitution of income statement by using Value Added Statement (VAS)<sup>56</sup>. The argument of this proposal was that VAS more emphasis upon the cooperative nature of economic activity and less competitive aspects. (See Table 3)

Table 3: Baydoun and Willet's Value Added Statement

<b>Value Added Statement</b>	
<b>Sources of Value Added</b>	
Revenue	XXX
Bought in items	(XXX)
Revaluation	XXX
	XXX
<b>Distributions</b>	
Employees (wages)	XXX
Beneficiaries (Zakat)	XXX
Government (taxes)	XXX
Owners (dividends)	XXX
Charities (Waqf, infaq)	XXX
<b>Reinvest Funds</b>	
Profit retained	XXX
Revaluation	XXX
	XXX

Source: Baydoun and Willet (2000:85)

Haniffa asserted that Islamic social disclosure practice should be different from conventional social reporting because the information items that need to be emphasized were different<sup>57</sup>. Haniffa suggested two objectives and ethical statements of Islamic Social Reports (ISRs) that were as follow (a) to demonstrate accountability to God and community and (b) to increase transparency of business activities by providing relevant information in conformance to the spiritual need of Muslims decisions makers<sup>58</sup>.

90. (25 April 2011)

<sup>56</sup> Baydoun, Nabil. & Willet, Roger. (2000), "Islamic corporate reports", *Abacus*, Vol. 36, No. 1, p. 71-90.

<sup>57</sup> Haniffa, Ros. (2002), "Social Responsibility Disclosure: An Islamic Perspective", *Indonesian Management & Accounting Research*, Vol 1, No. 2, July 2002. (30 April 2011)

<sup>58</sup> Haniffa, Ros. (2002), "Social Responsibility Disclosure: An Islamic Perspective", *Indonesian Management & Accounting Research*, Vol 1, No. 2, July 2002. Pg 136

## 2.6 Accounting Policies for Islamic Banks in Some countries

### 2.6.1 Evaluation of Selected Islamic Banks

Islamic banks do not have similarity in accountability process, I compare one country to another country although AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) has proposed detail standards in recording and reporting financial statements. Islamic banks particularly in Bahrain and Qatar that are clearly followed AAOIFI accounting standards. Muhammad and Nugraheni (2009) suggested that AAOIFI should approach IASB to discuss the possibility of harmonization of international accounting standards for Islamic financial institutions<sup>59</sup>. AAOIFI must have strength position in debating the rational of international accounting standards. The set of AAOIFI's accounting standards is the best facts that Islamic financial institutions should treat Islamic mode of transactions differently.

$$\text{Assets} = \text{Liabilities} + \text{Unrestricted Investment Accounts} + \text{Equity}$$

Source: Rifqi Muhammad, Universitas Islam Indonesia [rifqi@fe.uui.ac.id](mailto:rifqi@fe.uui.ac.id), Islamic Banking Reports in Middle East and Asia: *The Evaluation of Mandatory and Voluntary Requirements*, pg 8

Unrestricted investment accounts are the account that accommodates the partnership contracts such as mudarabah saving and deposit accounts. Baydoun and Willet maintained that the major conceptual difference between Islamic corporate reports (ICRs) and Western financial accounting statement (WFASs) was in the special treatment of unrestricted mudarabah and other investments as a separately identifiable category of assets and funds accounts<sup>60</sup>.

<sup>59</sup> Muhammad, Rifqi. & Nugraheni, Peni. (2009), "Strengthening Islamic Accounting Standards toward Globalization Challenges", *International Joint Seminar UMY and IIUM: The Impact of Globalization on the Muslim World: Multidimensional Issues*, Kuala Lumpur, (9 December 2009)

<sup>60</sup> Baydoun, Nabil. & Willet, Roger. (2000), "Islamic corporate reports", *Abacus*, Vol. 36, No. 1, pp. 71-

Table 4: ABC Islamic Banks BALANCE SHEET 31 December 2008

<b>ASSETS</b>			
Cash and balance with central bank		XX	
And other banks		XX	
Accounts Receivables:		XX	
<i>Murabahah receivables</i>	XX		
<i>Salam receivables</i>	XX		
<i>Istisna receivables</i>	XX		
<i>Ijarah rental receivables</i>	XX		
<i>Mudharabah investment</i>		XX	
<i>Musarakah investment</i>		XX	
Investments		XX	
Investments in associates		XX	
Investment in Ijarah assets		XX	
<i>Ijarah muntahiya bittamleek</i>		XX	
Other assets		XX	
<b>TOTAL ASSETS</b>			XX
<b>LIABILITIES, SYIRKAH TEMPORARY FUND AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers Current account		XX	
Other liabilities		XX	
<b>TOTAL LIABILITIES</b>			XX
<b>UNRESTRICTED INVEST.ACCOUNTS</b>			
Customers 'Current Account (mudharabah)		XX	
Deposito (mudharabah)		XX	
<b>TOTAL SYIRKAH TEMPORARY FUND</b>			XX
<b>EQUITY</b>			
Share capital		XX	
Share premium		XX	
Retained Earning		XX	
Proposed appropriations		XX	
<b>TOTAL EQUITY</b>			XX
<b>TOTAL LIABILITIES, SYIRKAH TEMPORARY FUND AND EQUITY</b>			XX

Source: Bahrain Islamic bank (2008)

Bahrain, Qatar and Indonesia Islamic banks also try to modify the component of income statements especially the using return on unrestricted investment accounts.

Table 5: ABC Islamic Banks INCOME STATEMENT 31 December 2008

<b>INCOME</b>			
<b>Income from Islamic finance (bank as a mudarib):</b>			
Revenue from sales financing		XX	
Murabahah margin	XX		
Salam margin	XX		
Istishna margin	XX		
Revenue from leasing financing		XX	
Revenue from Ijarah	XX		
Revenue from Leasing financing		XX	
Mudharabah profit sharing	XX		
Musyarakah profit sharing	XX		
Other revenue		XX	
<b>Total income from Islamic financial transactions</b>			XX
Return on unrestricted investment accounts before			
Bank's share as a mudarib		XX	
Bank's share as a mudarib	(XX)		
<b>Return on unrestricted investment accounts</b>			XX
<b>Bank's share of income from unrestricted investment accounts (as a Mudarib and Rab al mal)</b>			XX
Income from investment		XX	
Gain on fair value adjustment for investments in properties		XX	
Share of results of associates		XX	
Other income		XX	
<b>TOTAL INCOME</b>			XX
<b>EXPENSES</b>			
Staff costs		(XX)	
Depreciation		(XX)	
Other expenses		(XX)	
<b>TOTAL EXPENSES</b>			(XX)
Net income before provision			XX
Provisions			(XX)
<b>NET INCOME FOR THE YEAR</b>			XX

Source: Bank Syariah Mandiri 2008 (modified)

#### Definition of income

Mudharabah(profit and loss) accounts holders have certain percentage of profit/revenue distribution from their investment. They do not categorize this account as an expense because the return actually is the right of mudharabah account holders.

## Definition of expense

Expenses are outflows or other using up of assets or incurrence of liabilities during a period from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's major or central operation.

### 2.6.2 Reconciliation of Revenue and Profit Sharing

The possible reason is the disclosure of profit distribution calculation has shown that they have calculated the cash basis revenue.

Table 6

#### Statements of Reconciliation of Revenue and Profit Sharing

ABC Islamic Bank in the period of January 2010

The number in the figure below only the assumption

<b>Revenue from main operations (Accrual Basis)</b>		<b>2000000</b>
<b>Deduction:</b>		
Revenue in this period, which the cash is not already received:		
Revenue from murabahah margin	(300000)	
Revenue from istishna margin	(200000)	
The rights of profit share.		
Mudharabah investment	(275000)	
Musyarakah investment	(225000)	
Rental revenue	(500000)	
<b>Total Deduction</b>		<b>(1500000)</b>
<b>Addition:</b>		
Revenue from the previous period, which the cash is received in this period:		
Revenue from account receivables payment:		
Murabahah margin	(100000)	
Istishna margin	(300000)	
Rental revenues	(200000)	
Revenue from investment activities:		
Mudharabah investment	(150000)	
Musharakah investment	(250000)	
<b>Total Addition</b>		<b>1000000</b>
<b>Revenue available to be distributed</b>		<b>1500000</b>

The assumption issuing Revenue Sharing concept based on fatwa of Indonesian Ulama council (MUI) No.15/DSN-MUI/IX/2000 Source: Indonesian Shariah SFASs (2007)

Islamic banks want to share their revenue or profit to the mudarabah saving/deposit accounts holders, the calculation should be converted into cash basis calculation. The revenue is not really received. They cannot share revenue/profit based on "accrual basis calculation". Eliminate the income based on accrual basis calculation and recognize the income has received in the period of financial statement.

### **2.6.3 Uses of fund in Zakah**

Zakah is one of important the Islamic teaching, Islamic bank makes the professional management of zakah fund in order to encourage Muslim shareholders and depositors to pay zakah as the obligation for every Muslim individual. Most of the Islamic banking is not familiar this issue. Islamic banks should be follow mandatory requirements rather than considering some important issues that are accordance with Shariah principles.

*Saudi Arabia and Bangladesh Islamic banks* stated that the payment of zakah is on behalf of their shareholders and depositors.

*Kuwait Finance House (KFH)* shows zakah payment in income statement based on the local regulation regarding Zakah law.

*Dubai Islamic Bank* has reported the Zakah computation

- (a) Zakah on shareholders equity is deducted from their dividends
- (b) Zakah on profit equalization provision is charged to this provision after it has been calculated
- (c) Zakah is disbursed by a committee appointed by Board of Directors
- (d) Zakah on the paid in capital is not included in Zakah computation
- (e) Zakah on the paid in capital is payable by the shareholders themselves.

*Bank Islam Malaysia* reports the zakah payment in income statement after profit (loss) before zakah and tax payment.

Table 7  
ABC Islamic Bank  
THE REPORT OF SOURCES AND USES OF ZAKAT FUND For the year ended 31 December  
200B

<b>Sources of zakat fund</b>			
Zakah from the internal of Islamic bank	XX		
Zakah from the external of Islamic bank	XX		
<b>Total sources of fund</b>		<b>XX</b>	
<b>Uses of Zakat fund</b>			
Fakir	(XX)		
Miskin	(XX)		
Amil	(XX)		
Muallaf	(XX)		
Ghorimin	(XX)		
Riqob	(XX)		
Fii sabilillah	(XX)		
Ibnu Sabil	(XX)		
<b>Total uses of fund</b>		<b>(XX)</b>	
<b>Total – uses of Zakah fund (X)</b>			<b>XX</b>
<b>Beginning Balance, 1 January 200B</b>			<b>XX</b>
<b>Ending Balance, 31 December 200B</b>			<b>XX</b>

Source: Indonesian Shariah SFAs (2007)

Bahrain Islamic Bank has changed the treatment of Zakah from the year 2005 .Now It is treated as a payment on behalf of shareholders and therefore as an appropriation from the retaining earnings<sup>61</sup>.

Table 8 ABC Islamic Bank STATEMENT IN CHANGES IN EQUITY For the year ended 31  
December 200B

<b>Balance at 1 January 20xx</b>			<b>XX</b>
Right shares issued		XX	
Bonus shares issued	(XX)		
Dividends paid	(XX)		
Directors remuneration paid	(XX)		
<b>Zakah paid</b>	(XX)		
Net income for the year			XX
Transfer to statutory reserve	(XX)		
Unrealized gain on investments in properties			
Realized gain on investments in properties			
Net movement in cumulative changes in fair values			XX
Appropriations			
<b>Balance at 31 December 2007</b>			<b>XX</b>

Source: Bahrain Islamic Bank 2008 (modified)

<sup>61</sup> Adnan, Muhammad Akhyar & Bakar, Nur Barizah Abu. (2008), "Accounting Treatments for *Zakah* of Companies: A Critical Review" *IIUM International Accounting Conference IV*, 23 – 25 June 2008, Putrajaya, Malaysia (30 April 2011)



## 2.6.4 Uses of fund in Qard

Qard is a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period. An Islamic bank may organize a fund for Qard as a means of achieving social objectives. The uses of the funds are helping marriage couple, renovate building and medical treatment.

All non-Islamic income is credited to a qard fund account because this fund is made the various social welfare activities. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

## 2.6.5 Profit distribution calculation

Islamic banks should disclose the detail calculation of the distribution of unrestricted investment and the method to calculate rate of return of each investment<sup>62</sup>.

Table 9 The Disclosure Evaluation of Selected Annual Reports of Islamic Banks

No	Types of statement	AlRajhi Saudi Arabia	Bahrain Islamic Bank	Dubai Islamic Bank	Kuwait Finance House	Qatar Islamic Bank	Meezan Bank Pakistan	Bank Islam Malaysia	Islamic Bank Bangladesh	Bank Syariah Mandiri (Indonesia)
1	Accounting Standards	IFRS & SAMA	AAOIFI	IFRS	IFRS	AAOIFI	IFRS	IFRS & MAS B	IFRS	PSAK (SFAS) Shariah
2	Conventional financial reports <sup>©</sup>	√	√	√	√	√	√	√	√	√
3	Statement of Changes in Restricted Fund ( <i>Mudharabah Muqayyadah</i> )		√							√
4	Statement of Reconciliation of Revenue and Profit Sharing									√ <sup>©</sup>
5	Disclosure on sources & uses of fund in Zakat	√ <sup>©</sup>	√	√ <sup>©</sup>	√ <sup>©</sup>	√ <sup>©</sup>	√ <sup>©</sup>	√ <sup>©</sup>	√ <sup>©</sup>	√
6	Disclosure on sources & uses of fund in Qard		√							√
7	Disclousure of profit or loss sharing		√ <sup>©</sup>		√ <sup>©</sup>	√ <sup>©</sup>				

<sup>62</sup> Rifqi Muhammad , Universitas Islam Indonesia, Islamic Banking Reports in Middle East and Asia: TheEvaluation of Mandatory and Voluntary Requirements, pg 14

	calculation(mudharabah mutlagah deposit)									
8	Analytical Financial Reports About Earning or Expenditures Prohibited by the Shariah		√⊙							
9	Report Concerning the Islamic Bank's Fulfillment of Its Social Reponsibilities	√	√⊙			√⊙		√⊙		√
10	Reports about the development of Islamic Bank's human resources	√⊙			√⊙	√⊙	√⊙	√		√
11	Disclosure on community development activities					√⊙		√		
12	Reports of the Shariah Supervisory Board		√			√	√	√		√
13	Auditors in charge	E&Y PWC	E&Y	Local audit firm	E&Y Deloitt e	PWC	KPMG	KPM G	Loca l audi t firm	Loc al audi t firm

Sources: Al Rahji , Bahrain Islamic Bank, Dubai Islamic Bank, Qatar Islamic Bank, Meezan Bank Pakistan, Bank Islam Malaysia, Islamic Bank Bangladesh and Bank Syariah Mandiri

Annual Report 2008  
√⊙ not fully disclose

The accounting policy for all unrestricted investment account holders and the calculation of rate of return for each type of investment. The calculation is comparing the condition in the previous year in order to know the growth of rate of return year to year.

Table 10 Calculation of Profit Distribution ABC Islamic Bank In period of July 2008 (Assumption Wadiah fund is included in calculation)

Deposit Fund	Daily Average Balance	Revenue	Portion for Depositor (return equivalent per year)			Portion for Bank (return equivalent per year)		
			Nisbah	Revenue	Return	Nisbah	Revenue	Return
	A	B	C	D(B*C)	%	E	F(B*E)	%
<b>Wadiah</b>	70,000,000	525,000	Bonus			100	525,000	
<b>Current Account</b>	30000,000	225,000	45	101,250	410,625	55	123,750	501,875
<b>Mudharabah Deposits Account:</b>								
<b>1 Months</b>	20,000,000	150,000	65	97,500	593,125	35	52,500	319,375
<b>3 Months</b>	10,000,000	75,000	66	49,500	602,250	34	38,250	310,250
<b>12 Months</b>	5,000,000	37,500	63	23,625	574,875	37	13,875	337,625
<b>Total</b>	<b>150,000,000</b>	<b>1,125,000</b>		<b>346,125</b>			<b>778,875</b>	

Source: Indonesia Islamic bank (unpublished)

This information is not sufficient because one of the main characteristics of Islamic bank is equity sharing based on real productivity<sup>63</sup>. Now a day Most of the Islamic banks observed have not disclosed this information property.

### **2.6.6 Analytical Financial Reports About Earning or Expenditures Prohibited by the Shariah**

This information used to communicate income earned by Islamic financial institutions from prohibited transactions or sources and expenditures prohibited by the Shariah and how those earnings were disposed off<sup>64</sup>. We need the detail financial reports. It will help how they were disposed off and procedures established to prevent entering into transactions prohibited by the Shariah. One of the Islamic bank shows those earning in the sources and uses of fund in qard . This bank explained that the non-halal income is received from the unintentional transaction with conventional bank because of special case .That while it cannot be known as the revenue of Islamic bank since it comes from haram source (interest).

### **2.6.7 Social and Community development activities**

Islamic Financial Institutions contributing to building a truly Islamic conception of business that tries to balance profit motives with societal development. One of the Islamic bank implicitly said that any income from non-Islamic source and zakah could be claimed as the sources for funding social responsibility activities. Another one of the Islamic bank in Malaysia tried to show social responsibility activities such as supporting education at all level building mosque and religious schools. This bank was appointed as

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<sup>63</sup> Ahmad, Khursyid. (2000). "The Islamic Finance and Banking: The Challenge and Prospects", *Review of Islamic Economics*, No. 9, pp. 57 – 82. (30 April 2011)

<sup>64</sup> Hameed, Shahul & Yaya, Rizal. (2003), "The Future of Islamic Corporate Reporting: Lessons from Alternative Western Accounting Reports", *The International Conference on Quality Financial Reporting and Corporate Governance*, 28 – 29 July 2003.

agent for zakah collection for all states in Malaysia. Another one of the Islamic bank(Al Rajhi)

- (a) Creation of an anti-Smoking Clinic
- (b) Providing residence and medical equipment for needy patients
- (c) Patient Evacuation Scheme
- (d) Mobile Diabetic Blindness combat Campaign Scheme
- (e) Orientation program for children covered by Social Security

For the community development activities, Islamic bank made such as

- (a) Promoting Islamic Banking and Supporting Educational Development
- (b) Increasing well being of the Society
- (c) Improving Relations with stakeholders

We conclude that zakah as a part of social responsibility and community development activities although zakah actually is the obligation of every Muslim individually.

### **2.6.8 Report of the Shariah Supervisory Board (SSB)**

Hameed also said that Shariah audit should report not only the methodology of gathering audit evidence but also the findings on a number of issues covering the scope of the Shariah report<sup>65</sup>. SSB has a big responsibility in order to ensure that Islamic banks have operated in accordance with the shariah principles.

#### SSB working systems

First, SSB complicated and sophisticated world of modern financial to solve the problem comparing with Shariah.

Second, SSB performs a large extent in an investigatory role in reviewing the operations of the financial institution to ensure that they comply with the Shariah.

### SSB decision-making systems

SSB makes by more than one scholar. SSB function is to ensure that decisions are not involving only one group connection with the other financial group.

## **2.7 The interest free banking in a total Islamic economic system**

Islamic banking system is to free the murabaha from the influence of the rate of interest. The percentage of profit to the Islamic bank can be limited as to between 20% 30% of the net profit of any project<sup>66</sup>. The extra can be returned to the other partner as a refund. It is known generally that, the profit is according to the agreed upon conditions and losses are distributed according to ownership of the capital. Islamic world has one biggest problem immigrating capital. Islamic banking system should be a rise of trust and freedom to control immigrating capital. Come back home and be protected you are safe. The whole people in any modern society are in need for Dollar, euro or Pound which is invested or deposited abroad.

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<sup>65</sup> Hameed, Shahul. (2008), "The Case for Islamic Auditing", *International Accountant*, p. 41, May 2008.

<sup>66</sup> Aykaç Dr.Mustafa , Symposium on orientation in İslamic Economics , (April 1998) Mamara Univesity, First Edition, Istanbul , p. 49 (30 May 2011)

## CHAPTER III

### ISLAMIC BANKING TRENDS IN THE WORLD

#### 3.1 Brief History of Interest free banking

##### 3.1.1 Post 1963 era

Many migrants to the new city of Madinah lost their wealth due to migration, The Prophet started a new initiative like Ikha (to make brother) or Muwakhat (Mutual Brotherhood)<sup>67</sup>. To increase economic incentive, and this brotherhood also encompassed inheritance of wealth. Good example, The Prophet established brotherhood between Abd-ur-Rahmaan ibn Awf and Sa'd ibn Ar-Rabi' Al-Ansaari. Abd-ur-Rahmaan ibn Awf came (from Mecca to Medina) and the Prophet peace be upon him made a bond of brotherhood between him and Sa'd ibn Ar-Rabi' Al-Ansaari. Al-Ansaari had two wives, so he suggested that Abd-ur-Rahmaan take half of his wives and property. Abd-ur-Rahmaan replied: 'May Allah bless you with your wives and property<sup>68</sup>. Kindly show me the market.' The economic activity can be further evidenced from above, where Abdur Rahmān ibn 'Auf refuses his brother's economic welfare offer and asks to be guided to the market. THEIN aung suggest that they are trusted each other. Mohammad Abdelhamid admits the fact of existence of such type of intermediation, 'although modern Islamic banking is considered to be a recent development', Muslims were able to access financial systems operating without interest since the beginning of Islamic history<sup>69</sup>.

##### 3.1.2 Post Colonial Modern Banking

As Professor Rodney Wilson explains that although Muslim owned banks were established in the 1920s and 1930s, such as Bank Misr of Egypt and the

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<sup>67</sup> <http://www.scribd.com/doc/27652467/Brief-History-of-Islamic-Banking-Copyright> (1 June 2011)

<sup>68</sup> [http://www.pbuh.us/prophetMuhammad.php?f=Re\\_10\\_AbdUrRahmaan](http://www.pbuh.us/prophetMuhammad.php?f=Re_10_AbdUrRahmaan) (1 June 2011)

<sup>69</sup> Abdelhamid, Mohamed. (2005). Islamic Banking. Dept. of Economics. Carleton University, Ottawa, Ontario. P5 (5 June 2011)

Arab Bank of Palestine<sup>70</sup>. The Riba based banking system entered into the Muslim system, Muslim country and Muslim people. Riba took root in the west and gradually it was introduced in the East during the period of colonization. However, faithful Muslims did not accept it.

On academic level, the post-colonial era inquired about financial intermediation without Riba. The first known attempt is that of Quraishi in 1948 in his published work, 'Islam and the theory of Interest' Islamic bankers and scholars dealing with the problem and trying their banking system to get free of this western legacy of interest-based financial intermediation<sup>71</sup>. Kahf observes, the aim of these writings was to prepare Muslim Masses "to want for Islamic banks<sup>72</sup>.

### **3.1.3 Modern Islamic banking**

The first interest-free institutions with 'bank' in its name, Nasser Social Bank, was also established in Egypt in 1971. This was the first time that a government in a Muslim country had shown an interest in incorporating an interest free institution<sup>73</sup>.

In 1975, Dubai Islamic Bank was established and operational, in Dubai UAE. The government of UAE as well as Kuwait inserted their share totaling 30%, private 70%.

The most important development in Islamic Banking was IDB (Islamic Development Bank) again in 1975. This project was established in December 1973, by a conference of Islamic Ministers in Jeddah, by a second conference of finance Ministers in August 1974.

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<sup>70</sup> Wilson, Professor Rodney (n.a.,:1). The evolution of Islamic Financial System (10 June 2011)

<sup>71</sup> <http://www.scribd.com/doc/27652467/Brief-History-of-Islamic-Banking-Copyright> (11 June 2011)

<sup>72</sup> Kahf, M. (2001). Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari'ah Scholarship.p3 (13 June 2011)

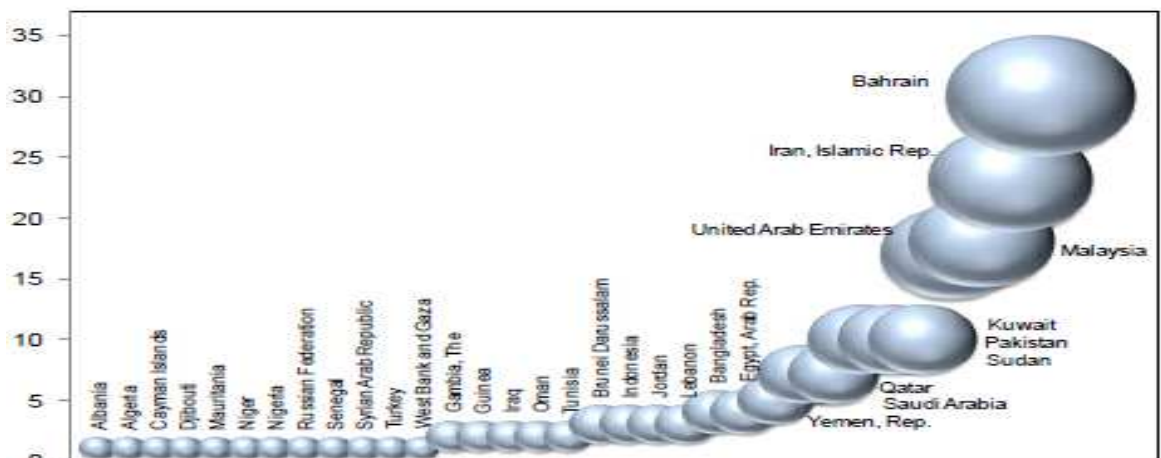
<sup>73</sup> Iqbal, M. and Philip Molyneux (2005).Thirty Years of Islamic Banking: History, Performance and Prospects (15 June 2011)

During this period from 1975 to 1990 Shariah compatible products were developed which were tested as efficient. The development of several Islamic Banks idea attracted the attention of countries Such as Iran, Pakistan as Sudan which showed their willingness for this system. IMF and World Bank recognized Islamic banking products as the real tools of financial systems<sup>74</sup>.

### 3.2 The Diffusion of Islamic Banking

Islamic banking is spreading to Sub-Saharan Africa, Central Asia, the Middle East, Southeast Asia, North Africa and Western Europe. Of the 176 Islamic banks in the Bankscope database for 2006, 70% are in Middle Eastern countries, 14% in Southeast Asia and 15% percent in Sub-Sahara Africa.

Figure 7 Numbers of Islamic Banks in Selected Countries, 2006



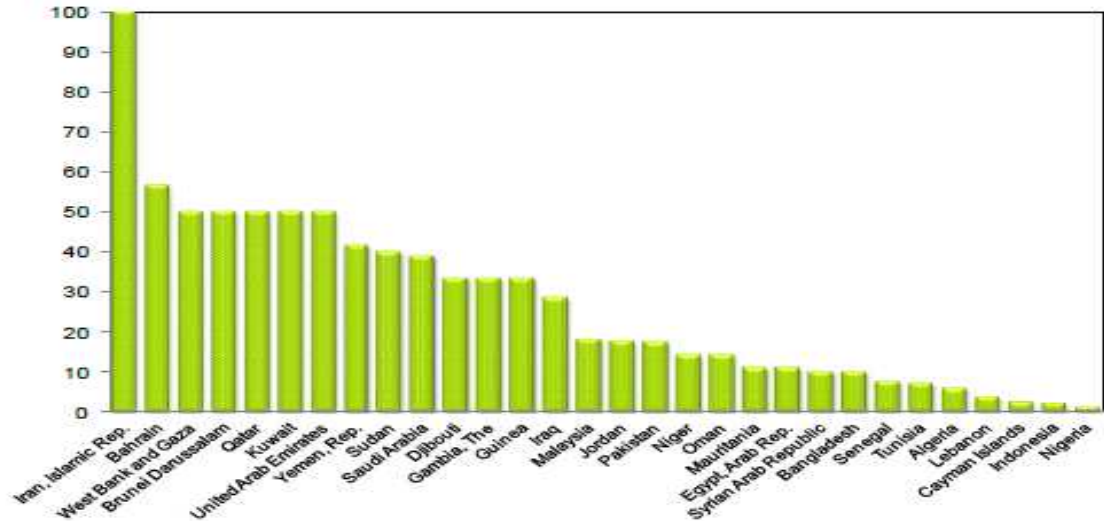
Source: Bankscope, 2009 IMF Working Paper Paper From Patrick Imam and Kangni Kpodar Authorized for distribution by Vitality Kramarenko, Islamic Banking: How Has it Diffused p.8 (27 November 2011)

Some countries have a few Islamic organization but Islamic banks have a strong presence. Such as Brunei. The Gulf region and some African countries have very large Muslim population that while Islamic banks is relatively large<sup>75</sup>.

<sup>74</sup> <http://www.scribd.com/doc/27652467/Brief-History-of-Islamic-Banking-Copyright> (15 June 2011)



Figure 8: Share of Islamic Banks in Total Banking System in Selected Countries, 2006 (Percent)



Source: Bankscope and authors calculations) From Hayu Susilo Prabowo, dan Hidajat Sofjan, THE SUBPRIME MORTGAGE CRISIS: ISLAMIC ECONOMICS PERSPECTIVE ,Dosen Universitas Az Zahra Jakarta. p.53 (19 October 2011)

### 3.3 Islamic banking in Muslim Countries

In Islamic countries, banks were not addressing the need of devout Muslims<sup>76</sup>. Devout Muslim individuals would not want to put their money into a western financial system that was not based on religious principles. This understanding of an important segment of the population means that savings were not used efficiently.

The creation of the Islamic Development Bank (IDB) in Jeddah (1975) shows that the diffusion of Islamic banking by centralizing expertise and requires a lot of interpretation of Shariah law. IDB has rapid seen innovations like sukuks (Islamic bonds)<sup>77</sup>.

The expansion of Islamic banking has been quickly growing the past few years (2000). I analyzed List of Muslim countries where Islamic Banks are functioning Egypt, Bahrain, Saudi Arabia, Iran, Malaysia, Bangladesh, Indonesia, Pakistan, Azerbaijan, Kazakhstan, Kuwait, Jordan, Qatar, UAE,

<sup>75</sup> Patrick Imam and Kangni Kpodar Authorized for distribution by Vitality Kramarenko, Islamic Banking: How Has it Diffused ,IMF Working Paper .p.7 (27 November 2011)

<sup>76</sup> Iqbal, Zubair, and Abbas Mirakhor, 1987, –Islamic Banking,|| IMF Occasional Paper No. 49 (Washington: International Monetary Fund). ( 15 June 2011)

Turkey, Algeria, Brunei, Kenya, Mauritania, Morocco, Sudan, Tunisia, Yemen, Lebanon, Senegal, Syria, Somalia, Djibouti and Gambia. For my analysis, Oman, Afghanistan and Iraq did not have Islamic banking. Egypt country is the first born Islamic banking system, Bahrain in the Middle East and Malaysia in South- East Asia are really interested in the Islamic banking. The Malaysia government was necessary to the establishment in 1983 of the country's first Islamic bank in Asia (the Bank Islam Malaysia Berhad). Iran all banking system are Shariah principle. Bangladesh, Indonesia and Pakistan countries Muslim population are very high that while Islamic banking system will grow near future. After that I explained Muslim countries region by region likes' central asia region, middle east region, south east Asia region, south Asia region and Africa region.

Islamic banking assets in the Middle East region have been growing over the last several years. E.g. in 2004 the proportion of Islamic banking assets of the Middle Eastern banks was only about 29 percent of the world wide Islamic banking asset, which grew to 50% of the worldwide share in 2008. Not only the aggregate but the average asset per bank has increased in the Middle East as well. (See Table 11)

Table 11: Growth Rates of Assets and Deposits across Countries

COUNTRY	BANK IN SAMPLE	Assets growth rate (%)	Assets growth rate (%)	Customer Deposits growth rate (%)	Customer Deposits growth rate (%)
		2006-07	2007-08	2006-07	2007-08
Bahrain	12	48.54	39.00	58.33	32.07
Egypt	2	21.27	10.53	22.89	9.54
Jordan	2	(9.30)	25.86		16.34
Kuwait	2	47.04	19.33	51.05	24.94

<sup>77</sup> Patrick Imam and Kangni Kpodar Authorized for distribution by Vitality Kramarenko, Islamic Banking: How Has it Diffused ,IMF Working Paper. (15 June 2011)

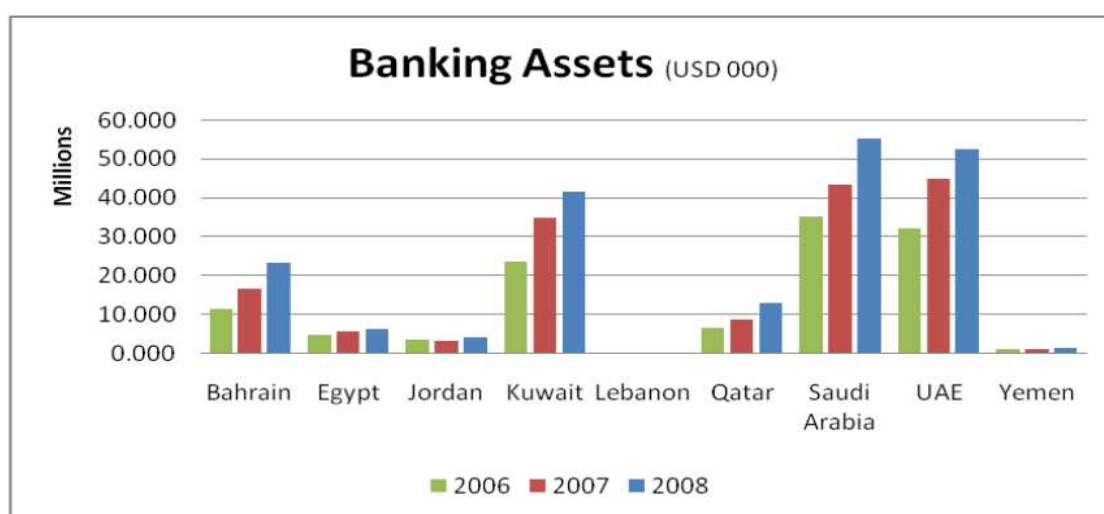
Lebanon	1	362.09	145.54		21.43
Qatar	2	34.64	47.94	26.63	31.98
Saudi Arabia	3	23.16	27.94	28.65	22.32
UAE	5	40.28	17.07	46.16	19.56
Yemen	1	7.29	20.08	6.13	18.73
Middle East Region	30	34.50	24.50	37.47	22.28

Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research And Training institute)

31. 01. 2012

The assets have been growing in all countries with the highest growth in Qatar of 48% and lowest in Egypt of 10%. Lebanon with an asset growth of 145% is an exception as Islamic banks opened in the country only in 2006 because it is starting from a very small base. Saudi Arabia, UAE and Kuwait stand out as giants in terms of aggregate assets of Islamic banks while Egypt, Jordan, Yemen and Lebanon constitute the lower tail with Qatar and Bahrain.

Figure 9: The asset size distribution for various countries

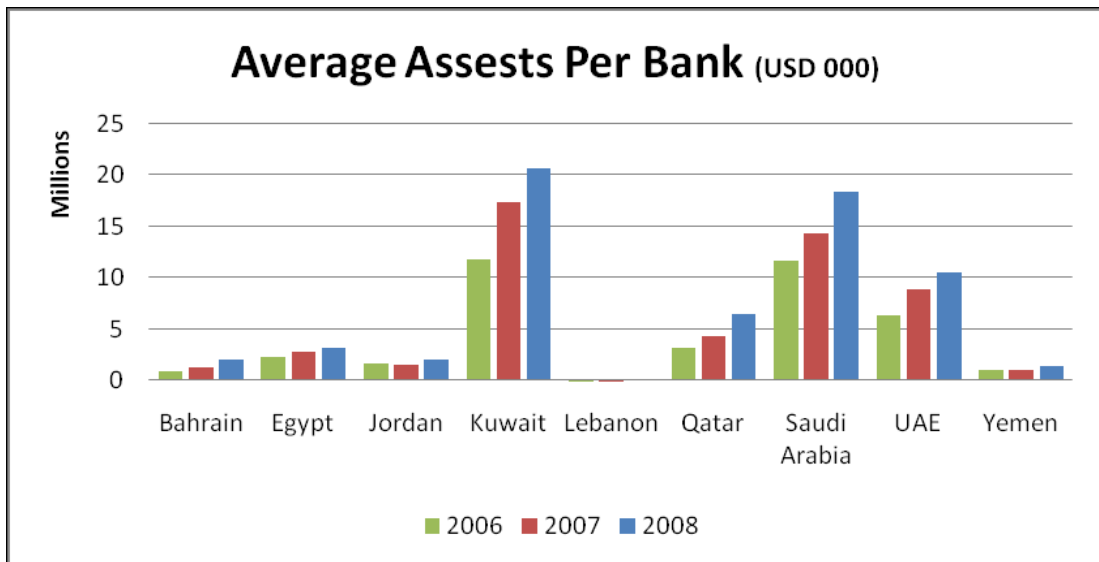


Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research and Training institute)

31. 01. 2012

The above chart show aggregate assets of 30 Islamic banks distributed by countries and for each year 2006, 2007 and 2008. The number of sampled banks in each country various but remains constant across years.

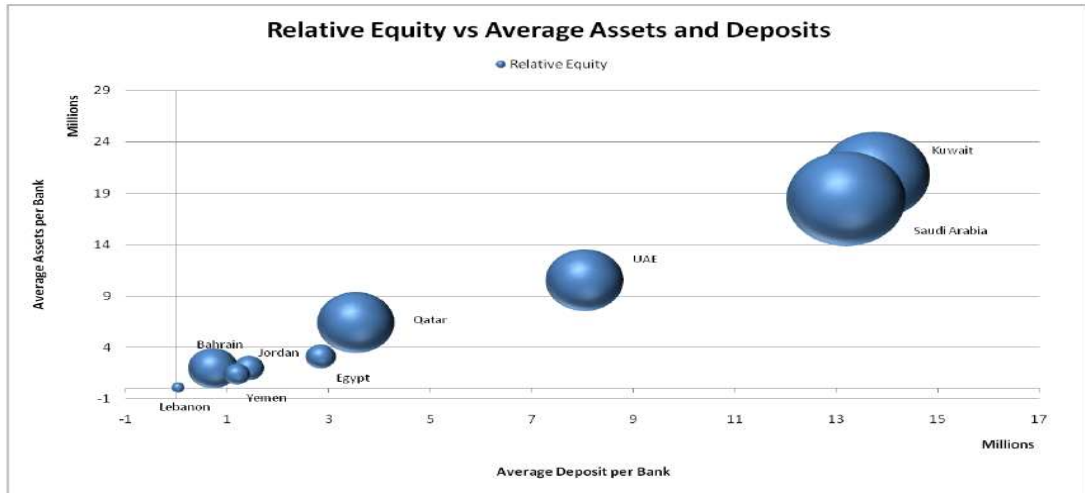
Figure 10: Average Assets per Bank



Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research and Training institute)  
31. 01. 2012

The average size of Islamic banks have been largest in Kuwait, Saudi Arabia, UAE, Qatar, Egypt, Jordan, Bahrain, Yemen and Lebanon respectively. In our sample the average asset of Islamic banks in 2008 came out to be USD 6635 million per bank which is nine times larger than the average bank size of USD 727 Million in 1996 in the Middle East. So the size of Islamic banks in Middle East region has been growing for the many years.

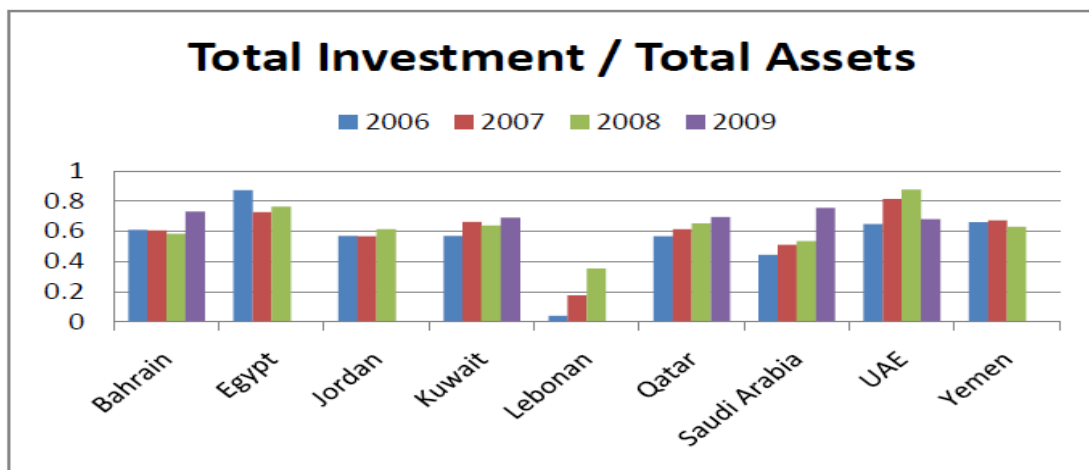
Figure 11: Relative Equity vs. Average Assets and Deposits



Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research and Training institute)  
31. 01. 2012

Figure 11 shows average asset size and customer funds per Islamic bank in millions of US dollars for each of the 9 selected countries for the year 2008. The same chart also shows relative equity per bank (by size of the bubble) in each country compared to the sum of average equity per bank for the entire region<sup>78</sup>. The above chart compares three variables for each country for the year 2008. (1) Along x-axis: Average deposits of Islamic banks in each country. (2) Along y-axis: Average assets of Islamic banks in each country.

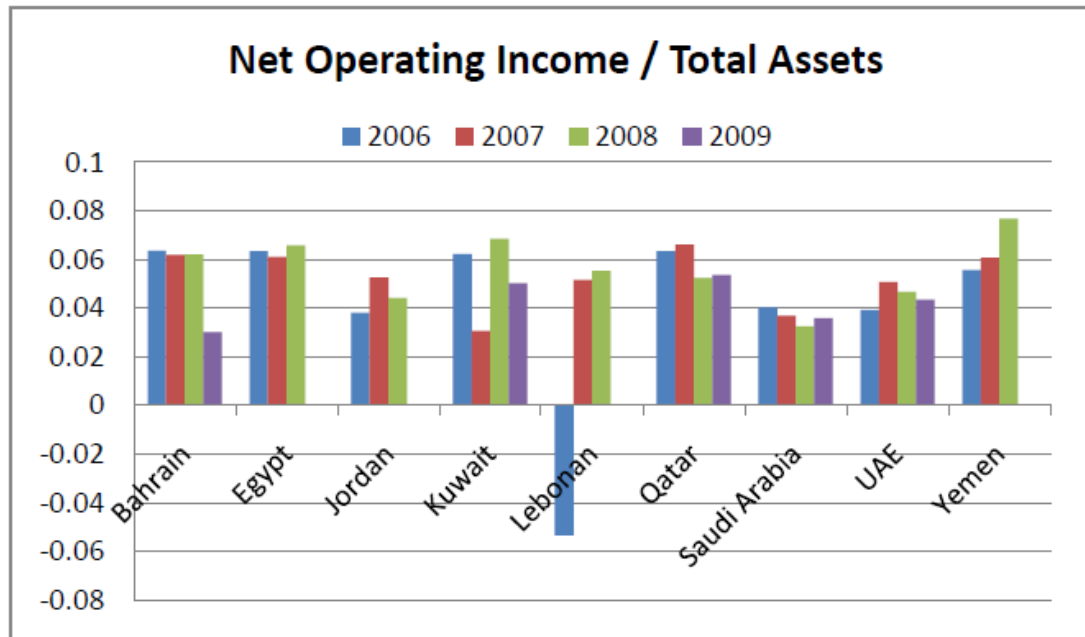
Figure 12: Asset Utilization Ratio



Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research And Training institute)  
31. 01. 2012

Figure 12 shows that asset Utilization Ratio as defined by Investment /Total Assets averaged for all Islamic banks by each country for year since 2006. Data for Bahrain, Kuwait, Qatar, Saudi Arabia and UAE goes up to 2009, while it goes only up to 2008 for Egypt, Jordan, Lebanon and Yemen.

Figure 13: Net Operating Income/ Total Assets



Source: Islamic Banking in the Mena Region (Islamic Development Bank – Islamic Research And Training institute)

31. 01. 2012

Net operating income is defined as operating income after paying for the depositors share. Figure 13 shows that the average Islamic bank in Saudi Arabia stands out to have the lowest operating income to asset ratio throughout the period compared with average banks in other countries of the region. Another striking feature is a sharp decline in this ratio for the average Islamic bank in 2009 compared to historical values from previous three years.

<sup>78</sup> Relative equity per bank for a country = average Islamic bank equity in that country/ the sum of average equity in all countries of Middle East region.

## (Middle East region)

### 3.3.1 Egypt

Islamic banks	City	Country
Faisal Islamic bank	Cairo	Egypt
Arab Banking Corporation	Cairo	Egypt
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Cairo	Egypt
Al Baraka Islamic Bank	Cairo	Egypt

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (17 October 2011)

The Islamic Banking sector in Egypt has not followed the regional growth trend due to the lack of support from the central bank because of low per capital income<sup>79</sup>. Egypt was the first country to start Islamic banking in 1963. Islamic Bank Assets in Egypt account for not more than 3% of the total banking system. The Islamic banking system is slowly destroyed because of the Egypt country government. The Islamic Banking industry has two completely developed Islamic banks in Egypt. Islamic Banks consisting of Egyptian Saudi Finance Bank and Faisal Bank have a network of 33 branches. Faisal Islamic bank<sup>80</sup> of Egypt is the first Egyptian Islamic & Commercial Bank (**owner of the bank**) and is one of the most important Egyptian banks. The bank has officially started operations on 5/7/1979. The bank agreed to establish a bank in Egypt operating in accordance with the Islamic Shariah to serve as a model for Islamic banks all over the world.

Arab Banking Corporation<sup>81</sup> was incorporated as a Bahrain joint stock company (**owner of the bank**) on January 17, 1980 through a special order by the Amir of Bahrain. It obtained an offshore banking unit license from the Bahrain Monetary Agency on April 7, 1980, and began operations in the same month. It is headquartered at ABC Tower in the Diplomatic Area of Bahrain. The bank has 28 retail branches & 94 ATM spread throughout Egypt. The bank provides a wide range of banking products including retail

<sup>79</sup> BLOMINVEST BANK BOOK : ISLAMIC BANKING IN THE MENA REGION, p.34 (17 October 2011)

<sup>80</sup> FAISAL ISLAMIC BANK OF EGYPT: available at <http://www.faisalbank.com.eg> (3 February 2012)

<sup>81</sup> Arab Banking Corporation: available at <http://www.en.wikipedia.org> (3 February 2012)

banking, corporate banking & SMEs offering a full product mix of quality products suiting different individual needs.

Al Baraka<sup>82</sup> Islamic Banking Group was formed in 2002 Manama, Bahrain.

The company is listed on the **Bahrain Stock Exchange and Dubai NASDAQ AL(the group offers retail), corporate and investment banking and treasury services strictly in accordance with the principles of Sharia in 12 countries(owner of the bank)**. The Egyptian Saudi Finance Bank starting practicing its business and activities accordance with the provision of the tolerant Islamic Sharia law since more than 20 years and the Egyptian Saudi Finance Bank changed its name to be alBaraka Bank Egypt as a pioneer Islamic institution within a few years has been able to professionally and strongly exist in the Egyptian Banking field with its progressive & numerous services and its release of saving and investing pools appropriate to the whole community categories and sections from the point of period ,regular spending income and modern financial programs covering all different sectors in the Egyptian market .

The bank<sup>83</sup> has 20 branches covering the entire republic besides 4 foreign currency exchange offices in Cairo & Hurgada City & nowadays the bank prepares to open 4 branches which will be open respectively this year (2012) to reach 24 branches.

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<sup>82</sup> Al baraka bank : available at <http://www.en.wikipedia.org> (4 December 2012)

<sup>83</sup> Albaraka bank egypt: available at <http://www.albarka-bank.com.eg> (4 December 2012)



Table 12 : Egyptian Banks 2008 market share data and financial performance trend for 2003-2008

Bank	Assets Market Share	Loans Market Share	Deposits Market Share	CAGR for 2003-2008			
				Assets	loans	Deposits	Net Income
Public Banks							
National Bank of Egypt	19.8%	17.9%	20.9%	15.3%	9.0%	9.7%	2.1%
Banque Misr	9.9%	7.6%	12.1%	13.5%	Na	7.8%	4.5%
Private Banks							
Commercial International Bank (Egypt)	5.3%	6.1%	6.3%	19%	16%	19%	27%
National Societe Generate Bank	4.3%	5.8%	4.8%	34%	37%	32%	41%
Bank of Alexandria-Sanpaolo	3.6%	2.5%	4.0%				
HSBC Bank Egypt	2.6%	2.3%	2.9%	36%	38%	33%	61%
Fisal Islamic Bank of Egypt	2.2%	3.7%	2.0%	11%	7%	11%	-8%
Credit Agricole Egypt	2.0%	1.6%	2.4%	45%	54%	46%	46%
Suez Canal Bank <sup>1</sup>	1.3%	1.4%	1.5%	4%	-3%	5%	-100%
Export Development Bank of Egypt <sup>11</sup>	1.2%	1.5%	0.4%	12%	11%	13%	24%
Al Watany Bank of Egypt <sup>1</sup>	1.2%	1.4%	1.4%	16%	13%	15%	180%
Housing and Development Bank	1.0%	1.1%	0.6%	12%	4%	17%	63%
Piraeus Bank Egypt SAE <sup>1</sup>	0.9%	0.9%	1.1%	31%	24%	33%	Na
National Bank For Development <sup>111</sup>	0.9%	1.1%	1.1%	4%	-1%	5%	Na
Egyptian Saudi Finance Bank <sup>1</sup>	0.9%	1.1%	1.17%	27%	34%	27%	Na
Arab African International Bank <sup>1</sup>	0.7%	0.7%	1.0%	51%	59%	55%	68%
Misr Iran Development Bank <sup>1111</sup>	0.7%	0.5%	0.01%	21%	16%	25%	38%
Blom Bank Egypt	0.6%	0.4%	0.6%	13%	8%	12%	34%
Arab Banking Corporation-Egypt <sup>1</sup>	0.6%	0.3%	0.6%	21%	4%	21%	63%
Ahli United Bank (Egypt)	0.5%	0.6%	0.5%	16%	10%	18%	8%
Egyptian Gulf Bank	0.5%	0.6%	0.6%	14%	28%	13%	41%
Union National Bank Egypt <sup>1</sup>	0.3%	0.2%	0.3%	10%	-5%	5%	Na
Societe Arabe Internationale De Banque	0.2%	0.1%	0.2%	29%	23%	33%	13%
Remaining Banks-15 in Total	39%	40%	34%				
Sector	100%	100%	100%				

Source: Banks, HSBC From :Egypt, Kwamena Aidoo, Rona Shedid, Ahmed Hassanein (5 Feb 2012)  
<sup>1</sup>CAGR Between 2002-2007  
<sup>11</sup>CAGR between 2004-2008  
<sup>111</sup>CAGR between 2003-2007  
<sup>1111</sup>CAGR between 2004-2007

### 3.3.2 Bahrain

Islamic banks	City	Country
Bahrain Islamic Bank	Manama	Bahrain
Al Salam Bank	Manama	Bahrain
Khaleeji Commercial	Manama	Bahrain
Shamil Bank	Manama	Bahrain
Albaraka Bank	Manama	Bahrain

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (05 Feb 2012)

Bahrain Islamic Bank (BISB)<sup>84</sup> was incorporated in 1979 in Bahrain, which was the first Islamic Bank to list on Bahrain Stock Exchange. The bank operates under an onshore domestic commercial banking license granted by the Bahrain Monetary Agency (BMA). BISB (**owner of the bank**) shareholding was changed during the year 2005, with the sale by a strategic investor to Al-Madar Finance and Investment Company, which is a subsidiary of The Investment Dar of Kuwait. Al-Madar Finance and Investment Company holds 40% share, followed by Islamic Development Bank with 13.0%, Kuwait Awqaf Public Foundation with 8.65%, Securities House with 7.59 and Dubai Islamic Bank with 4.3%. The remaining 19.38% share of the bank is held by public.

#### (Balance Sheet): Bahrain Islamic Bank

Amount in BD	2004	2005	2006	2007(F)	2008(F)	2009(F)	2010(F)
Total Assets	254,774,864	320,696,00	436,476,00	563,044,310	677,293,053	805,486,119	945,227,585
Total Liabilities	33,194,999	50,907,000	57,434,00	68,084,602	74,514,007	80,371,688	86,503,529
Total Equity	52,750,367	71,908,000	74,924,000	79,335,457	95,029,787	114,975,219	137,750,278
Total Liabilities, Unrestricted investment account & Equity	254,774,864	320,696,000	436,476,000	563,044,310	677,293,053	805,486,119	945,227,585

Source: Bahrain Banking Sector Report Competitive banking environment June 2007 (5 February 2012)

<sup>84</sup> Bahrain: From Bahrain Banking Sector Report June 2007 (Competitive banking environment) (05. Feb. 2012

### 3.3.3 Saudi Arabia

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Al Rajhi Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Al-Bilad Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Alinma Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Arab National Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>National Commercial Bank</b>	<b>Jeddah</b>	<b>Saudi Arabia</b>
<b>Riyad Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Saudi British Bank (SABB)</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Saudi Hollandi Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Stusid Bank</b>	<b>Riyadh</b>	<b>Saudi Arabia</b>
<b>Islamic Development Bank</b>	<b>Jeddah</b>	<b>Saudi Arabia</b>
<b>Bank Al Jazira</b>	<b>Jeddah</b>	<b>Saudi Arabia</b>

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (05 Feb 2012)

Saudi Arabia strictly accepts the Islamic laws .Therefore all Saudi banks have fully fledged Islamic banks. The Islamic Development Bank (IDB) is a multilateral development financing institution. The bank has 56 shareholding member states. The main shareholders of the Bank (**owner of the bank**) are from these countries Saudi Arabia, Libya, Iran, Egypt, Kuwait, Turkey, Qatar, and UAE. The basis condition for membership is that the prospective member country should be a member of the Organization of Islamic Cooperation (OIC), pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors.

### 3.3.4 Kuwait

Islamic banks	City	Country
Boubyan Bank	Kuwait	Kuwait
National Bank of Kuwait	Safat	Kuwait

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (05 Feb 2012)

Boubyan Bank<sup>85</sup> is a Kuwait bank established in 2004. Boubyan Bank is a Kuwait shareholding company (**owner of the Bank**). More than 90% Kuwait citizens are the bank's shareholders owning 76% of Boubyan Bank shares. The remaining shares are owned by Kuwait Investment Authority (KIA) with equity of 20% and the Public Institution for Social Security (PIFSS) with equity of 4%. The National Bank of Kuwait (NBK), Kuwait's largest and oldest bank, bought the majority shares of Boubyan Bank by mid 2010.

The National Bank of Kuwait<sup>86</sup> was incorporated in 1952 as the first local bank and the first shareholding company in Kuwait and the Gulf region. **The owner of the bank** is 47.3% Bank Boubyan, 30% International Bank of Qatar (IBQ) and 30% Turkish Bank.

Kuwait Finance House<sup>87</sup> was established in the State of Kuwait in 1977 and then the first bank operating in accordance with the Islamic Shariah. KFH is listed in Kuwait Stock Exchange (KSE) with a market capitalization of KWD 2.667 billion as of 31 December 2008. Assets total KWD 11.291 billion and deposits amount to KWD 7.262 billion. The ownership (**owner of the bank**) of KFH are 24.05% Kuwait Investment Authority, 10.48% Public Authority for Minors Affairs (Kuwait) and 8.23% Kuwait Awqaf Public Foundation (Kuwait).

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<sup>85</sup> Boubyan-Bank: available at <http://www.en.wikipedia.org> (05. Feb 2012)

<sup>86</sup> The National Bank of Kuwait: available at <http://www.en.wikipedia.org> (05. Feb 2012)

### 3.3.5 Jordan

Islamic banks	City	Country
Jordan Islamic bank	Amman	Jordan
Islamic International Arab Bank	Amman	Jordan

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (05 Feb 2012)

The Jordan Islamic Banking industry is supported by the country's economic stability and growing demand for Shariah-based products. Islamic banking in Jordan has been operational for around 2 decade but the industry's assets still account for a small share of the total banking sector<sup>88</sup>.

Jordan Islamic bank for Finance and Investment was established in 1978, as a public shareholding limited company to carry out all kinds of bank. The bank was ran the Jordan Islamic Banks Special law and operates with 61 local branches and 106 ATMs. 1<sup>st</sup> July 2010, the bank changed its logo and launched its new corporate identity in order to be unified with the subsidiaries of AlBaraka banking group<sup>89</sup>.

The Islamic International Arab Bank<sup>90</sup> was established in the Hashemite Kingdom of Jordan as a public shareholding (**owner of the bank**) company in accordance with the company law of 1989 and the company was registered in the Register of Public Shareholding companies under No. 327 on 30 March 1997. The Bank services including deposits, loans and credit cards and asset management including fund management all in accordance to Islamic principles. The bank operates with 19 branches and 10 ATMs.

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<sup>87</sup> Kuwait Finance House: available at <http://www.en.wikipedia.org> (05 Feb 2012)

<sup>88</sup> BLOMINVEST BANK BOOK : ISLAMIC BANKING IN THE MENA REGION, p.37 (17 October 2011)

<sup>89</sup> Jordan Islamic Bank : available at <http://www.jordanislamicbank.com> (05 February 2012)

<sup>90</sup> Islamic International Arab Bank: available at <http://www.en.wikipedia.org> (05 February 2012)

### 3.3.6 Qatar

Islamic banks	City	Country
QIIB	Doha	Qatar
QIB	Doha	Qatar

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (17 October 2011)

The banking industry in Qatar consists of 11 local banks registered with the central bank and 7 foreign banks with branches in Qatar<sup>91</sup>. There are 2 Islamic banks fully operating under Shariah principles (Qatar Islamic Bank, Qatar International Islamic Bank and Masraf Al Rayan), 3 conventional banks with Islamic windows (Qatar National Bank, Commercial Bank of Qatar (CBQ) and Doha Bank (DB) and 5 conventional banks with no Islamic banking operations.

Qatar Islamic Bank<sup>92</sup> was established on 8 July 1982 as a Qatari shareholding **(owner of the bank)** company. At the end of 2010, the Capital of the bank stood at QR 2.1 billion. QIB is the largest Islamic bank in Qatar with around 35% share in the Country's Islamic banking assets and a 11% share in the banking sector. QIB is one of the largest providers of Islamic finance in the local market 75% of the Bank financing and investment activities was undertaken during the last ten years.

Qatar International Islamic Bank<sup>93</sup> was established 1 January 1991. QIIB have 12 branches at convenient locations and some 54 ATMs across Qatar, QIIB is well placed to provide a full array of retail and corporate banking services to its growing customer base. QIIB role in the banking landscape is achieving prominence as Islamic Banking gains momentum as a viable and sustainable proposition.

<sup>91</sup> BLOMINVEST BANK BOOK : ISLAMIC BANKING IN THE MENA REGION, p.39 (17 October 2011)

<sup>92</sup> Qatar Islamic bank : available at <http://www.qibi.com.qa> (05 Feb 2012)

<sup>93</sup> Qatar International Islamic bank : available at <http://www.qiib.com.qa> (05 Feb 2012)

### 3.3.7 UAE

Islamic banks	City	Country
Abu Dhabi Islamic	Abu Dhabi	UAE
Noor Islamic Bank	Dubai	UAE
Dubai Islamic Bank	Dubai	UAE

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (17 October 2011)

The UAE total bank assets are the largest banking in the GCC countries. The UAE banking bases on oil price, hotel and tourist attraction business. Islamic banking is continuously gaining popularity in the UAE<sup>94</sup>. The two largest UAE Islamic banks are Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB).

Dubai Islamic Bank (DIB)<sup>95</sup> is established in 1975. DIB is a public joint stock company (**owner of the bank**) and its shares are listed on the Dubai Financial Market. The bank currently operates 62 branches in the UAE. DIB is involved in local and international partnerships a wholly owned subsidiary which has a network of 75 branches across 27 major cities in Pakistan. DIB also has a representative office in Turkey and has received a preliminary banking license by the Central Bank of Jordan to operate as an Islamic financial institution through a new entity Jordan Dubai Islamic Bank.

Abu Dhabi Islamic Bank (ADIB)<sup>96</sup> was established on 20 May 1997 as a Public Joint Stock Company (**owner of the bank**). The Bank commenced commercial operations on 11 November 1998 and was formally inaugurated by Abdullah Bin Zayed Al Nahyan. The founders of Abu Dhabi Islamic Bank hold 39% of its equity while the remaining 61% is held by approximately 100,000 shareholders. The founding shareholders of ADIB are Members of the Ruling Family, The Abu Dhabi Investment Authority ADIA and Prominent UAE Nationals.

<sup>94</sup>BLOMINVEST BANK BOOK : ISLAMIC BANKING IN THE MENA REGION, p.41 (17 October 2011)

<sup>95</sup> Dubai Islamic Bank : available at <http://www.en.wikipedia.org> (05 Feb 2012)

<sup>96</sup> Abu Dhabi Islamic Bank : available at <http://www.en.wikipedia.org> (05 Feb 2012)

### 3.3.8 Yemen

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Saba Islamic Bank</b>	<b>Sanaa</b>	<b>Yemen</b>
<b>Islamic Bank of Yeman for Finance &amp; Investment</b>	<b>Sanna</b>	<b>Yemen</b>
<b>National Bank of Yeman</b>	<b>Aden</b>	<b>Yemen</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Yemen has primarily of two principles Islamic religious group; 53% of the Muslim population is Sunni and 45% of the Muslim population is Shi'a<sup>97</sup>. Saba<sup>98</sup> Islamic bank seeks to provide a model different In Islamic banking and take the lead in the field of Islamic banking in local and regional market. Saba bank mission is meeting the hopes of our customers Model of excellence in providing Islamic banking system.

National Bank of Yemen<sup>99</sup> was established in 1969. It is calculated to be one of the largest commercial Banks and a prominent contributor in the economical and social development in Yemen. National Bank of Yemen has 27 branches and an important range of extremely valued correspondents all over the world. Islamic investment deposits fund was increased the Central Bank of Yemen and other local banks (from 31 December 2010=YR392926000 to 31 December 2009=YR430121000). In 2011, The Bank is establishing branches offering banking transactions ruled to Islamic Shariah to offer Islamic services and products to customers and the public. Islamic bank of yemen<sup>100</sup> was established Yemeni Islamic financing and investment in 1995, under license Central Bank of Yemen (No.271). The bank has contribution of local and foreign and external contributions accounted for 22.5% in 1996.

<sup>97</sup> Islam in Yeman: available at <http://www.en.wikipedia.org> (23 December 2011)

<sup>98</sup> SABA ISLAMIC BANK: available at <http://www.sabaislamicbank.com> (24 December 2011)

<sup>99</sup> National Bank of Yemen (Trust & Experience): Annual report 2010, p26 and p45 (11.01.2012)

<sup>100</sup> ISLAMIC BANK OF YEMEN: available at <http://www.iby-bank.com> (11.01.2011)



### 3.3.9 Lebanon

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Arab Finance Investment House SAL</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>Al Baraka Bank (Lebanon)</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>Arab Banking Corporation</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>Gulf International Bank BSC</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>Lebanese Islamic Bank S.A.L</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>Byblos Bank Africa Ltd</b>	<b>Beirut</b>	<b>Lebanon</b>
<b>National Bank of Kuwait</b>	<b>Beirut</b>	<b>Lebanon</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org> (24 Dec 2011)

Lebanon's population<sup>101</sup> is estimated to be 59.7% Muslim (27% Sunni 27% Shia 5.7%other), 39% Christian and 1.3% other.

The Lebanese Parliament<sup>102</sup> passed an Islamic Banking law in February 2004 and gave the Central Bank of Lebanon the responsibility to license, regulate and supervise Islamic banks. The Central Bank of Lebanon is working closely with the Kuala Lumpur-based Islamic Financial Services Board (IFSB) to see how it can apply Basel 2(is a voluntary agreement between the banking authorities of the major developed countries) provisions and how it can make appropriate assessment of risks associated with Islamic Banking.

Byblos Bank<sup>103</sup> established in Jbeil (Lebanon) in 1950. Byblos Bank is one of the third Leading banks in Lebanon, providing a full range of banking services through one of the country's largest branch networks. The Bank also conducts a wide range of Commercial Banking and other financial activities in Europe and MENA region. Byblos Bank established in 2003 Byblos Bank Africa, a full-fledged Islamic bank headquartered in Khartoum with three branches. Byblos Bank Africa's main lines of business are Commercial Banking and Correspondent Banking. The Shareholders are Byblos Bank S.A.L 56.86%, OPED Fund for International Development (OFID) 17.5%,

<sup>101</sup> Lebanon#Religion: available at <http://www.en.wikipedia.org> (24 December 2011)

<sup>102</sup> Islamic Banking Gains Momentum in Lebanon: available at <http://www.menafn.com> (04 April 2006)

<sup>103</sup> BYBLOS BANK: available at <http://www.byblosbank.com> (21 December 2011)

Islamic Corporation for the Development of Private Sector (ICD) 8.75%, Dr S.Bassil 2.38%, Mr Saleh 2.13% and other 12.38%.

### 3.3.10 Iran

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Bank Tejarat</b>	<b>Tehran</b>	<b>Iran</b>
<b>Bank Mellet</b>	<b>Tehran</b>	<b>Iran</b>
<b>Karafarin Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Saman Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>EN Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Parsian Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Bank of Industry and Mine</b>	<b>Tehran</b>	<b>Iran</b>
<b>Bank Pasargead</b>	<b>Tehran</b>	<b>Iran</b>
<b>Sarmayeh Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Tejarat Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Arab Banking Corporation</b>	<b>Tehran</b>	<b>Iran</b>
<b>ABC (Brasil)</b>	<b>Tehran</b>	<b>Iran</b>
<b>Bank Melli</b>	<b>Tehran</b>	<b>Iran</b>
<b>Sarmayeh Bank</b>	<b>Tehran</b>	<b>Iran</b>
<b>Bank Keshavarzi (Agriculture Bank)</b>	<b>Tehran</b>	<b>Iran</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org> (10 Dec 2011)

Iran is dominated by the Twelver Shia branch of Islam around 90% to 95%<sup>104</sup>. 4% to 8% Iranians belong to the Sunni branch of Islam (Kurds and Iran's Balochi Sunni). 2% are non-Muslim religious minorities including Bahais, Mandeans, Hindus, Yezidis, Yarsanis, Zoroastrians, Jews and Christians.

Bank Mellat<sup>105</sup> is one of the largest (Islamic) commercial banks in the Islamic Republic of Iran. Bank Mellat is ranking among the top 1000 banks of the world. Bank Mellat(Bank of the Nation) is a Private Iranian bank . Currently,

<sup>104</sup> Iran#Religion: From <http://www.en.wikipedia.org> (10 December 2011)

<sup>105</sup> Bank Mellat: From <http://www.en.wikipedia.org> (10 December 2011)

the bank's capital amounts to RIs 13,100bn. The Bank Mellat London branch was joined with the Bank Tejarat branch to form Persia International Bank PLC. The United States Department of the Treasury has mentioned that Bank Mellat and Persia International in their latest watch list of Iranian Banks. UN Security Council Resolution 1803 law, Is the any country have to trade with this two bank, is accepted the violation Of UN.

In 2009 Iranian<sup>106</sup> banks accounted for about 40% of total assets of the world's top 100 Islamic banks. Bank Melli Iran(45.5 billion) followed by Saudi Arabia's Al Rajhi Bank, Bank Mellat with \$39.7 billion and Bank Saderat Iran with \$39.3 billion. Iran holds the world's largest level of Islamic finance assets valued at \$235.3bn. In 2010 Seven out of ten top Islamic banks in the world are Iran bank.

### 3.3.11 Turkey

Special Finance Houses (SFHs), which are operating as Islamic banks in Turkey, are finance institutions that offer a wide range of Shariah-compliant banking services. The Special Finance Houses are part of an international movement to promote Shariah-compliant financial principles<sup>107</sup>.

We analyzed the performance of the SFHs with five main ratios (profitability ratios, liquidity ratios, capital asset ratio, development ratio and the cost income ratio). The profitability ratios were divided into the return on assets (ROA) ratio and return on equity (ROE) ratio.

#### Return on assets (ROA)

ROA=Profit before tax/Total Asses

Table 13 Comparing Ratios

	2001	2002	2003	2004
ASYA FINANS	0.50	1.86	2.76	1.83

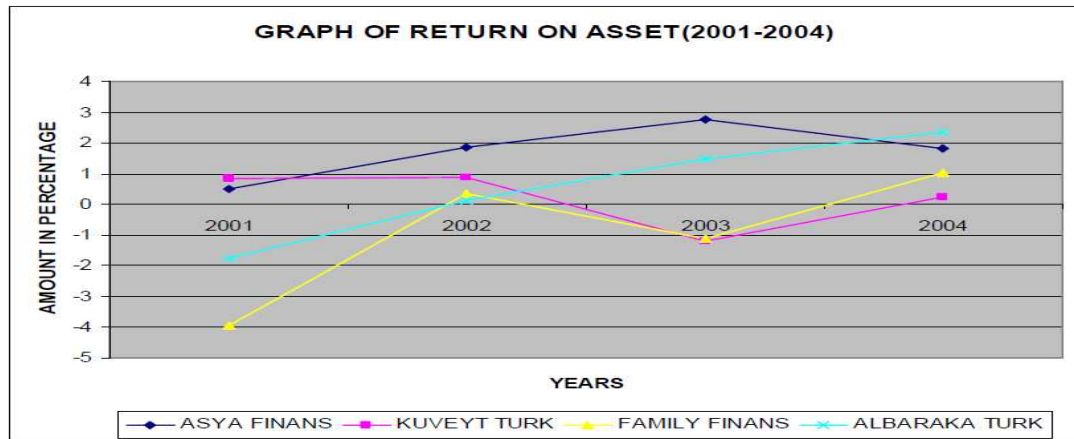
<sup>106</sup> Largest Islamic banks: available at <http://www.wn.wikipedia.org> ( 10 December 2011)

<sup>107</sup> MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,Pg 26

KUVEYT TURK	0.85	0.86	-1.19	0.24
FAMILY FINANS	-3.93	0.36	-1.13	1.02
ALBARAKA TURK	-1.77	0.11	1.49	2.35

Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p. 37 (1 November 2011)

Figure 14 Graph of return on asset (2001-2004)



Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p.38 (1 November 2011)

Figure 14 and Table 13 shows that Asya Finances and Albaraka Turk have excelled performance of return on assets. Both Kuveyt Turk and Family Finances have had a quite big decline in 2003 because of the financial crises reason experienced all over the country. Family Finances is the lowest performed SFHs. Three SFHs (except Kuveyt Turk) are improved in terms of profitability.

### Return on equity (ROE)

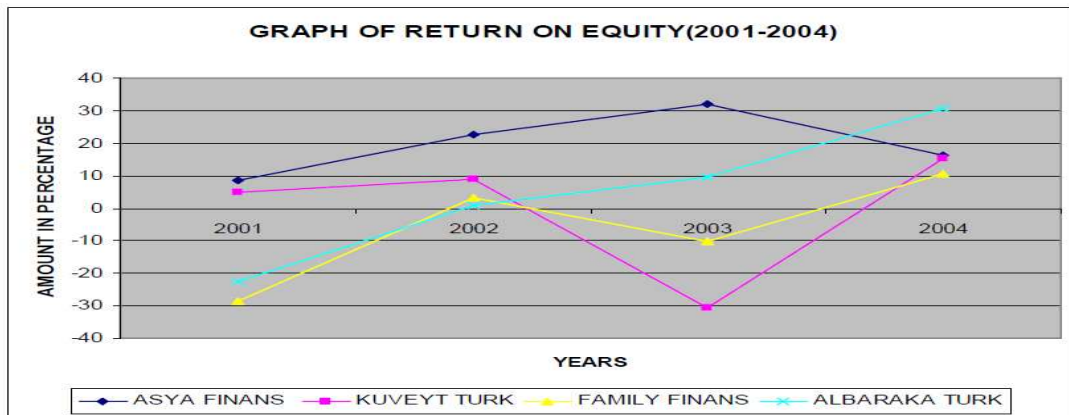
ROE=Profit before tax/Shareholders fund

Table 14 Comparing Ratios

	2001	2002	2003	2004
ASYA FINANCES	8.43	22.51	32.07	16.12
KUVEYT TURK	4.82	8.87	-30.79	15.35
FAMILY FINANCES	-28.56	3.12	-10.26	10.62
ALBARAKA TURK	-22.56	0.96	9.54	30.75

Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p.41 (1 November 2011)

Figure 15 Graph of return on equity (2001-2004)



Source :TKBB (TÜRKIYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p.41 (1 November 2011)

Figure 15 and Table 14 shows that Albaraka Turk has reached the highest amount in 2004 when compared to 2001. Asya Finances has performed during 2001 to 2003. In 2003, both Kuveyt Turk and Family Turk are failed in ROE values. In conclusion, they have better performed during 2001 and 2004.

### Liquidity ratio (Current Ratio)

The current ratio aims to measure the bank's ability to meet its current liabilities with its current assets.

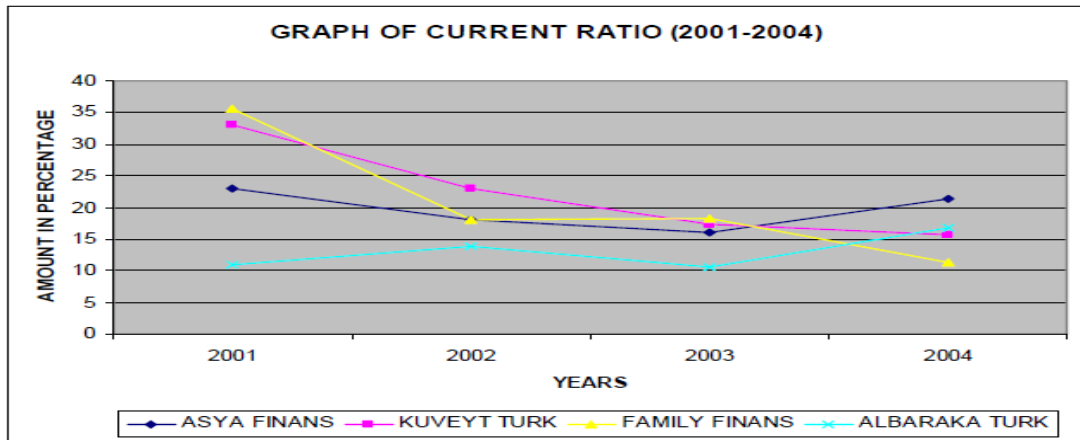
$$ROE = \text{Capital} / \text{Total Assets}$$

Table 15 Comparing Ratios

	2001	2002	2003	2004
ASYA FINANCES	23.10	18.08	16.11	21.35
KUVEYT TURK	33.04	22.92	17.39	15.79
FAMILY FINANCES	35.60	18.15	18.26	11.31
ALBARAKA TURK	11.00	13.97	10.65	16.86

Source: TKBB (TÜRKIYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY, THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University, p.44 (1 November 2011)

Figure 16 Graph of current ratio (2001-2004)



Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p.44 (1 November 2011)

Current ratio values for all SFHs have significantly declined until 2003 because of the less liquid assets to pay back the trust of the depositors. Asya Finans and Albaraka Turk have started to lift upward trend again in 2004. During the financial crisis 2000 and 2001 almost 20 banks and one of the SFH called Ihlas Finans ownership have transferred to Savings Deposit Insurance Fund<sup>108</sup>. These decreases in the current ratio also indicate that SFHs invested too much and so had less liquid assets (stocks and shares) on hold. SFHs trend has started to increase in 2004.

#### Capital asset ratio (CAR)

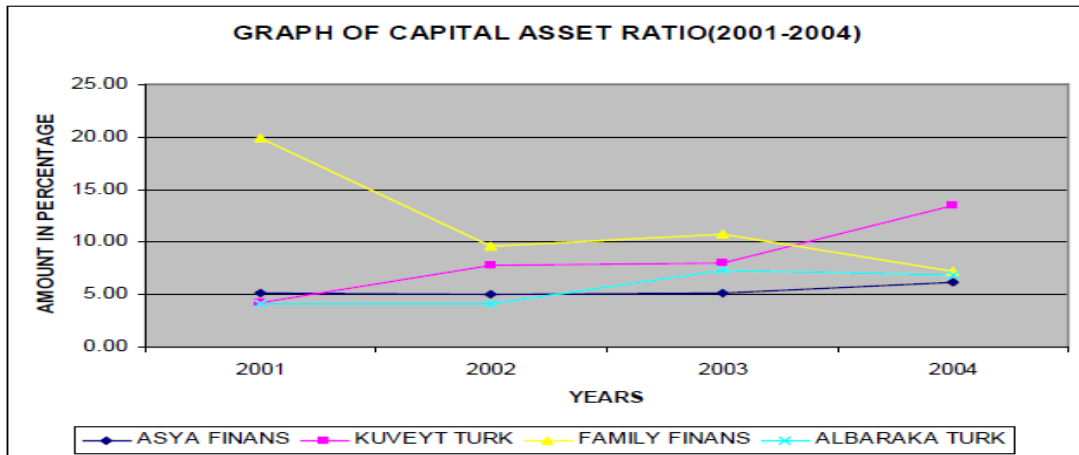
CAR=Capital/Total Assets

Table 16 Comparing Ratios

	2001	2002	2003	2004
ASYA FINANCES	5.12	5.06	5.14	6.21
KUVEYT TURK	4.27	7.72	8.03	13.49
FAMILY FINANCES	19.82	9.60	10.73	7.17
ALBARAKA TURK	4.15	4.16	7.34	6.85

Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY, THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University, p. 46 (1 November 2011)

Figure 17 Graph of capital asset ratio (2001-2004)



Source :TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY, THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University, p. 47 (1 November 2011)

All banks are required to keep a minimum capital asset ratio in the case bank fails. The Lower capital assets ratio indicates liquidity because more of the assets are long term in nature. Table 16 and Figure 17 shows that Family Finances capital asset ratio has felled SFHs, Kuveyt Turk has been the best performed SFHs, Asya Finances and Albaraka Turk has not been performed SFHs.

#### Deployment ratio (DR)

$DR = \text{Total Investment} / \text{Total Liabilities}$

The deployment ratio (DR) shows the efficiency of the bank and how well the bank is making use of its resources.

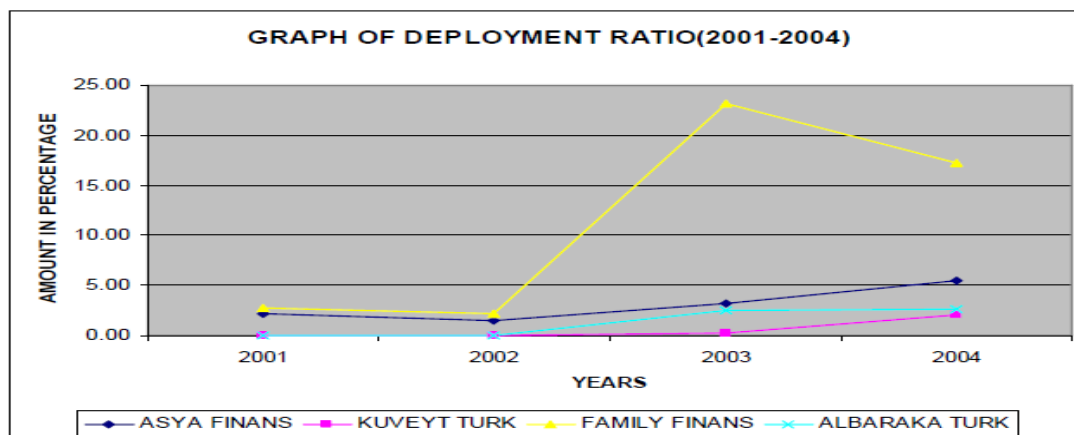
Table 17 Comparing Ratios

	2001	2002	2003	2004
ASYA FINANCES	2.22	1.52	3.20	5.51
KUVEYT TURK	0.00	0.00	0.25	2.04
FAMILY FINANCES	2.72	2.15	23.19	17.20
ALBARAKA TURK	0.00	0.00	2.53	2.65

Source TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY, THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p. 49 (1 November 2011)

<sup>108</sup> MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004,

Figure 18 Graph of Deployment Ratio(2001-2004)



Source TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY, THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University, p. 50

Table 17 and Figure 18 indicate that Kuveyt Turk and Albaraka Turk are very low deployment ratio significance. They are not used their resource well enough unlike Family Finances and Asya Finances. Family Finances has best performed in terms of efficient use of resources.

### Cost/Income ratio

Cost/Income ratio=Operating Costs (Minus Provisions)/Income (including fee incomes and other incomes)

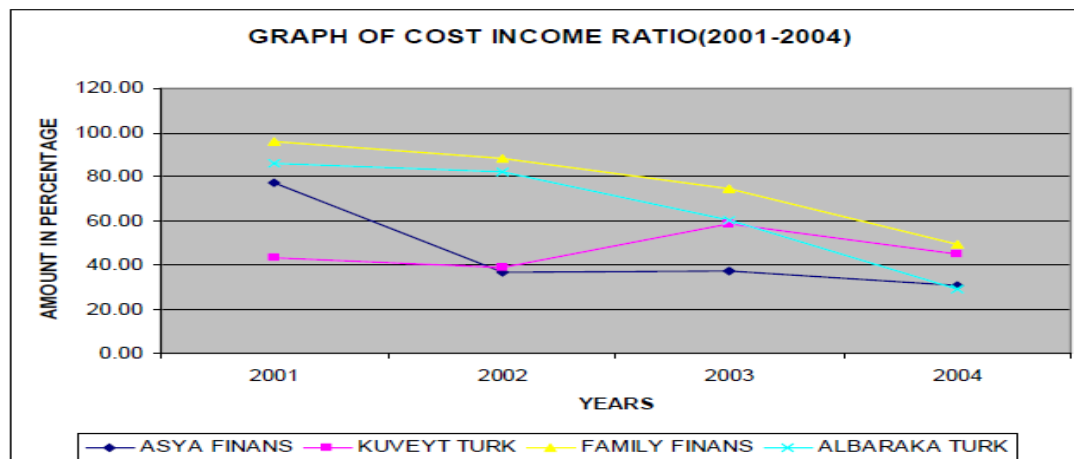
Table 18 Comparing ratios

	2001	2002	2003	2004
ASYS FINANCES	77.40	36.54	37.26	30.62
KUVEYT TURK	43.19	38.64	58.73	45.19
FAMILY FINANCES	95.75	88.12	74.51	49.10
ALBARAKA TURK	86.25	82.36	60.38	28.92

Source: TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p. 52 (1 November 2011)



Figure 19 Graph of cost in income ratio (2001-2004)



Source:TKBB (TÜRKİYE KATILIM BANKALARI BİRLİĞİ) From MELTEM TUMAY , THE PERFORMANCES OF TURKEY'S FOUR SPECIAL FINANCE HOUSES DURING 2001-2004, Loughborough University ,p. 53 (1 November 2011)

Table 18 and figure 19 shows that Asya Finances and kuveyt turk have managed to operate in the most efficient way. Family Finances and albaraka turk has been the worst performed in terms of cost effectiveness having the highest values.

### 3.3.12 Syria

Islamic banks	City	Country
Al Baraka Islamic Bank (Syria)	Damascus	Syria
Cham Bank	Damascus	Syria
Syria Islamic International Bank (SIIB)	Damascus	Syria

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Syria has Muslim 87%<sup>109</sup> (Sunnis account for 74% of the population while the remaining 13% are Shia), Druze 3% and Christian 10%.

Cham Bank<sup>110</sup> was established on the 7<sup>th</sup> Sep 2006 with a capital of 5 Billion Syrian Pounds (100 million USD). Cham Bank is the first Islamic bank in Syria to take the Islamic Sharia approach. The Bank's operations and activities are subject to the Central bank of Syria and the Islamic committee monitoring. The bank was invested 32% of Commercial Bank of Kuwait, 9% of Islamic Development Bank (Inter), 33% Syria companies and 25% Syria public.

Al Baraka Banking Group<sup>111</sup> has opened one bank in Syria 2007. Al Baraka Syria had increased its total assets by 92% to \$108 million, including financings and investments aggregating \$55 million. This growth was funded by its equity of \$53 million and customer deposits including unrestricted investment accounts totaling \$58 million. Total operating income was just above \$2 million and Total operating expenses was just near \$5million. The bank managed to reduce its net loss from \$4 million in 2009 to over \$2 million.

In Sep 7, 2006 the Syria government approved the License to lunch Syria International Islamic Bank<sup>112</sup>. Syria International Islamic bank was established as a Syrian private joint stock company with a capital of 5 billion Syrian pounds under a developed Islamic financial vision of a strategic partnership between the private sectors in the Syrian Arab Republic and the State of Qatar.

Qatar International Islamic Bank with 30% shares of the capital value 1.5 billion SYP(Syria Pound) and Some Qatar Companies with 19% shares of the capital value 950 million SYP(Syria Pound) still invested Syria Islamic International bank.

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<sup>109</sup> Syria#Religion: available at <http://www.en.wikipedia.org> (24 December 2011)

<sup>110</sup> Cham bank: available at <http://www.chambank.com> (23 December 2011)

<sup>111</sup> Syria#Al Baraka: available at <http://www.albaraka.com> (23 December 2011)

<sup>112</sup> Bank's Profile: available at <http://www.siib.sy> (23 December 2011)

**(South East Asia region)**

**3.3.13 Malaysia**

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>OCBC Al-Amin Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Arab-Malaysian Merchant Bank Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Bumiputra Malaysia Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Rakyat</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Dallah Al-Baraka (Malaysia) Holding SDN.BHD</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>CIMB Islamic Bank Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>AFFIN Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Malayan Banking Berhad (Maybank)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank of China</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank of Nova Scotia Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Alliance Merchant Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Am Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>EON Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Public Bank Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>ABN AMRO Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Public Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>ABN AMRO Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank of America Malaysia</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Citibank Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>United Overseas</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>

<b>Bank</b>		
<b>J.P Morgan Chase Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>KAF Investment Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Malaysia Industrial Development Finance Berhad (MIDF)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Negara Malaysia</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>BIMB Trust Ltd (BTL)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Pentasoftware Malaysia Sdn</b>	<b>Petaling Jaya</b>	<b>Malaysia</b>
<b>Bumiputra-Commerce Holdings</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>RHB Banking Group</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Malaysia Industrial Development Finance</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Credit Guarantee Corporation Malaysia</b>	<b>Selangor</b>	<b>Malaysia</b>
<b>Lembaga Tabung Haji</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Sabah Development Bank</b>	<b>Sabah</b>	<b>Malaysia</b>
<b>Bank Perusahaan Kecil &amp; Sederhana</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Cagamas, The National Mortgage Corporation</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>EONCAP Islamic Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Az Zahra</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>

<b>Dayax Islamic Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Persatuan Malaysia Berhad</b>	<b>Penang</b>	<b>Malaysia</b>
<b>Bank Rakyat</b>	<b>Kedah</b>	<b>Malaysia</b>
<b>HSBC Amanah (Malaysia)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Unicom International Islamic Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Sabah Credit Corporation</b>	<b>Sabah</b>	<b>Malaysia</b>
<b>Commerce International Merchant Bankers (CIMB)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Standard Chartered Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Public Bank Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>AmBank</b>	<b>Kuala Lumpur/Sabah/Selangor</b>	<b>Malaysia</b>
<b>Rusb Investment Bank</b>	<b>Labuan</b>	<b>Malaysia</b>
<b>Jalan Sungai Tiang</b>	<b>Kedah</b>	<b>Malaysia</b>
<b>Commerce International Merchant Bankers</b>	<b>Kedah/Sabah/Selangor/Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Komuniti Anda</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>EON Bank Group</b>	<b>Kuala Lumpur/Pinang/Selangor/Sabah</b>	<b>Malaysia</b>
<b>AFFIN Bank</b>	<b>Kuala Lumpur/Selangor/Labuan/Kedah/Selangor</b>	<b>Malaysia</b>
<b>Bank Pembangunan (Malaysia)</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Public Bank Berhad</b>	<b>Kuala Lumpur/Selangor/Kedah/Sabah</b>	<b>Malaysia</b>
<b>Hong Leong Bank Berhad</b>	<b>Kedah/Sabah/Selangor</b>	<b>Malaysia</b>
<b>Asian Fiance Bank</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>

<b>Berhad</b>		
<b>The Bank of Tokyo-Mitsubishi UFJ, Ltd</b>	<b>Kuala Lumpur/Labuan</b>	<b>Malaysia</b>
<b>The Asian Banker</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>
<b>Bank Islam Malaysia Berhad</b>	<b>Kuala Lumpur</b>	<b>Malaysia</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Islam is the state religion in Malaysia. Malaysia religions are 61.3% Islam, 19.8% Buddhism, 9.2% Christianity, 6.3% Hinduism, 1.3% Confucianism, Taoism and other traditional Chinese religion, 0.7% no religion and 1.4% other religion.

Islamic banking system in Malaysia<sup>113</sup> began in September 1963, Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH) was established. PWSBH combined with Pejabat urusan Haji to form Lembaga Urusan dan Tabung Haji (now known as Lembaga Tabung Haji).

The first Islamic bank in Malaysia was established in 1983. In 1993, commercial banks, merchant banks and finance companies were allowed to offer Islamic banking products and services under the Islamic banking Scheme (IBS). The National Syariah Advisory Council additionally set up at Bank Negara Malaysia (BNM) advises BNM on the Shariah aspects of the operations of these institutions as well as on their products and services. Malaysia<sup>114</sup> has appeared the development of Islamic finance and has an inclusive and vibrant Islamic finance system which includes Islamic Banking, Islamic Capital Market, Takaful (Islamic insurance) and Islamic Interbank Money market. Presently, Malaysia's Islamic banking assets reach RM281.7 billion (USD82.9 billion) with an average growth rate 18-20% annually.

#### 1. Affin Islamic Bank Berhad

In 2006, Affin Islamic Bank is a fully-licensed Islamic bank. Affin Islamic Bank has established an International Currency Business Unit (ICBU), which seeks to encourage multi-currency denominated financial

<sup>113</sup> Islamic banking in Malaysia: available at <http://www.en.wikipedia.org>

transactions as well as attracting multi currency deposits. The bank achievement offer a full Shariah-compliant joint-musharakah (joint-venture) financing for a property development project in Malaysia<sup>115</sup>.

#### 2. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad

Al Rajhi Bank is established principles and operations in Middle East. Al Rajhi Bank went out as an international Islamic bank by setting up its first overseas operations in Malaysia. The establishment of Al Rajhi Bank in Malaysia has set the standards within the Islamic banking industry, bringing an international class of services and products that are inventive in accordance to the highest ethical standards<sup>116</sup>.

#### 3. AmIslamic Bank

AmIslamic Bank is the full-fledged Islamic banking secondary of AmBank (M) and is the fifth largest Islamic banking group in Malaysia. In 2006 AmIslamic Bank has built a solid reputation in serving the banking needs of industries and individuals because its beginning as the AmBank Group Islamic Banking Division in 1993. AmIslamic Bank is committed to providing new and innovative products and services with the AmBank Group's partnership with Australliah and New Zealand Banking Group (ANZ) one of Australlia's Leading banks<sup>117</sup>.

#### 4. Asian Finance Bank Berhad

Asian Finance Bank (AFB) incorporated in 2005. The shareholders are Qatar Islamic Bank (70%), RUSD Investment Bank Inc of Saudi Arabia (20%) and Financial Assets Bahrain W.L.L (10%). AFB acts as a prime Islamic financing link between the Gulf states and Malaysia<sup>118</sup>.

#### 5. Bank Islam Malaysia Berhad

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<sup>114</sup> Islamic banking industry: From <http://www.mida.gov.my>

<sup>115</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.4-5

<sup>116</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.5-6

<sup>117</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.6-7

<sup>118</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.10-11

Bank Islam Malaysia was established in 1983 as the nation's first Islamic bank. Bank Islam offers more than 50 Shariah-based banking products and services which serve to Muslims and non- Muslims<sup>119</sup>.

#### 6. Bank Muamalat Malaysia Berhad

Bank Muamalat was established on 1 October 1999 from the Islamic banking divisions of Bank Bumiputra Malaysia, Bank of Commerce (Malaysia) and BBMB Kewangan. It has a nationwide network of 55 branches and an offshore Labuan branch (MIFC status). The Share holders are DRB-Hicom (70%) and khazanah Nasional (30%)<sup>120</sup>.

#### 7. Bank of Tokyo Mitsubishi UFJ Malaysia

Bank of Tokyo Ltd obtained a banking license in June 1959, making it the first Japanese bank in Malaysia to provide a full range of banking services. Bank of Tokyo (Malaysia) was locally incorporated in June 1994. With the combine of Bank of Tokyo Ltd and Mitsubishi Bank Ltd, Bank of Tokyo (Malaysia) changed its name to Bank of Tokyo-Mitsubishi (Malaysia)<sup>121</sup>.

#### 8. CIMB Islamic Bank Berhad

CIMB Islamic, the global Islamic banking and finance franchise of CIMB Group, continues to make great inroads into the fastest growing sector in the domestic and international financial market. The CIMB Islamic franchise is anchored by CIMB Islamic Bank, the group's fully fledged Islamic banking subsidiary licensed under the Islamic Banking Act 1983<sup>122</sup>.

#### 9. Citi Malaysia

Citi has been actively supporting the growth of Islamic finance and was the first international bank to establish a dedicated Islamic banking subsidiary, Citi Islamic Investment Bank. In the past year, Citi has

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<sup>119</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.12-13

<sup>120</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.14-15

<sup>121</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.16-17

<sup>122</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.18-19



continued its tradition of setting industry benchmarks with the highly successful Petronas USD 1.5 billion sukuk and GE Capital USD500 Million sukuk<sup>123</sup>.

#### 10. Deutsche Bank AG, International Islamic bank

Deutsche Bank is a leading global investment bank with a strong and profitable private client's franchise. A leader in Germany and Europe, the bank is continuously growing in North America, Asia and key emerging markets<sup>124</sup>.

#### 11. EONCAP Islamic Bank

EONCAP Islamic Bank (EIBB) was established on 1 April 2006 as a wholly-owned subsidiary of EON Bank with the objective of providing integrated Islamic financial services to cater to the needs of individuals and corporate organizations in both domestic and international markets<sup>125</sup>.

#### 12. Hong Leong Islamic Banking Berhad

Hong Leong Islamic Bank is a wholly-owned subsidiary of Hong Leong Bank. While it began as the Islamic banking arm of HLB, it was eventually incorporated as separate entity on 28 March 2005 and is now a full-fledged Islamic bank<sup>126</sup>.

#### 13. HSBC Amanah Malaysia Berhad

In Malaysia, HSBC has been offering Islamic financial solutions via the Islamic window concepts since 1994. In 2007, HSBC Bank Malaysia became the country's first locally incorporated foreign bank to be awarded a license to establish an Islamic banking subsidiary by Bank Negara Malaysia<sup>127</sup>.

#### 14. Kuwait Finance House Labuan

Kuwait Finance House Labuan is a company incorporated in August 2005 in Labuan, Malaysia under the Labuan, Companies Act, 1990. KFHL is a

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<sup>123</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.20-21

<sup>124</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.22-23

<sup>125</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.24-25

<sup>126</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.26-27

wholly owned subsidiary of Kuwait finance House Malaysia, the first foreign Islamic Bank in Malaysia<sup>128</sup>.

#### 15. Kuwait Finance House Malaysia

In 2005, KFH established its wholly-owned subsidiary and regional headquarters of the Asia Pacific region in Malaysia, Known as Kuwait Finance House Malaysia. Apart from providing Shariah-based financial solutions to customers, the subsidiary acts as an intermediary and facilitator to promote two way investments and trade between Malaysia, Asia Pacific and the Middle East<sup>129</sup>.

#### 16. Maybank Islamic

One of the world's top 15 Islamic financial institutions, it is regarded as Asia-Pacifi's Leading Islamic bank. Maybank is having the largest market share in almost all key segments, the largest branch network serving considerable market segments and a significant expansion of our customer base reflects our strengths, credibility and capability as leading Islamic bank domestically and globally<sup>130</sup>.

#### 17. OCBC Al-Amin Bank

OCBC Al-Amin Bank is wholly-owned secondary of OCBC Bank Malaysia. The Bank was established in 1 December 2008. OCBC Al-Amin are developed based on the applicable Shariah contracts and with the endorsement of a Shariah Advisory Committee to meet the requirements of both Muslims and non-Muslims<sup>131</sup>.

#### 18. PT.Bank Muamalat Indonesia,Tbk

The first financial institution offer Shariah banking in Indonesia. The bank has the largest nationwide network through its partnership with PT. Pos Indonesia. In 2009, BMI established its first international branch in Kuala

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<sup>127</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.28-29

<sup>128</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.28-29

<sup>129</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.30-31

<sup>130</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.32-33

<sup>131</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.34-35

Lumpur Malaysia and become the first bank from Indonesia to open a business network in Malaysia<sup>132</sup>.

#### 19. Public Islamic Bank

Public Islamic Bank (PIBB) is a wholly-owned secondary of Public Bank. PIBB was established 1 November 2008. In 1993, Public bank has offered Islamic banking products and services to the public (Islamic banking window). The bank asset quality has remained one of the industry's strongest, bearing testimony to its prudent credit culture and highly diversified retail-based financing portfolio<sup>133</sup>.

#### 20. RHB Islamic Bank

RHB Islamic Bank a secondary of RHB Banking Group, officially commenced operations on 1 March 2005 when it was awarded the Islamic banking License by Bank Negara Malaysia (Central Bank). The Bank is the first commercial banking group in Malaysia to have a full-fledged Islamic bank<sup>134</sup>.

#### 21. Standard Chartered Saadiq

Standard Chartered Saadiq(truthful) is a wholly-owned Islamic banking secondary of Standard Chartered Bank Malaysia. The bank was launched in Malaysia in 2007 as Standard Chartered's global brand. The bank established globally for Islamic financing solutions by raising in excess of RM83.2 billion (USD26 billion) for sovereigns, Islamic financial institution & corporations<sup>135</sup>.

#### 22. Unicorn International Islamic Bank Malaysia

Unicom International Islamic Bank Malaysia was accepted an international Islamic Bank license by Bank Negara Malaysia on 14 December 2007. Unicorn Malaysia is a wholly-owned secondary of Unicorn Investment Bank (Unicorn) headquartered in Bahrain. Unicorn Investment Bank was

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<sup>132</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.36-37

<sup>133</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.38-39

<sup>134</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.40-41

<sup>135</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.42-43

established in 2004. Unicorn Malaysia is the first foreign Islamic bank to be licensed to conduct a full range of foreign currency investment banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative<sup>136</sup>.

### 3.3.14 Indonesia

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Bank IFI</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>Bank Muamalat (Indonesia)</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>Bank Syariah Mandiri</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>HSBC Amanah (Indonesia)</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>Unit Pembiayaan UKM</b>	<b>Surakarta</b>	<b>Indonesia</b>
<b>Al Baraka Islamic Bank (Indonesia)</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>BANK MANDIRI (PERSERO) Tbk</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>HSBC Amanah (Indonesia)</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>Bank Indonesia</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>PT. The Bank of Tokyp-Mitsubishi UFJ, Ltd</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>PT Bank Maybank Indo corp</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>BRI Syariah</b>	<b>Jakarta</b>	<b>Indonesia</b>
<b>PT. Bank Negara Indonesia</b>	<b>Jakarta</b>	<b>Indonesia</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>  
Islam is the primary religious in Indonesia<sup>137</sup>. Indonesia has a larger Muslim population than any other country in the world. Indonesia 202.9 million identified as Muslim (88.2% of the total population). The Ministry of Religious Affairs extends official status to six faiths: Islam, Catholicism, Protestantism, Buddhism, Hinduism and Confucianism.

Bank Muamalat Indonesia (BMI)<sup>138</sup> was the first commercial bank in Indonesia to implement Islamic Sharia principles in running the operation. BMI is the biggest Islamic Bank in Indonesia<sup>139</sup>. BMI has started to provide

<sup>136</sup> THE MIFC COMMUNITY DIRECTORY( Connecting Business with Islamic Finance) Volume 2,p.44-45

<sup>137</sup> Islam in Indonesia available at <http://www.en.wikipedia.org> (8 December 2011)

<sup>138</sup> Bank\_Muamalat: available at <http://www.en.wikipedia.org> (8 December 2011)

<sup>139</sup> Islamic Finance News Awards poll 2008

foreign exchange service and Funding products using the principle of Wadiah (deposit) and Mudharabah (profit-sharing) and Fincancing products using the principle of Bai (Buy and Sell), Musyarakah (Equity Sharing), Mudharabah (Profit-Sharing) and Ijarah (Rent). BMI <sup>140</sup>vision is to become the premier sharia bank in Indonesia, dominant in the spiritual market, admired in the rational market. BMI mission is to become a role model among the world's shariah financial institutions, emphasizing in entrepreneurial spirit, managerial excellence and innovative investment orientation to maximize value to stakeholders.

Bank Mandiri<sup>141</sup> is the largest bank in Indonesia in term of assets, loans and deposits. Total assets were USD 46.4 billion. Bank Mandiri also has Capital Adequacy Ratio (CAR) of 23%, Return on Assets (ROA) of 0.71% and Return on Equity (ROE) of 7.38%. In 2011, Bank Mandiri is the first largest bank in Indonesia by total assets. In History, Bank Mandiri is the result of the merger made by Indonesia Government from oldest government-owned banks. This bank had failed in 1998. Those four banks were Bank Bumi Daya (BBD), Bank Dagang Negara (BDN), Bank Export Import (Exim) and Bank Pembangunan Indonesia (Bapindo).

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<sup>140</sup> Bank Muamalat: available at <http://www.muamalatbank.com> (9 December 2011)

<sup>141</sup> Bank Mandiri: available at <http://www.en.wikipedia.org> (10 December 2011)

### 3.3.15 Brunei

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>The Islamic Bank Brunei Berhad</b>	<b>Bandar Seri Begawan</b>	<b>Brunei</b>
<b>Bank Islam Brunei Darussalam Berhad</b>	<b>Bandar Seri Begawan</b>	<b>Brunei</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Islam is Brunei official religion. 64% of the population is Muslim. Buddhism 13%, Christianity 10% and 7% Freethinkers<sup>142</sup>.

The department of financial services (Treasury), the Brunei Currency Board and the Brunei investment agency, under the ministry of finance, perform most of the functions of a central bank<sup>143</sup>. 7 July 2005, The Sultan of Brunei has conformed for the proposed merger of Islamic Bank of Brunei Berhad (IBB) with Islamic Development Bank of Brunei Berhad (IDBB).

Bank Islam Brunei Darussalam Berhad's (BIBD)<sup>144</sup> vision is to improve the quality of life of individuals through Islamic Finance. It has selected to expand its financial expertise into multiple arenas to assist the country in realizing its financial potential and to play a pivotal role in assisting the economic development of the Sultanate. Bank Islam Brunei Darussalam (BIBD)<sup>145</sup> confirmed that they will be providing financing of US\$75000000(\$97500000) to Turkiye Finans Katilim Bankasi (TFKB) under the bank's Murabaha Financing Facility. BIBD said the financing facility will be for five years and will provide funding for small and medium enterprises (SME) in Turkey.

<sup>142</sup> Brunei: available at <http://www.en.wikipedia.org> (5 December 2011)

<sup>143</sup> Muslim Trade: available at <http://www.muslimtrade.net> (5 December 2011)

<sup>144</sup> BANK ISLAM BRUNEI DARUSSALAM: available at <http://www.bibd.com.bn> (5 December 2011)

<sup>145</sup> Bandar Seri begawan, Focus transition for banks: From <http://www.bruneitimes.com.bn>(30.12.2011)

## (South Asia region)

### 3.3.16 Pakistan

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Al-Tawfeek Investment Bank Ltd</b>	<b>Lahore</b>	<b>Pakistan</b>
<b>First Pak Modaraba</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Muslim Commerical Bank Ltd</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Union Bank Limited</b>	<b>Multan</b>	<b>Pakistan</b>
<b>State Bank of Pakistan</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>BankIslami Pakistan</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Allied Bank</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Saudi Pak Commercial Bank Ltd</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Al Baraka Islamic Bank (Pakistan)</b>	<b>Lahore</b>	<b>Pakistan</b>
<b>Soneri Bank Limited</b>	<b>Lahore</b>	<b>Pakistan</b>
<b>Meezan Bank Ltd</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Habib Metropolitan Bank Ltd</b>	<b>Islamabad/Karachi/Lahore/Multan</b>	<b>Pakistan</b>
<b>UBL Ameen</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>Dawood Islamic Bank Ltd</b>	<b>Karachi/Lahore/Islamabad/Multan</b>	<b>Pakistan</b>
<b>BankIslami Pakistan</b>	<b>Islamabad/Lahore/Multan/Karachi</b>	<b>Pakistan</b>
<b>The Bank of Tokyo-Mitsubishi UFJ,Ltd.</b>	<b>Karachi</b>	<b>Pakistan</b>
<b>MCB Bank</b>	<b>Karachi/Lahore/Islamabad</b>	<b>Pakistan</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Pakistan is the second-most population Muslim majority country and has the second largest Shi'a population in the world. 97% of the Pakistanis are Muslim. After Islam, Hinduism and Christianity are the largest religions in Pakistan.

Meezan Bank Limited is listed company offering Islamic Banking in Pakistan. The Bank was first incorporated on January 27, 1997. The Bank was granted

Pakistan's first full-fledged commercial banking license built to Islamic Banking by the State Bank of Pakistan. The Banks main shareholders are including the Pak Kuwait Investment Company, the Islamic Development Bank of Jeddah and the Shamil Bank of Bahrain. Average growth in deposits has been 55% per annum during this period while the branch network grew from 4 to 201. In 2008, Meezan Bank was awarded Best Islamic Bank in Pakistan. Deposit base grew to Rs. 70 billion and the total financing portfolio amounted to Rs. 39 billion.

Dubai Islamic Bank Pakistan Limited<sup>146</sup> (DIBPL) is a bank based in Pakistan. In 2006 the bank is established by the Dubai Islamic group. This group company is based in Dubai, United Arab Emirates.

Burj Bank<sup>147</sup> Limited (Dawood Islamic Bank Limited) is Pakistan's sixth full-fledged Islamic commercial bank. The Bank is established by State Bank of Pakistan in 2006 and owned by the First Dawood Group. In 2009, the bank has revenue PKR 1188 Million and Net income PKR 292.63 Million.

BankIslami Pakistan Limited ("BankIslami")<sup>148</sup> was the first Islamic Commercial Bank to receive the Islamic banking license from State Bank of Pakistan in 2005. The bank has 102 branches spread over 49 cities of Pakistan, revenue PKR 3806209 Million and PKR 46550 Million.

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<sup>146</sup> DIBPL: available at <http://www.en.wikipedia.org> (19 December 2011)

<sup>147</sup> Burj-Bank: available at <http://www.en.wikipedia.org> (19 December 2011)

<sup>148</sup> BankIslami Pakistan: available at <http://www.en.wikipedia.org> (19 December 2011)



### 3.3.17 Bangladesh

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Islami Bank Bangladesh Limited</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>HSBC Amanah</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>Southeast Bank Limited</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>ICB Islamic Bank Ltd</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>Shahjalal Islami Bank Ltd</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>Southeast Bank Limited</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>HSBC (Bangladesh)</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>Al-Arafah Islami Bank</b>	<b>Dhaka</b>	<b>Bangladesh</b>
<b>The Bank of Tokyo-Mitsubishi UFJ, Ltd</b>	<b>Dhaka</b>	<b>Bangladesh</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Islam is the largest religion of Bangladesh. Bangladesh total population is 90.4%. Muslim population is 148.6 million<sup>149</sup>, which is the third largest Muslim population in the world. Islam 89.6%, Hinduism 9.3%, Buddhists 0.7%, Christian 0.3% and Animists 0.1%<sup>150</sup>.

Islamic Bank Bangladesh Ltd<sup>151</sup> introduced a full package of banking services in August 1983. Islamic bank Bangladesh limited is considered to be first interest free bank in South East Asia. It is listed with Dhaka Stock Exchange Ltd and Chittagong Stock Exchange Ltd. Authorized Capital of the Bank is Tk 2000000 million (\$ 267.02 million) and Paid-up Capital is Tk 10007.71 million (\$ 133.61 million) having 63,001 shareholders as on 30 June 2011.

ICB Islamic Bank<sup>152</sup> has been authorized by the Bangladesh Bank to carry on the banking business in Bangladesh but actual banking operations commenced on May 20 1987. ICB Banking Group has presence in 14 countries of Africa, Asia and Europe. Recently it has enlarged it horizon to Lao PDR and Malawi.

<sup>149</sup> Islam in Bangladesh: available at <http://www.en.wikipedia.org> (4 December 2011)

<sup>150</sup> Bangladesh: available at <http://www.en.wikipedia.org> (4 December 2011)

<sup>151</sup> Islami Bank Bangladesh Limited: available at <http://www.islamibankbd.com> (4 December 2011)

<sup>152</sup> ICB Islamic Bank Limited: available at <http://www.icbislamic-bd.com> (4 December 2011)

The banking system of Bangladesh<sup>153</sup> is a mixed one comprising nationalized, private and foreign commercial banks. Bangladesh Bank is the central bank of the country and is in charge of monetary policies of the Government and controls all commercial banks. The banking sector is one of the fast growing sectors of economy in Bangladesh.

The main object of the Islamic banking in Bangladesh

To establish a partnership relationship with customers

To eliminate the idea of the debtor-creditor relationship of traditional banks

To establish welfare oriented banking system

To mobilize savings towards productive sectors

To invest on profit and risk sharing basis

To invest to those businesses sectors that is found legal from

The religious point of view

To accept deposits on profit and loss sharing basis

To create employment opportunities by investing savings towards prospective economic sectors

To extend banking services towards the poor, helpless and low-income group of people in the society in order to uplift of their standard of living

To contribute to establishment of a society by equitable distribution of wealth

To establish justice in trade and commerce in the country

To develop morals among the people and to establish the shariah in the field of trade and commerce

To render services for the economic development of the nation

To contribute towards establishment of an Islamic Economic System in the Country.

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<sup>153</sup> Mohammed Nurul Alam, ISLAMIC BANKING IN BANGLADESH: A CASE STUDY OF IBBL ,P.7 (07.01.2012)

## (Caucasus region)

### 3.3.18 Azerbaijan

Islamic banks	City	Country
Kauthar Bank	Baku	Azerbaijan

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

The Republic of Azerbaijan is the largest country in the Caucasus region of Eurasia. 95% of the population is Muslims. 85% of the Muslims are Shia Muslims and 15% Sunni Muslims.

The Kauthar bank<sup>154</sup> is one of the first commercial bank in Azerbaijan. Since 1988, The Kauthar Bank JSC has been working in Azerbaijan's bank sector. The previous name of the bank was "Universal Bank". The structure of the regulation of the bank capital (state organization 0.04%, private organization 0.08%, residential physical person's share 93.01% and foreign capital 6.87%).

The International bank of Azerbaijan (IBA) is the state controlled bank operating in the Republic of Azerbaijan<sup>155</sup>. The IBA<sup>156</sup> created a consulting firm (Ernst& Young/Baker McKenzie; Price Water House/Salans; Pinsent Masons/KPMG; Ekvita/ Islamic Finance Advisory Assurance Services) to help for new Islamic bank window. Another bank, Majority-Russian-owned Nikoil bank started offering clients the ability to make interest-free deposits. Amrah bank partly owned by the Bahrain-based International Investment Bank. Amrah bank has announced plans to offer "Sharia-complaint financial products.

Yet Azerbaijan<sup>157</sup> needs legal framework governing the development of this direction (Islamic banking system). The Central bank of Azerbaijan (CBA) continues to investigate issues of implementing the Islamic banking principles, which is scheduled to be considered within the overall strategy of

<sup>154</sup> Kauthar Bank: available at <http://www.kautharbank.com> (3 December 2011)

<sup>155</sup> International Bank of Azerbaijan: available at <http://www.en.wikipedia.org> (3 December 2011)

<sup>156</sup> Islamic Banking Knocking on the Door: available at <http://www.eurasianet.org> (20 June 2011)

the banking system and estimate in relation to how it is beneficial to the Azerbaijani economy.

### 3.3.19 Kazakhstan

Islamic banks	City	Country
LARIBA Bank	Almaty	Kazakhstan
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Almaty	Kazakhstan
Islamic Development Bank	Almaty	Kazakhstan

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>  
Islam<sup>158</sup> is the largest religion in Kazakhstan. 70% of the country's population is Muslim, 26.6% Christian, 0.1% Buddhists, 0.2% other (mostly Jews) and 2.8% non-believers and 0.5% chose not to answer. Al Hilal Bank<sup>159</sup> (UAE) will be establishing an Islamic bank in Kazakhstan. For Al Hilal Bank<sup>160</sup> is the first outside Islamic bank and the first Islamic bank in the republic of Kazakhstan. Al Hilal of the United Arab Emirates opened in March 2010. Malaysia trustee firm Amanah Raya Bhd expects to obtain licenses to set up Kazakhstan's second Islamic Bank in the quarter of 2011. It will open its doors in the country by the second quarter of 2012.

The global economic crisis hit Kazakhstan in 2008<sup>161</sup>; Domestic banks struggled to repay money for the west because they had borrowed from the west. And also the United States and Europe stopped loaning money to Kazakh banks. Finally Capital from Islamic banks in the Middle East and Southeast Asia should help fill the gap.

Lariba bank operates in a high-risk economic and banking environment in the Republic of Kazakhstan. Lariba is a small Kazakh commercial bank with a market share of about 0.1% and four full-service branches. Its small capital

<sup>157</sup> What are prospects of Islamic banking in Azerbaijan: available at <http://www.today.az> (4 December 2011)

<sup>158</sup> Kazakhstan #Religion: available at <http://www.en.wikipedia.org> (15 December 2011)

<sup>159</sup> The ultimate Middle East Business resource: available at <http://www.ameinfo.com> (01 April 2009)

<sup>160</sup> Kazakhstan eyes second Islamic bank in 2011: available at <http://www.reuters.com> (16 Jan 2011)

<sup>161</sup> Kazakhstan expected to license second Islamic bank next quarter: available at <http://www.universalnewswires.com> (9 January 2012)

(base-Kazakhstani tenge (KZT) 4.0 billion (\$33 million) at midyear 2008) leaves the bank vulnerable to external shocks and the changing fortunes of its largest customers<sup>162</sup>.

### **(Africa region)**

#### **3.3.20 Algeria**

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Banque Al Baraka D'Algeria</b>	<b>Algiers</b>	<b>Algeria</b>
<b>Arab Banking Corporation</b>	<b>Algiers</b>	<b>Algeria</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Islam<sup>163</sup> is the main religious with 99 percent of the population. There are also some 250000 Christians in the country including about 100000 Roman Catholics and 150000 to 200000 evangelical Protestants and very small number of Algerian Jews lives in Algeria.

In Algeria<sup>164</sup>: al-Baraka Bank, Gulf Bank in Algeria, al-Salam Bank and Salama Insurance Company: This all Islamic banks in the Algerian market is still marginal (not exceeding 1.5%). Public banks control the banking sector in Algeria; the private banks only constitute 12%. Islamic windows opening at Algeria public banks are obligated by the Bank of Algeria government. And also the real property loans are granted by banks is based on interest rates. Algeria people are still continuing to borrow money to buy housing units in the normal life. Algeria<sup>165</sup> needs legal reforms to encourage the growth of sharia-compliant finance, bankers and business expects.

Now, Abu Dhabi Islamic Bank<sup>166</sup> and Kuwait Finance house have applied banking license to work in Algeria. This answer did not come yet, we believe

<sup>162</sup> Alacra store(Jiont Bank Lariba Bank): available at <http://www.alacrastore.com>( 3 Mar 2009)

<sup>163</sup> Algeria#Religion: available at <http://www.en.wikipedia.org> (3 December 2011)

<sup>164</sup> Islamic banking gains popularity in Algeria: available at <http://www.halajournal.com> (3 December 2011)

<sup>165</sup> Algerians seek expanded Islamic banking options: available at <http://www.magharebia.com> (3 December 2011)

<sup>166</sup> Prospects and problem for Islamic Finance in Algeria: available at <http://www.ifinanceexpert.wordpress.com>( 5 Feb 2010)

this market will grow rapidly. The local one day will launch an Islamic bank with capital of 100% Algeria.

### 3.3.21 Kenya

Islamic banks	City	Country
Gulf African Bank	Nairobi	Kenya

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

The vast majority of Kenyans are Christian (83%)<sup>167</sup> with 47.7% are Protestant and 23.5% are Roman Catholic. Sixty percent of the Muslim population lives in Coast Province constituting 50% of the total population. Western areas of Coast Province are mostly Christian. The upper part of Eastern Province is home to 10% of the country's Muslims where they constitute the majority religious group. There is a large Hindu population in Kenya (around 50000 Baha'is) who has played a key role in the local economy.

Central Bank of Kenya<sup>168</sup> has licensed two institutions, First Community Bank Ltd (May 2007) and Gulf African Bank Ltd (September 2007) to offer purely Sharia compliant financial services besides eight other conventional commercial banks(the Barclays Bank Kenya and Kenya Commercial Bank) that have opened windows to offer Sharia compliant banking products(Islamic banking windows).

Current market surveys indicate<sup>169</sup> that a large section of the Muslim community in Kenya remains untapped by the banking industry due to either non availability of riba-free banking on low incomes. The research indicates that potential profitable markets for Islamic banking will be the business community in Nairobi, Mombasa and other towns with sizeable Muslim communities.

<sup>167</sup> Religion in Kenya: available at <http://www.en.wikilpedia.org> (12 December 2011)

<sup>168</sup> CENTRAL BANK OF KENYA (RISK MANAGEMENT SURVEY FOR THE BANKING SECTOR) p.11 (10.01.2011)

<sup>169</sup> ISLAMIC BANKING: GENERAL OVERVIEW: available at <http://www.nzibo.com> (10.01.2011)

### 3.3.22 Mauritania

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>BMCI Mauritanie</b>	<b>Nouakchott</b>	<b>Mauritania</b>
<b>Banque Al Wava Mauritanienne Islamique</b>	<b>Nouakchott</b>	<b>Mauritania</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

The country is nearly 100% Sunnis Muslim. In 1965<sup>170</sup>, The Roman Catholic Diocese of Nouakchott serves the 4500 Catholics in Mauritania. Official language is Arabic.

Banque Islamique de Mauritanie (BIM)<sup>171</sup> is one of the four West African banks falling under Dakar-based Tamweel Africa Group. BIM is a startup universal bank with a paid-up capital of MRO 6,000,000,000 equivalent to USD 21,201,401. The main shareholder of BIM (99.99%) is a joint-venture between the Islamic Corporate Development 60% and the private sector arm of the Islamic Development Bank Group and Bank Asya 40%.

There are 10 commercial banks along with the Central Bank of Mauritania. The Generale de Banque de Mauritanie (GBM)<sup>172</sup> is the largest bank and controls nearly 25% of bank assets and 25% of deposits. GBM is followed by Banque Mauritanienne pour le Commerce International (BMCI) which has nearly 20% of deposits and credits. BMCI<sup>173</sup> is a bank based in Morocco. It is subsidiary of the French group BNP Paribas. BNP Paribas S.A is a global banking group, first headquartered in Paris, Second headquartered in London. BNP Paribas<sup>174</sup> was ranked by Bloomberg and Forbes as the largest bank and largest company in the world by assets with over \$3.1 trillion in October 2010.

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<sup>170</sup> Mauritania#Religion: available at <http://www.en.wikipedia.org> (15 December 2011)

<sup>171</sup> BIM to launch Islamic banking operations with iMAL: available at <http://www.bobsguide.com> (15 December 2011)

<sup>172</sup> Sundar Swaminathan, Mauritania, p.8 (10.01.2011)

<sup>173</sup> BMCI: available at <http://www.en.wikipedia.org> (15 December 2011)

### 3.3.23 Morocco

Islamic banks	City	Country
Islamic International Arab Bank	Casablanca	Morocco

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>  
Islam is the largest religion in Morocco<sup>175</sup>.98.7% of the total population are Sunni Muslims.

Islamic banking in Morocco<sup>176</sup> is relatively new and only regular banks are allow offering these specialized products. The Central bank is in the process of approving fully fledged Islamic banks from other countries to operate within Morocco. Islamic banking includes financial services that are considered halah. Halal services include Ijarah, Musharakah and Mubarahah. The Islamic International Arab Bank<sup>177</sup> was established in the Hashemite Kingdom of Jordan as a public shareholding company in accordance with the companies' law of 1989 and the company was registered in the Register of Public Shareholding companies under No.327 on 30 March 1997.

Attijariwafa Bank<sup>178</sup> is the largest bank in Morocco and the third one in Africa. Attijariwafa was established after a merger between Banque Commerciale du Maroc and Wafabank. The bank maintains offices in London, Paris, Brussels, Madrid, Barcelona, Milan, Shanghai, The Netherlands, Tunisia, Senegal, Mauritania and Mali. Attijariwafa Launches Islamic finance subsidiary in Morocco<sup>179</sup>.

The fiscal and tax issues surrounding Islamic banking instruments are thorny problems for the credit sector in Morocco<sup>180</sup>. In my opinion, Morocco has to improve Islamic banking system or Islamic banking window system in commercial bank.

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<sup>174</sup> BNP Paribas: available at <http://www.en.wikipedia.org> (15 December 2011)

<sup>175</sup> Morocco: available at <http://www.en.wikipedia.org> (18 December 2011)

<sup>176</sup> Islamic Banking and Moroccan Attitudes Towards Interest: available at <http://www.boundedirrationality.com> (18 December 2011)

<sup>177</sup> Islamic International Arab Bank: available at <http://www.wn.wikipedia.org> (18 December 2011)

<sup>178</sup> Attijariwafa Bank: available at <http://www.en.wikipedia.org> (18 December 2011)

<sup>179</sup> CPIFINANCIAL: available at <http://www.cpi-financial.net> (18 December 2011)

<sup>180</sup> Islamic Banking in the Maghreb: available at <http://www.north-africa.com> (18 December 2011)



### 3.3.24 Sudan

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Al Baraka Bank (Sudan)</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Tadamon Islamic Bank</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Bank of Khartoum (BoK)</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Blue Nile Mashreq Bank</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Financial Investment Bank (FIBA)</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Faisal Islamic Bank (Sudan)</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Byblos Bank Africa Ltd</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>United Capital Bank (UCB)</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Saudi Sudanese Bank</b>	<b>Khartoum</b>	<b>Sudan</b>
<b>Omdurman National Bank</b>	<b>Khartoum</b>	<b>Sudan</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Sudan estimated 97% of the population Muslim. In 2006, Sudan divided north and south. All banks in the North would operate according to Islamic banking system (internet-free).

Central bank of Sudan<sup>181</sup> was established in 1960. In 1984, Sudan introduced Islamic law. The banking and financial industry changed its practices to conform with Shariah. In 1993, the government established the Shairah High Supervisory Board (SHSB) to ensure compatibility of financial practices with Islamic principles. The bank sells Financial Certificates that comply with Islamic financial principles. Sudan has dual banking system, Islamic one in the north of Sudan and the other traditional in South Sudan.

Bank of Khartoum (BOK) is the largest Bank in Sudan. The bank is also the commercial bank with the oldest continuous history in the country. In 1948 The Ottoman Bank established a branch in Khartoum.

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<sup>181</sup> Bank of Sudan: available at <http://www.en.wikipedia.org> (20 December 2011)

### 3.3.25 Tunisia

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Best-Bank Tunisie</b>	<b>Tunis</b>	<b>Tunisia</b>
<b>Al Baraka (Tunisia)</b>	<b>Tunis</b>	<b>Tunisia</b>
<b>Arab Banking Corporation</b>	<b>Tunis</b>	<b>Tunisia</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

The majority of Tunisia's population<sup>182</sup> is 98% Muslim, 1% Christianity and 1% Judaism.

Arab Banking Corporation (ABC)<sup>183</sup> is headquartered at ABC Tower in the Diplomatic Area of Bahrain. ABC bank branch has 21 countries around the world. The bank has three subsidiaries: ABC International Bank plc, ABC Islamic Bank and ABC Tunisia. The ownership of ABC are Kuwait Investment Authority 29.7%, Central Bank of Libya 29.5%, Abu Dhabi Investment Authority 27.6% and other shareholder 13.2%.

BEST Bank<sup>184</sup> was established as part of the Tunisian Government's policy which aims to Encourage Arab and Islamic Investment in Tunisia and to develop socioeconomic relations between Arab and Islamic countries.

Al Baraka Tunis<sup>185</sup> was incorporated in Tunisia as a joint stock company in 1983. Within Tunisia provides finance in respect of agricultural, industrial, tourism and export industries. Al Baraka Tunis holds 13% of the Tunisian Offshore banks Sector of total assets and about 27% of its total deposits.

Mr Jebali<sup>186</sup> (Hamadi Jebali R has been put forward by Tunisia's Islamist party as the next prime minister) said Islamic banks will not be established across the country, the banking system in Tunisia will not be changed and the activity of businessmen will not be limited. On the contrary, they will be backed for attracting Arab and foreign investments.

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<sup>182</sup> Tunisia : available at <http://www.wikipedia.org> (22 December 2011)

<sup>183</sup> Arab Banking Corporation: available at <http://www.en.wikipedia.org> (22 December 2011)

<sup>184</sup> BEST BANK : available at <http://www.bestbank.com.tn> (22 December 2011)

<sup>185</sup> Al Baraka Tunis: available at <http://www.barakaonline.com> (22 December 2011)

<sup>186</sup> Tunisia Islamists to form new government within a month: available at <http://www.webcache.googleusercontent.com> (23 December 2011)

### 3.3.26 Senegal

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Sosar Al Amane</b>	<b>Dakar</b>	<b>Senegal</b>
<b>Banque Islamique du Senegal</b>	<b>Dakar</b>	<b>Senegal</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

Islam is the main religion in the country<sup>187</sup>. Islam is practiced by approximately 90% of the country's population.

SALAMA<sup>188</sup> Assurances Senegal is part of SALAMA UAE and incorporated in Senegal in 1988 as a limited liability company. This company began by offering basic insurance products and services. It has grown into a network of seven branches across the country providing a complete suite of takaful(insurance) products in Auto insurance, Housing Insurance, Family Health, Individual Health Insurance, Fire, Construction Risks Insurance and Fishing crafts Insurance.

Banque Islamique du Senegal Bank<sup>189</sup> was created for this purpose, TAMWEEL AFRICA HOLDING 60% of the capital are held by the IDB and 40% by BANK ASYA (1<sup>st</sup> Bank Islamic of Turkey) bringing together all of Islamic banks of the under region (Senegal, Mauritania, Niger, Guinea). The Bank also conducted from October 2010 a capital increase by contribution monetary 7.3 billion to 10 billion CFA FRANCS which greatly strengthened its response capacity.

### 3.3.27 Somalia

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
<b>Amal Bank of Somalia</b>	<b>Bosasso</b>	<b>Somalia</b>

Source: Islamic banks worldwide: From <http://www.muslimtribune.org>

<sup>187</sup> Senegal#Religion: available at <http://www.en.wikipedia.org> (21 December 2011)

<sup>188</sup> SALAMA ASSURANCES SENEGAL: available at <http://www.rusdbank.com> (21 December 2011)

<sup>189</sup> Banque Islamique du Senegal: available at <http://www.bis-bank.com> (24 December 2011)

Most Somalis<sup>190</sup> are Muslims. Christianity is a minority religion in Somalia, Not more than 0.01% of the population.

The Central Bank of Somalia (CBS)<sup>191</sup> is the monetary authority of Somalia. The Bank is in charge of ensuring financial stability, maintaining the internal and external value of the local currency and promoting credit and exchange conditions for the balanced growth of the national economy.

The AMAL Express is the second largest money remittance company in Somalia and has worldwide companies and agencies and was found in 1997 from the joining of 13 individual money remittance firms. The AMAL Express is based in Dubai (UAE). The parent company of Amal Express is AMAL Group, including AMAL Express General Trading in Dubai (HQ), AMAL Express SARL in Djibouti, AMAL Money Wire and AMAL USA Inc. The company has 650 agencies worldwide more than half of these being in Somalia.

**Amal Bank**<sup>192</sup> in Bakara Market. We cannot get the date because the web was not open. <http://www.amal-express.com>.

### **3.3.28 Djibouti**

Djibouti<sup>193</sup> (Republic of Djibouti) is a country in the Horn of Africa. It is bordered by Eritrea in the north, Ethiopia in the west and south and Somalia in the southeast. Djibouti population is predominantly Muslim .Islam is observed by 94% of Djibouti's population (about 740000), 6% are Christian. An Islamic Bank corporate by Somali and Djibouti businessman has been opened in Djibouti. Salam African Bank was opened by Djibouti president Ismail Omar Guelleh<sup>194</sup>.

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<sup>190</sup> Somalia#Religion: available at <http://www.en.wikipedia.org> (25 December 2011)

<sup>191</sup> Central Bank of Somalia: available at <http://www.en.wikipedia.org> (25 December 2011)

<sup>192</sup> Amal Bank : available at <http://www.panoramio.com> (25 December 2011)

<sup>193</sup> Djibouti#Religion: available at <http://www.en.wikipedia.org>

<sup>194</sup> Somalia: Islamic Bank opened in Djibouti: available at <http://www.allafrica.com/stories>

### **3.3.29 Gambia**

The Republic of The Gambia, Gambia is the smallest country on mainland Africa. Gambia surrounded by Senegal except for a short coastline on the Atlantic Ocean in the west. The country is situated around the Gambia River. Gambia area is almost 10500 km<sup>2</sup> with an estimated population of 1700000. Islam is the main religion and practiced by approximately 90% of the country's population. The Christian community represents around 8% of the population.

The Arab Gambian Islamic Bank Limited (AGIB)<sup>195</sup> was established a private limited company in 11 November 1994. AGIB was granted a banking license by Central Bank of The Gambia in 12 September 1996. As the first Islamic Bank in The Gambia, the financial Institution Act 1992 had to be amended to allow for the operation of an Islamic Bank in an entirely conventional banking society. FinBank in July 2008 held a completion meeting with the Board of AGIB to sign a takeover agreement. 70% of AGIB shares were sold and transferred to FinBank with all shareholders, except IDB, getting substantial portion. AGIB currently operates only in the Gambia with 5 branches including Head office.

### 3.4 Islamic banking in Non Muslim Countries

Muslim population is calculated both with the four-fifth of them residing in Muslim countries and the one-fifth residue living in other areas. Islamic Banking draws its strength from its prefix Islam and the basic strength of the system that a sizable number of persons are looking at with favorable opinions. Further, a sizeable section of this 'sizeable' population is also yearning for its success. Muslims can be rightly considered to be the first client base of an Islamic Bank in a new place. Non-Muslim countries are that Muslims are relatively lower in financial, educational and social status as compared to other communities in most of these places. Another characteristic feature is that Islam bating or Islam phobia is present in vocal section of the society.

I analyzed that the first Islamic bank was established in Philippine and the first Islamic bond was started in Luxembourg and the biggest Islamic banking system are still succeed in United Kingdom after that I explained the same culture countries (Baddish) likes India, Sir lank a, Thailand, Singapore and Hong Kong, the same religion countries(Christian) likes Spain, France, Germany, Italy, the Netherland, Switzerland, Denmark and Bosnia, Australia, United State and Canada, the same region continent likes Nigeria, south Africa and Ghana, the same religion countries(declared no religion) Likes Russia and Japan.

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<sup>195</sup> Arab- Gambian Islamic Bank Limited: available at <http://www.accessgambia.com>

## **(Europe region)**

### **3.4.1 Luxembourg**

In 2008, Islam is legally recognized in the country. According to the NATO report there are 4000 Muslims in Luxembourg<sup>196</sup>. In 1983, Luxembourg was the chosen domicile of the first Shariah-compliant insurance company in Europe. The Luxembourg Stock Exchange was the first European stock exchange to enter the Sukuk market, having listed Sukuks since 2002. In September 2008, 14 Sukuks with a combined value of USD 5.5 billion were listed and traded on the Luxembourg Stock Exchange. In September 2008 there were 31 Shariah-compliant investment funds held in 17 Luxembourg domiciled investment vehicles<sup>197</sup>.

### **3.4.2 UK**

The UK is the first country in Europe to have advanced and encouraged retail Islamic banking. According to the Office of National Statistics, the UK<sup>198</sup> Muslims within the UK have the following countries of origin (Pakistan-43%, Bangladesh-16%, India-8%, Other Asian-6%and Other-27%).

#### The role of the UK Government

The early 2000s<sup>199</sup>, The Government has introduced a series of tax and rule changes designed to remove blocks to the development of Islamic finance. The Finance Act of 2003 prevented the multiple payment of Stamp Duty Land Tax on Islamic mortgages. The Finance Act of 2005 and 2006, the government putted other Islamic products on the same (tax footing) as their conventional counterparts. Finance Act 2007 explained the tax framework further in the case of Sukuk. The Finance Act 2008(March), the first government Sukuk was listed on the London Stock Exchange.

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<sup>196</sup> Islam in Luxembourg: available at <http://www.enkikipedia.org> (15 January 2012)

<sup>197</sup> ISLAMIC BANKING AND FINANCE : Insight on possibilities for Europe, p.39 (06 October 2009)

<sup>198</sup> WSBI,ESBG, ISLAMIC BANKING AND FINANCE, Insight on possibilities for Europe, p. 31(8 December 2011)

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
Bank Negara Indonesia (London)	London	UK
HSBC Amanah Finance	London/Bristol	UK
<b>Islamic Bank of Britain (IBB)</b>	London/Birmingham	UK
Islamic Mortgages	London	UK
Islamic Conferences Group	London	UK
Balot Trading Limited (easy4life loans and mortgages)	Birmingham	UK
One Option Finance Ltd	Blackburn	UK
Ramadan Financial Services	London	UK
Siddiqi & Co. (Financial Consultants) Ltd	Middlesex	UK
H20 Financial Service Limited	Essex	UK
Institute of Islamic Banking & Insurance	London	UK
INVESCO Perpetual	Oxfordshire	UK
HBOS plc/Aviva plc	Edinburgh/London	UK
Al Buraq UK	London	UK
Bristol & West Mortgages	Bristol	UK
(Britannia/Dudley) Building Society	Staffordshire Moorlan/Dudley	UK
New Millennium Publishing Limited	Brighton	UK
<b>Gatehouse Bank</b>	London	UK
FRS Global	London	UK
Gulf International Bank, BSC	London	UK
Bank Mandiri (Europe) Ltd	London	UK
Bank of London & the Middle East (BLME)	London	UK
CIMB Bank Berhad	London	UK
<b>ABC (IT) Services Limited</b>	London	UK
<b>European Islamic Investment Bank EIIB (UK)</b>	London	UK
Qatar National Bank	London	UK
BYBLOS BANK EUROPE S.A	London	UK
Bank Indonesia	London	UK
Gulf International Bank B.S.C	London	UK

<sup>199</sup> WSBI,ESBG, ISLAMIC BANKING AND FINANCE, Insight on possibilities for Europe, p. 32 (8December 2011)



The Bank Of Tokyo-Mitsubishi UFJ, Ltd	London	UK
Malayan Banking Berhad (Maybank)	London	UK
National bank of Kuwait(NBK)	London	UK
PT. Bank Negara Indonesia	London	UK
Afghan National Credit & Finance Ltd	London	UK

Source: Shariah fortune <http://shariah-fortune.com> (5 December 2011)

HSBC<sup>200</sup> Amanah is the global Islamic Banking division of the HSBC Group. It was established in 1998 with the aim of making HSBC an international provider of Islamic banking worldwide. In the UK the HSBC Amanah Finance UK is the division which provides a wide range of Islamic financial products, developed in consultation with independent Shariah scholars.

#### Islamic Bank of Britain IBB

IBB was established in July 2002 by Venture Capital Group based in Bahrain. In 2004 IBB began trading as the UK's first independent Shariah compliant retail Bank with all source of capital. In August 2004, IBB raised £40m at 25p/share<sup>201</sup>. Most of the new capital was provided by famous Qatari individuals; including the Emir and other member of the Royal Family These Shareholders (70% total number of shares) continues to dominate the shareholder register today.

Y/E	Gross Income	Declared Profit/(Loss)	Adjusted Profit/(Loss)	Adjusted Diluted EPS	P/E ratio	Divi	Yield
December	£m	£m	£m	p.		p.	%
2008A	4.3	-5.9	-5.9	-1.4	-	0	-
2009E	3.1	-9.3	-9.3	-1.7	-	0	-
2010E	6.4	-7.5	-7.5	-0.6	-	0	-
2011E	15.4	-3.2	-3.1	-0.2	-	0	-
2012E	27.5	+0.8	+0.8	+0.1	67.5	0	-

Source: Hardman &Co, Leaders in Corporate Research: Islamic Bank of Britain Opportunities from Possible Capital Raising, p.1, 14 Dec 2000

<sup>200</sup> For future information on HSBC Amanah UK : [www.hsbcmanah.co.uk/amanahuk/index.html](http://www.hsbcmanah.co.uk/amanahuk/index.html) (7 December 2011)

<sup>201</sup> Islamic Bank of Britain Opportunities from Possible Capital Raising, p.1 (14 Dec 2009)

### 3.4.3 Spain

In 2007, 1 million Muslims live in Spain. Most of them recent immigrants from North Africa, Middle East and South Asia But there are also some Spanish converts estimated at around 20000<sup>202</sup>. The Spanish central bank, Banco De Espana remarks in one of its "Financial Stability" report that Islamic finance and bank offers clear opportunities for the Spanish banking sector. In 2006 Spanish banks (Santander) and The Spanish saving bank "La Caixa" announced that we are really interesting in the Islamic market and Islamic banking window.

The national Islamic authority in Spain, "La Junta Islamica" has started a process for creating an Islamic Bank in Spain<sup>203</sup>. First, the process consists of creating Islamic window facilities in one Spanish bank "Bancorreos" to sell financial products such as current accounts and mortgages.

Islamic banking are managed Islamic finance is coming to Spain. According to financial newspaper Negocios<sup>204</sup>, The Halal Institution is shortly to sign an agreement with the Sa Nostra building society in the Balearic Islands for the creation of an Islamic current account. And also Spanish daily new EL Economista announced that Spanish Muslims want an Islamic Bank<sup>205</sup>.

### 3.4.4 France

France has a Muslim population of around 6 million. However, Islamic banking systems are still lowed in France. Finally in 2007 France announced reforms to adapt its banking legislation to allow more traditional banks to

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<sup>202</sup> Islam in Spain: available at [www.en.wikipedia.org](http://www.en.wikipedia.org) (25 December 2011)

<sup>203</sup> ISLAMIC BANKING AND FINANCE, Insight on possibilities for Europe,p.38, (30 october 2009)

<sup>204</sup> Islamic banking lands in Spain available at <http://www.cibafi.org/newscenter/english> (25 December 2011)

<sup>205</sup> An Islamic Bank in Spain for millions of Muslims: available at <http://sufinews.blogspot.com> (25 December 2011)

engage in Islamic products.<sup>206</sup> In April 2008 the France Government asked to the Paris Euro place to produce a report analyzing the necessary measures in order to make this marketplace a competitive one worldwide in the provision of Islamic products and services. In May 2008 France Upper House of Parliament introduced roundtable discussions with politicians, banker and Shariah scholars to discuss how to support Islamic finance by raising knowledge and changing the legal and fiscal framework<sup>207</sup>. In July 2008 the Financial Markets Authority (AMF) requested the Paris Euro place to establish a working group composed of representatives of the financial industry to give market participants a clear picture of the legal and transparency requirements for listing Sukuk in France.<sup>208</sup> The findings of the Paris Europlace report concluded that France provides a welcoming environment for Islamic finance subject to certain legal and tax adjustments<sup>209</sup>. Some French banks have Islamic investment portfolios that operate through their branches in Muslim countries<sup>210</sup>. Currently only a few of France banks, such as Société Générale or BNP and its subsidiary BNP Paribas Najmahis, offer Islamic products based on "Murabaha". This product is a form of credit that enables customers to make purchases without taking an interest bearing loan.

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
AXA	Paris	France
Credit Agricole, S.A.	Paris	France
Tejarat Bank	Paris	France
ABC International Bank plc	Paris	France
Qatar National Bank	Paris	France
BYBLOS BANK EUROPE S.A	Paris	France

<sup>206</sup> Adnmundo.com 2007, From ISLAMIC BANKING AND FINANCE(PERSPECTIVES),Insight on possibilities for Europe,p.34 (06 December 2011)

<sup>207</sup> Ramadier 2008, From ISLAMIC BANKING AND FINANCE(PERSPECTIVES),Insight on possibilities for Europe,p.34 (06 December 2011)

<sup>208</sup> Goron 2008, From ISLAMIC BANKING AND FINANCE(PERSPECTIVES),Insight on possibilities for Europe,p.34 (06 December 2011)

<sup>209</sup> Paris Euro place 2008, From ISLAMIC BANKING AND FINANCE(PERSPECTIVES),Insight on possibilities for Europe,p.34 (06 December 2011)

<sup>210</sup> Fulconis-Tielens 2007: From ISLAMIC BANKING AND FINANCE(PERSPECTIVES),Insight on possibilities for Europe,p.35 (06 December 2011)

The Bank of Tokyo- Mitsubishi UFJ, Ltd..	Paris	France
National Bank of Kuwait (NBK)	Paris	France

Source: Shariah fortune: <http://shariah-fortune.com> (8 December 2011)

At the end of 2008, Qatar Islamic Bank, Kuwait Finance House and Al-Baraka Islamic Bank (Bahrain) requested licenses to operate in France. This all bank started to operate in France at the end of 2009.

### 3.4.5 Germany

Islamic Banks	City	Country
Deutsche Bank AG	Frankfurt	Germany
Natural World Industrial Group Germany	Berlin	Germany
ABC International Bank plc	Frankfurt	Germany
The Bank of Tokyo- Mitsubishi UFJ,Ltd	Frankfurt/Berlin	Germany

Germany has a Muslim population of 4.3 million, the second largest Muslim population in the EU after France with 5.5 million. Germany has not adopted its regulatory framework to allow for the offer of Islamic products and service in the country.

First<sup>211</sup>, the development of Islamic finance and bank in the country has not received the necessary political support. Second, the Muslim population of Germany is all-important composed of ethnically Turkish people (second or third generation) which in general have shown less interest in Islamic finance and bank than other Muslims. The Deutsche Bundesbank argued that there are still some challenges confronting the financial community with regard to Islamic finance and bank.

Conventional commercial banks, Commerzbank, Deutsche Bank and Dresdener Bank have offered Islamic products and services (Islamic banking windows).

<sup>211</sup> ISLAMIC BANKING AND FINANCE :Insight on possibilities for Europe,p,36(60 October 2009)

Now, Kuveyt Turk had a representative office in Frankfurt-am-Main in Germany. Kuveyt Turk Participation Bank has marketed its profit and loss (PLS) sharing products to stay Turks working and living in Germany. Kuveyt Turk also got permission to set up branches in Germany<sup>212</sup>.

### 3.4.6 Italy

Islamic banks	City	Country
ABC INTERNATIONAL BANK PLC	Milan	Italy
The Bank of Tokyo-Mitsubishi UFJ,Ltd	Milan	Italy

Historical evidence that 12<sup>th</sup> Century Italy which is considered by most economists as the birth place of banking. Banking operations have been practiced in earlier civilizations such as the Islamic, the Roman, the Greek, the Egyptian and even the Babylonian and the Sumerian<sup>213</sup>.

Today Italy has 1.5 million Muslims population. Most of them migrated from Somali, Morocco, Egypt and Tunisia<sup>214</sup>.

Arab Banking Corporation (ABC)<sup>215</sup> started its Islamic Banking Division through ABC Investment & Services Co. (E.C) a wholly-owned branch, based in Bahrain in 1987. The objective was to establish a leading Islamic banking unit, which conformed completely to Shari'a principles.

In March 1998 ABC Investment & Service Co. (E.C) was converted into a fully fledged Islamic individual and was renamed ABC Islamic Bank (E.C).ABC Islamic Bank is supported by the ABC Group's extensive global network which includes ABC IB Islamic Financial Services in London in addition to ABC branch office and across the global(Italy).

<sup>212</sup> Islamic bank enters Germany by Mushtak parker(Arab news)(25. April 2010)

<sup>213</sup> Origin and Developement of Commercial and Islamic Banking Operations: ABDELKADER CHACHI, Islamic Economic Research Centre King Abdul Aziz University, Jeddah, Saudi Arabia ,p.19 (28.12.2011)

<sup>214</sup> Islam in Italy: available at <http://www.en.wikipedia.org> (27 December 2011)

<sup>215</sup> ABC Islamic Bank: available at <http://www.arabbanking.com/world/islamic> bank (27.12.2011)

### 3.4.7 The Netherlands

Islamic Banks	City	Country
Bilaa-Riba Hollande	Leiden	Netherlands

The global financial crisis hitting the Dutch banking world may turn out to have an upside. That while In 2008, The Dutch Tax Service makes to deny mortgage interest because of the shariah-compliant financial institutions. So the first Islamic bank in the Netherlands (Bilaa-Riba Hollande) decided to shut its doors. Rabobank makes to open halal mortgages system and Islamic banking window for more than 200000 Dutch Muslims.

The harshest criticism of shariah banking comes from political forces finding to reduce the influence of the Islam in general Dutch society, Political maker has written as xenophobia, that while Dutch people started to hate that the advent of Islamic banking in the Netherlands invites.

Proponents of shariah banking point out that it resembles the ethical banking movement that has gained much popularity in the Netherlands and across the world in recent years because of its insistence on higher moral standards that reject financial exploitation and constitute a superior form of capitalism<sup>216</sup>.

Actually Shariah banking not only met a rising demand from Dutch Muslims but also caused opening up new financial opportunities for traditional Dutch banks. Since Shariah banks are open equally to Muslim and non- Muslim clients.

Finally, Many Dutch Muslims use informal banks that along to financial networks known as "hawala,"(hundi) accessible through greengrocers and other small neighbourhood businesses that operate according to shariah economic principles.

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<sup>216</sup> Banking in the Netherlands at a crossroads: available at <http://www.thehollandtimes.nl/Economics.html> (30 December 2011)

### 3.4.8 Switzerland

Islamic Banks	City	Country
Fides-Financial Systems Development Services AG	Fribourg	Switzerland
Faisal Private Bank (Switzerland) SA	Geneva	Switzerland
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Geneva	Switzerland

In 2009 there was an estimated 400000 Muslims in Switzerland accounting to around 5% of the total population. 88.3% of Muslims in Switzerland are foreigners (56.4% from Yugoslavia (Kosovo)) 20.2% from Turkey and 6% from Africa. 10000 of the 400000 Muslims could be converts<sup>217</sup>.

Faisal Finance became a bank in October 2006<sup>218</sup>. Faisal Private Bank has joined the high status circle of Swiss banks regulated by the Swiss Federal Banking Commission (SFBC). Faisal Private Bank is also designed for all investors whether Muslim or non-Muslim, who are seeking consistent growth and wish to create their portfolio confident in the knowledge that they are respecting their ethical values. Ithmaar Bank B.S.C of Bahrain, holds 100% of the Bank. Ithmaar Bank figures among the Middle East's most powerful banking institutions with over \$4 billion in assets.

FIDES<sup>219</sup> (Financial Systems Development Service AG is a company focusing on the development and management of sustainable rural microfinance institutions and related research and consulting activities. Created in 1996 , France and located in Fribourg. In 2007, FIDES has created the swiss microfinance holding sa (SMH) HSBC Amanah/The banker estimate that at the end 2009 USD 822 billion was managed according to Islamic law, 29% rise on year before. Money serves only to make it easier to trade. Islamic banking is a promising area of business for Swiss banks but only as a niche<sup>220</sup>.

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<sup>217</sup> Islam in Switzerlan: available at [http:// www.en.wikipedia.org](http://www.en.wikipedia.org) (4 January 2012)

<sup>218</sup> Faisal Private Bank: available at [http://www.faisalprivatebank.com\(the](http://www.faisalprivatebank.com(the) bank) (4 January 2012)

<sup>219</sup> FIDES: available at <http://www.fidesgroup.org> (4 January 2012)

<sup>220</sup> Wealth Management in Switzerland Status report and trends: Swiss banking,p.9(February 2011)

### 3.4.9 Denmark

Islamic Bank	City	Country
Maersk Logistics	Odense	Denmark

Islam is the largest minority religious in Denmark. 3.7% of the population in Denmark is Muslim. There are 100-150 Muslims in Denmark who convert to Christianity each year<sup>221</sup>.

Western Europe (Denmark, France, Germany, Italy, Luxemburg, Switzerland, Ireland and United Kingdom) has seen a very steady growth in Islamic banks and financial institutions. These countries have fully operational Islamic banks.

Islamic Banks operate in non-Islamic countries like Denmark Islamic Bank which was established in 1983. Islamic Bank International of Denmark offers commercial banking services. Islamic Bank International of Denmark is the former subsidiary of Islamic Finance House<sup>222</sup>.

### 3.4.10 Bosnia and Herzegovina

Islamic Bank	City	Country
Bosna Bank International	Sarajevo	Bosnia and Herzegovina

Muslims in Bosnia and Herzegovina (BIH) are 2 million and 40% of the country's population<sup>223</sup>. Central Bank of BIH became into the category of lower to middle income countries. Over the last decade the economy has grown at a rate of 5-6% a year<sup>224</sup>. In 2008 the foreign direct investment (FDI) reached a value of Euro 701 million with large difference comparing to 2007 due to global economic downturn. Many international banks have set up operation in BIH including: Volksbank, Raiffeisen Bank, Unicredit Bank

<sup>221</sup> Islam in Denmark: available at <http://www.en.wikipedia.org> (15 January 2012)

<sup>222</sup> Islamic Bank International of Denmark: available at <http://www.investing.businessweek.com> (15 January 2012)

<sup>223</sup> Islam in Bosnia and Herzegovina: available at <http://www.en.wikipedia.org> (17 January 2012)

<sup>224</sup> Islamic Banking in Bosnia and Herzegovina: available at <http://www.uktradeinvest.gov.uk> (17 January 2012)



BH, Intesa Sanpaolo Bank, Procredit Holding, Hypo Alpe Adria Bank, Turkish Ziraat Bank, ljubljanska Bank.

Bosna Bank International d.d. Sarajevo (BBI), the first bank in Bosnia and Herzegovina to operate on the principles of Islamic banking, has selected Misys Equation Islamic and Misys Trade innovation. The founders of the bank are Islamic Development Bank 45.46%, Dubai Islamic Bank 27.27% and Abu Dhabi Islamic Bank 27.27%<sup>225</sup>. The bank has capital of KM 47.5 million and authorized capital of USD 300 million.

CEO of Bosnia Bank International (BBI)<sup>226</sup> has recently been appointed as Vice-Chairman of the Supervisory Board of the United Bank of Albania (UBA). The decision made by the Islamic Development (IDB), the founder of both UBA and BBI and a majority shareholder of BBI was also confirmed by the Albanian banking regulatory agency.

### **(South Asia region)**

#### **3.4.11 India**

India is 3<sup>rd</sup> largest Muslim population country in the world<sup>227</sup>. India Muslims have not been satisfied using conventional banking system. Most of the India Muslims are not investing in mutual funds with a debt, donating the interest on their salary savings account to charity and using a zero-interest current account instead of a savings account. All information analyses that Islamic banking system is the huge market opportunity in India. Al Baraka Financial Service, the first Islamic finance company following the principles of Shariah, was established in India in the year 2009 in Kerala<sup>228</sup>. Nowadays, Five Islamic banks are running at the different City in India.

Islamic banks city by city in India

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
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<sup>225</sup> Ugur Ergun , Irfan Djedovic, Islamic Banking with a Closer look at Bosnia and Herzegovina p.2, (30.12.2011)

<sup>226</sup> Bosna Bank International: available at <http://www.bbibanke.com.ba> (17 January 2012)

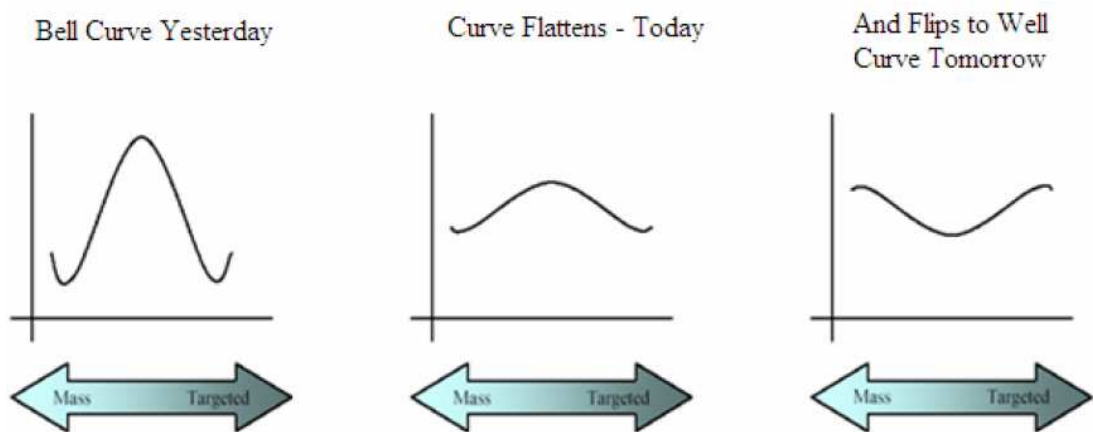
<sup>227</sup> Muslim world : available at [http://en.wikipedia.org/wiki/Muslim\\_world](http://en.wikipedia.org/wiki/Muslim_world)

<sup>228</sup> Islamic bank in india: available at <http://Greatlakes.edu.in/integreat/index.php>

Atharvved Finance Corporation	Mumbai	India
TAMEEM IMPEX	Vaniyambadi	India
Associated Industrial Credit Society Al-Siraat Investment & Banking	Mumbai	India
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Mumbai & Chennai	India

Source: Shariah-fortune from <http://shariah-fortune.com/islamic-finance-directory/islamic-banks/> (15 November 2011)

India government can get good diplomatic advantages to make financial dealing with origin of Muslim nations like gulf countries, North Africa and central Asia. India needs Islamic banking systems because Investment Commission identified 25 key sectors which is the total investment \$ 500 Billion, infrastructure, Manufacturing services, natural resources and knowledge economy. Gulf Money (\$800 Billion) moved from US and Europe after 9/11. This is the opportunity that India should get the economic scenario. In 2010, approximately 45 percent of the total foreign remittance to India, worth \$24 billion, came from GCC countries<sup>229</sup>.



Limited Competition	Increased Competition	Intense Competition
Banks provide Largely	Banks seeking differentiation by introducing new products, pricing or delivery	Banks seeks differentiated products by applying focused marketing strategies
Simple Segmentation: Majority of the customers can be served with the same purpose	Slight difficult segmentation: Customers are aware and shop around as they are better informed	Difficult segmentation: Well Informed customer seeking low cost, niche products

Source: Pawandee, T. A. Pai Management Institute, CRISIL Young Thought Leader 2008 p.4 (30 November 2011)

<sup>229</sup> The \$1.5t in Islamic banking in india : available at [http://www.tehka.com/story\\_main50.asp?filename=Ws250811\\_Islamic.asp](http://www.tehka.com/story_main50.asp?filename=Ws250811_Islamic.asp)

The above figure shows as the markets grow, most people is seeking the niche products and low cost in future. So Islamic banking could become a new product.

Table 19 Banking participation in Muslim-concentrated districts of India

District	%of Muslim population 2001	Number of offices	Number of accounts (000)	Population 2011 (Million)	%of population with bank account	Bank offices per million population	Credit deposit ratio(CD)
Anantnag (J&K)	98.5	61	455	1.07	42.48	57	41.88
Dhubri (Assam)	74.3	46	430	1.95	22.06	24	45.18
Malappuram (kerala)	68.5	309	2226	4.11	54.14	75	54.98
Kishanganj (Bihar)	67.8	57	300	1.69	17.73	34	48.98
Murshidabab (W Bengal)	63.7	248	2419	710	34.05	35	36.74
Rampur (UP)	49.1	125	842	2.34	36.04	54	67.96
India	13.43	86960	734869	121019	60.72	72	73.34

Source: The \$1.5t in Islamic banking in India from <http://www.tehelka.com>

The Reserve Bank of India (RBI) data report for March 2010 indicates that banking participation in Muslim concentrated districts is below the national average. They lack in banking access, infrastructure availability and low credit-deposit (CD) ratio that while the non availability of an interest-free banking option has distanced many Muslims from banking products and services. (See Table 19)

### 3.4.12 Sri lank a

Islamic Banks	City	Country
Lanka Qrix Leasing Company Ltd	Rajagiriya	Sri lank a
Amana Investments	Colombo	Sri lank a

Looking at the Islamic Banking and Finance Industry (IBF), CEO of Amana Bank limited Faizel Shlieh said that the crisis in the conventional banking sector created a great opportunity for IBF. Sri lank a growth has been relatively slower when compared with other non Muslim countries.

Services of the IBF industry depends on the quality of the products and services and the success depends on how we are going to bring these futuristic products that will meet the needs of the clients both in Sri Lanka and globally.

The Bank of Ceylon has its own Islamic Banking window. Islamic Banking is not exclusive to Muslims but for the nation as a whole, In Malaysia, the non Muslim Chinese used Islamic banks to benefit from the alternative banking solutions. Now Islamic banking is under the spotlight this industry should rise above the occasion to show the public that this alternative banking solution is superior and safe.

Some of the shariah compliant sectors to invest in include healthcare, education, real-estate and property, infrastructure assets, agriculture and plantation assets, lifestyle products, food and beverage, manufacturing as well as retail and distribution.

## **(South East Asia Region)**

### **3.4.13 Thailand**

Thailand is a multi-religious country and Islam is the second largest religion with over six million. Majority of Muslims are populated in the state of Yala, Pattani, Narathiwat, Satun and Songkla. Since these state (southern Region) are situated neighbor to the Northern States of Malaysia. Therefore they are exposed and influenced by the Malaysian Islamic banking system. The Islamic banking system in Thailand first started when the Government Saving Bank (GSB) introduced the 'Islamic window' concept in 1998. Similar method was also implemented by the Bank for Agriculture and Agricultural Cooperative (BAAC) in 1999 and followed by the introduction of Islamic Branch by Krung Thai Bank in 2001<sup>230</sup>. The Islamic Banking expanded further when Islamic Bank of Thailand was established by the Thai government in 2003.

Thai government would be able to fulfill the following objectives<sup>231</sup>

- a) To meet the banking and credit needs of the Muslims population in Thailand with Shariah way.
- b) To cultivate savings habit among the Thai Muslims, particularly for pilgrimage purposes.
- c) To supply low cost funds for entrepreneurs who wish to undertake investment projects especially in the southern border state.
- d) To attract savings and investments from other Muslim countries
- e) To encourage non-Islamic financial institutions to participate in the Islamic banking sector.

The future of Islamic banking in Thailand is very much depended on Muslim individuals and Islamic organizations. Such as Islamic private schools, mosques, Islamic centers, zakat funds and Islamic saving cooperatives are

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<sup>230</sup> Sudin Haron & KuMajdi Yamirudeng, Islamic Banking in Thailand: Prospects and challenges, International Journal of Islamic Financial Services Vol.5 No.2 Pg 1 & Pg7 (20 November 2011)

<sup>231</sup> Division of Monetary Policy and Financial Institution (2001). Islamic Bank: new financial institution in Thailand, Finance and Fiscal Journal, Vol 16, No 50, pp 48-52 (15 November 2011)

supported by the Islamic banks. Currently, there are about 128 Islamic private schools with 69412 students operating in the five southern Border States<sup>232</sup>, more than 3018 mosques and 33 Islamic committee states out of the 74 states in Thailand.

Islamic banks in Thailand

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
Bangkok Bank Berhad	Bangkok	Thailand
Islamic Bank of Thailand	Bangkok	Thailand
CIMB Thai Bank Public Company Limited	Bangkok	Thailand
CIMB Securities (Thailand) Ltd	Bangkok	Thailand
CIBM-GK Research Pte.Ltd	Bangkok	Thailand
RHB Bank Berhad	Bangkok	Thailand
Export-Import Bank of Malaysia	Bangkok	Thailand
Export-Import Bank of Thailand	Bangkok	Thailand
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Bangkok	Thailand

Source: <http://shariah-fortune.com/islamic-finance-directory/islamic-banks/> (4 December 2011)

The Islamic Bank of Thailand (IBT) was set up by the Islamic Bank of Thailand Act B.E.2545 (2002) .In 2005, an agreement was reached to transfer Shariah- complaint from the Krung Thai Bank to IBT, which added another 18 branches to the network.

### **3.4.14 Singapore**

Singapore's population has 15% of Muslims (Majority of Malays, Indian, Pakistan, Chinese, Myanmar Muslims, Arabs and Eurasians). 17 % of Muslims in Singapore are of Indian origin. While the majority of Muslims in Singapore are traditionally Sunni Muslims who follow the Shafi'i school of thought, there are also Muslims who follow the Hanafi school of thought as well as Shi'ite Muslims<sup>233</sup>.

<sup>232</sup> Office of Educational, Religious and Culture (1999). Educational statistics: Islamic private school. Yala. (15 November 2011)

<sup>233</sup> Islam in Singapore available at:[http://en.wikipedia.org/wiki/Islam\\_in\\_Singapore](http://en.wikipedia.org/wiki/Islam_in_Singapore)

Islamic banks in Singapore

<b>Islamic banks</b>	<b>City</b>	<b>Country</b>
Emerging Finance	Singapore	Singapore
Bank Mandiri (Singapore) Ltd	Singapore	Singapore
CIMB Bank Singapore	Singapore	Singapore
Arab Banking Corporation	Singapore	Singapore
Arab Banking Corporation (B.S.C)	Singapore	Singapore
RHB Bank Berhad	Singapore	Singapore
RHB Bank Singapore	Singapore	Singapore
Qatar National Bank	Singapore	Singapore
Bank Indonesia	Singapore	Singapore
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Singapore	Singapore
The Asia Banker	Singapore	Singapore
The Islamic Bank of Asia	Singapore	Singapore
Malayan Banking Berhad (Maybank)	Singapore	Singapore
National Bank of Kuwait (NBK)	Singapore	Singapore
PT.Bank Negara Indonesia	Singapore	Singapore

Source: <http://shariah-fortune.com/islamic-finance-directory/islamic-banks/> (5 December 2011)

In July 2001, May bank, Malaysia's largest bank started Islamic banking in Singapore with the introduction of Singapore Unit Trusts Ethical Growth Fund that complies with the principle of the Shariah<sup>234</sup>. In November 2005, the bank introduced Shariah-complaint online savings account and Shariah-compliant savings cum checking account<sup>235</sup>. In February 2006, the first Shariah-compliant term deposit in Singapore was started by OCBC Bank. The bank targets wholesale to Muslim companies, financial institutions, mosques and non-profit organization<sup>236</sup>. Islamic insurance (Takaful) succeed over the S\$500 million Takaful funds in Singapore .HSBC (Singapore) started Takaful Global Fund in September 1995 while Takaful Sinaran Fund was started in May 2005. Returns from these funds are not subjected to income tax. There are about S\$ b2 billion Shariah-compliant real estate funds managed out of Singapore<sup>237</sup>.

Maybank

<sup>234</sup> Source: Singapore Unit Trusts website [www.sut.com.sg/main/fund\\_sutegf.asp](http://www.sut.com.sg/main/fund_sutegf.asp) ( 28 May 2008).

<sup>235</sup> Siow, L. S. (2005), "Maybank Launches Islamic Banking", The Business Times (Singapore), (26 November 2005)

<sup>236</sup> Yee, L. (2006), "OCBC Scores on 5-year Risk-adjusted Returns", The Business Times (Singapore), 9 February 2006

<sup>237</sup> MAS, Annual Report 2005/2006.

MayBank is the Islamic bank of the Maybank Group. Maybank aimed to become the Leading Islamic Bank in ASEAN by 2015. In Singapore, Maybank started its first Shariah-compliant savings account for worshippers go to the Hajj and also an Islamic financing package for small and medium enterprises (SMEs) trying financing for completed commercial and industrial properties<sup>238</sup>.

### 3.4.15 Hong Kong (CHINA)

250,000 Muslims lives in Hong Kong. Hong Kong Muslims are mixed Chinese and South Asian<sup>239</sup>.

Islamic banks in Hong Kong

<b>Islamic Banks</b>	<b>City</b>	<b>Country</b>
Hong Leong Bank Berhad	Central	Hong Kong
Bank Mandiri(Hong Kong) Ltd	Hong Kong	Hong Kong
FRSGlobal	Hong Kong	Hong Kong
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Hong Kong	Hong Kong
Malayan Banking Berhad (Maybank)	Hong Kong	Hong Kong
PT. Bank Negara Indonesia	Hong Kong	Hong Kong

Source: <http://shariah-fortune.com>

#### Hong Leong Bank Berhad

Hong Leong Bank Berhad is a member of the Hong Leong Group Malaysia. Head office in Malaysia, the Group has been in the financial services industry since 1968 through Hong Leong Finance Berhad<sup>240</sup>. The first institutions Hong Leong are based in Hong Kong to offer Islamic banking .Hong Kong Monetary Authority successfully gave for the event of the interbank money product<sup>241</sup>.30 June 2010, The ended of the profit is RM1185.3 million compared the previous year of the profit RM1132.2 reflecting growth of 4.7% year of year. Total Assets for HLB grew by 6.8% year of year from RM79.3 billion to RM84.7 billion. Customer deposits are increased by 3.2% year of year RM69.7 billion. The bank remains strongly capitalized with a Capital Adequacy Ratio of 15.5%. Return on equity decreased from the

<sup>238</sup> May bank annual report 2011: available at <http://maybank.com.my> (1 December 2011)

<sup>239</sup> Hong Kong Muslim: available at <http://wikipediala.org> (5 December 2011)

<sup>240</sup> Hong Leong Bank:Our Corporate Vision p.1 (8 December 2011)



16.7% achieved in financial year to 16.2% in financial year due to Hong leong Bank higher equity base. Earnings per share are increased by 9.1% from 62.5 sen in the previous year to 68.2 sen in financial year 2010. Capital Adequacy Ratio is 15.5% as at June 2010<sup>242</sup>.

## (Africa Region)

### 3.4.16 Nigeria

Islamic Banks	City	Country
Habib Nigeria Bank	Kaduna	Nigeria

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (06 Dec 2010)

Nigeria has 50% of Muslims population<sup>243</sup> and 50% of Christianity population. Sometimes Nigeria Muslims and Nigeria Christians are fighting with each other. Christian Association of Nigeria (CAN) and various Christian leaders condemned the Islamic banking project<sup>244</sup>.

Alhaji Umaru Abdul Mutallah (born December 15, 1939) is a Nigerian business and banking leader and former minister of Economic Development under the military government of Murtala Mohammed. He played a major role in introducing Islamic banking into Nigeria<sup>245</sup>. The Time shows that He is the richest and most famous banker in Nigeria.

Platinum Habib Bank (Habib Nigeria Bank) is a commercial bank in Nigeria and 5<sup>th</sup> largest financial services provider in Nigeria. The Bank is a member of the Bank PHB Group. Bank PHB was formed in 2005 by the combine between Platinum Bank Public Limited Company and Habib Nigeria Bank Public Limited Company<sup>246</sup>. The Group is a financial services organization in West Africa and East Africa. The Group Headquarters are located Victoria Island in Lagos, Nigeria, Gambia, Liberia, Sierra Leone and Uganda. The

<sup>241</sup> Islamic banking spreads in Hong Kong: available at <http://www.newhorizon-islamicbanking.com>

<sup>242</sup> Hong Leong Financial Group Berhad :Annual Report 2010 ,p.9-10, (06 December 2010)

<sup>243</sup> Islam in Nigeria: available at <http://www.en.wikipedia.org> ( 1 January 2012)

<sup>244</sup> Islamic banking: How suitable for Nigeria? :Tribune (NIGERIAN): available at <http://www.tribune.com.ng> (1 January 2012)

<sup>245</sup> Umaru Mutallah: available at <http://www.en.wikipedia.org> (1 January 2012)

<sup>246</sup> Bank PHB: available at <http://www.en.wikipedia.org> (1 January 2012)

Group is one of the largest financial services organizations in Africa. The Group asset estimated in excess of US\$3.6 billion till December 2009<sup>247</sup>. In April 2009, Nigerian (Bank PHB Group) financial services company received 80% shareholding in Orient Bank (US\$63.3 million). Orient Bank is a commercial bank in Uganda. Orient bank is 22 commercial banks licensed by Bank of Uganda.

### 3.4.17 South Africa

Islamic Bank	City	Country
Shukri Cornelius	Johannesburg	South Africa
An-Nakheel	Sandton City	South Africa
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Johannesburg	South Africa

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (1 January 2012)

The Muslim population is in the minority. An established 2.5 % of the total population of 47 million is Muslim<sup>248</sup>. South Africa is a new democratic state emerging as a powerful actor in the African continent. Islamic enterprises are firmly integrated in this developing process.

Al Baraka Bank is the leading Islamic bank in South Africa. The bank is owned by South African investors (DCD London and Mutual Plc, Dallah Al Baraka group). The bank is well established in South Africa to operate totally within the confines of Shariah compliance banking. The bank also has to accept by the South African Banking regulations.

Al Baraka has a both Muslim and non Muslim clientele. A senior official at the bank attribute this interest from non Muslims to the better proposition regarding assets financing. Conventional South African banks have the highest interest rates in the country. The prime interest rate on a residential home loan is at 15.50 %. Personal Loans interest rates vary from 18 to 44 percent per annum. Al Baraka offers a fixed rate repayment scheme over a seven and ten year period.

<sup>247</sup> Bank PHB Group: available at <http://www.en.wikipedia.org> (1 January 2012)

<sup>248</sup> ISLAMIC BANKING IN SOUTH AFRICAN: available at <http://www.muslimbrides.org/index.php> (3 January 2012)

Major conventional banks in South Africa, First National Bank and Absa Bank have started incorporating Islamic windows alongside conventional banking practices. Another concern of the minimal Islamic Bankers in the country is the allowance of conventional banks to borrow from the government controlled South African Reserve Bank. This would be an interest loan. The conventional banks' introducing Islamic windows is the overlap of the pool of finances available between the conventional section and Shariah compliant section.

### 3.4.18 Ghana

Islamic Bank	City	Country
Ghana Islamic Microfinance	Kumasi	Ghana

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (11 January 2012)

Ghanaians has 15% of total population(24 million) is Muslims population. Most of them are local Muslim group. Ghanaian Muslims and Christian have had excellent relations and also guided by the authority of the Muslim Representative Council, religious, social and economic situation affecting Muslim have often been corrected through negotiations<sup>249</sup>.

Ghana Islamic Microfinance (GIMF) does not invest likes the dangerous for the society. e.g It would not finance sale of alcohol, tobacco and gambling. GIMF is based on profit-sharing on the deposit side therefore the higher the bank's profits the higher the depositors earnings. GIMF will participate in trade and production of goods and services therefore getting a profit on its assets products. GIMF is open both Muslims and Non Muslims. GIMF is an equal opportunity employer, encourages professionalism and offers attractive career prospects<sup>250</sup>.

<sup>249</sup> Islam in Ghana: available at <http://en.wikipedia.org> (11 January 2012)

<sup>250</sup> Ghana islamic micro finance: available at <http://www.ghanaislamicmicrofinance.org> (12 January 2012)

Ghana will start Islamic banking but some people do not accept Islamic dominated Nigeria<sup>251</sup>. The central bank had granted approval in principle to Jaiz Bank International Plc to operate as the country's (Ghana) first Islamic bank.

### **(America Region)**

#### **3.4.19 United State of America**

American Muslims population is three to eight million. American conventional banks are not saved most of the American Muslim because doing so violate Shariah restrictions on the receipt and payment of interest. Today, the united States have at least nineteen providers of Islamic banking products and services. United States interests Gulf-based capital that while Islamic banking may be one way to attract this capital to come back to the country after some left post 9/11. Many positive Islamic banking institutions are reporting to have in this current global financial crisis. Islamic banking institutions have not invested in toxic assets. While some Islamic banks in the Middle East have recently taken a hit due to their over-investment in the Gulf real estate market. In November 2008, The US Treasury department hosted a seminar (Islamic Finance 101) in Washington DC. A large number of Islamic scholars and banking professionals from around the world were invited to discuss the Islamic finance and banking products in the US. After the seminar a few weeks later, The US Treasury department deputy secretary (Robert Kimmit)<sup>252</sup> travelled to the Middle East and Showed the US's positive and accommodating attitude towards the development and growth of the industry in the country.

Islamic banks in America

<b>Islamic banks</b>	<b>GEOGRAPHIC PRESENCE</b>	<b>COMPANY STRUCTURE</b>	<b>PRODUCTS OFFERED</b>	<b>STRUCTURES USED</b>
<b>University Bank</b>	Head offices: Detroit,	✓ State chartered bank	✓ -Residential real estate financing	✓ Murabah and ijara

<sup>251</sup> Ghana positive on starting Islamic banking: available at <http://www.spyghana.com/> (12 January 2012)

<sup>252</sup> Abdi Shayesteh, King & Spalding, Islamic banks in the United States: breaking through the barriers: available at [www.newhorizon-islamicbanking.com](http://www.newhorizon-islamicbanking.com), p.2 (5 November 2011)

	Michigan	✓ Financing products are offered through its wholly owned subsidiary, University Islamic Financial	✓ Deposit product ✓ Money market product ✓ Mutual funds	✓ Musharakah ✓ Profit sharing deposits ✓ Mutual funds offered by third party provider (Amana, Azzad, Iman, see below)
<b>Devon Bank</b>	Head offices: Chicago, Illinois	✓ State chartered bank ✓ Financing products are offered through its wholly owned subsidiary	✓ Residential real estate financing ✓ Commercial real estate financing ✓ Real estate construction financing ✓ Lines of credit ✓ Cash management ✓ Business & trade financing ✓ Institutional deposit products ✓ Investment products ✓ Trust and advisory services	✓ Murabaha and ijara ✓ Musharakah ✓ Profit sharing deposits ✓ Mutual funds offered by third party providers (Amana, Azzad, Iman)
<b>Broadway Bank of Chicago</b>	Head offices: Chicago, Illinois	✓ Community bank	✓ Residential real estate financing ✓ Commercial real estate financing	✓ Ijara
<b>RomAsia Bank</b>	Head offices: Monmouth Junction, New Jersey	✓ State chartered bank	✓ To be determined	✓ To be determined
<b>Lincoln State Bank</b>	Head offices: Chicago, Illinois	State chartered bank	Residential real estate financing	Ijara
<b>Mutual Bank</b>	Head offices: Chicago, Illinois	State chartered bank	Commercial real estate financing	Murabaha
<b>Cole Taylor Bank</b>	Head offices: Chicago, Illinois	State chartered bank	Commercial real estate financing	Murabaha and ijara

Source: Islamic banks in the United States: breaking through the barriers, Abdi Shayesteh King & Spalding from <http://www.newhorizon-islamicbanking.com> p.1 (5 November 2011)

### 3.4.20 Canada

Islamic banks	City	Country
UM Group	Toronto	Canada
Islamic Co-Operative Housing Corporation Lt	Mississauga	Canada
Qurtuba Housing Coop & Al-Ittihad Investment Inc	Montreal	Canada
UM Financial Group	Toronto	Canada
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Toronto	Canada

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (06 June 2011)

Canada's Muslim population is estimated to be between 750000 and 1000000 people. Muslims are the most affluent group in Canada and approximately

30000 new Muslims enter Canada each year<sup>253</sup>. As early as 1995, numerous Muslim organizations and banks such as HSBC Amanah had tried federal approval for setting up banking facilities in Canada but it is not possible<sup>254</sup>. In July 2007, the Ontario Securities Commission connected with four major Canadian Banks (CIBC, RBC, TD and Scotia Bank) to look at trying rule to bring Sharia compliant banking to Canada<sup>255</sup>. In February 2008, Royal Bank of Canada (RBC) is to market the bank's existing services and products into the Middle East. RBC is planning to enter the Islamic finance market<sup>256</sup>.

### 3.4.21 Australia

	Consolidated Group		Parent Entity	
	30 June 2010 \$	30 June 2009 \$	30 June 2010 \$	30 June 2009 \$
Total income	555,836	6742	530000	
Total Assets	517,227	267,740	532,781	266,355
Total Income	(659,664)	(339,555)	(653,912)	(334,580)
Total Equity	142,437	71,815	121,131	68,225
Cash and cash equivalents at the end of the year	320,185	55,839	248,539	100

Source: MCCA Limited ,annual financial report (2010)

Today Australia's Muslims come from different social political and ethnic backgrounds<sup>257</sup>. In 2001, there were 281578 Muslims representing 1.5% of the total population (in 1996 1.1%). Most of the Muslims were born in Australia (36%), but others in Lebanon (13.5%), Turkey (11.1%) and still

<sup>253</sup> See Facts and Figure 2008-immigrant Overview: Permanent and Temporary Residents, Canada: available at <http://www.cic.gc.ca> (6 June 2011)

<sup>254</sup> Sayyid Tahir, Islamic banking Theory & Practice: A Survey & Bibliography of the 1995-2005 literature, J. ECON. COOPERATION AMONG ISLAMIC COUNTRIES (19 January 2007)

<sup>255</sup> Tavia Grant, A Hot New Banking Trend: Sharia-Compliant Finance, Global & Mail, B1, (7 May 2007)

<sup>256</sup> Barakat Zaher, Who teaches Islamic banking and finance at Case Business School in London :from <http://ribh.wordpress.com> (12.December 2011)

<sup>257</sup> See A. Saeed and S. Akbarzadeh, "Searching for Identify: Muslims in Australia" in Muslim Communities, op. Cit.,p.1-11(27 December 2011)

other in Indonesia, Bosnia, Iran, Fiji, Albania, Egypt, Palestine, Iraq, Afghanistan and Malaysia<sup>258</sup>.

Today, the Muslim Community Credit Union Ltd (MCCU) in 1999 and the Muslim Community Co- Operative Australia Ltd(MCCA). The MCCA provide to the financial and banking needs of Australia’s Muslim minority community in 1989. The MCCA operates as a cooperative and specifically deals with investment accounts, withdrawals are restricted. The services of MCCA offered personal and business finance, halal investments, qard Hassam and zakat collections and distributions. The MCCU operates primarily a retail banking service where accounts are serviced on a day-to-day basis.

There are two offices of the MCCU and MCCA which currently operate in Australia, One from Melbourne’s northern suburbs and the other in Lakemba, a suburb of Sydney, NSW. This two area are in Muslim populated areas.

### 3.4.22 Russia

Islamic Banks	City	Country
The Bank of Tokyo-Mitsubishi UFJ,Ltd	Moscow	Russia

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (2 January 2012)

Islam is the second largest religious in the Russian Federation.14 % of total population is Muslim population in Russia. Muslims constitute the nationalities in the North Caucasus residing between the Black Sea and the Caspian Sea Adyghe, Balkers, Chechens, Circassians, Ingust, Kabardin, Karakchay and numerous Dagestani peoples.

Russia’s only Islamic bank (Badre Forte) opened in Moscow in 1991 and offered customers an interest-free debit card and halal money transfers and mortgages. The bank stopped working in 2006 when its license was revoked by the Central Bank describing it as an anti-Islamic gesture<sup>259</sup>.Still Sharia banking stands a good chance in Russia, Recently a centre for halal food producers’ opend in Kazan. There are more investment companies working

<sup>258</sup> Islamic Council of New South Wales, Brief history (27 December 2011)

according to Sharia rules and foreign Muslims investors are clearly seeking opportunities in Russia. The Russian business and science lacks necessary knowledge to adapt its finance to the severe conditions of the crisis<sup>260</sup>.

Dr. Alchaar<sup>261</sup> also expressed the readiness to make specific steps towards the regulators from Russia and The Common wealth independent State (CIS) countries in order that the experts are trained in respect of the regulation of Islamic finance and the control over the Islamic financial institutions<sup>262</sup>.

### 3.4.23 Japan

Islamic Bank	City	Country
Bank Negara Indonesia (Tokyo)	Tokyo	Japan
Bank Indonesia	Tokyo	Japan
PT. Bank Negara Indonesia	Tokyo	Japan

Source: <http://www.shariah-fortune.com/islamic-finance-directory/islamic-banks/> (2 January 2012)

Japan accepts full religious freedom .Minority religious are Christianity, Islam, Hinduism and Sikhism. Estimates of the Muslim population are around 115000-125000.90% are foreign residents and 10% are ethnic Japanes. Indonesians, Bangladeshi, Pakistanis and Iranians make up the largest communities of foreign Muslims in Japan<sup>263</sup>.

Japanese megabanks are trying to increase their existence in the Islamic finance industry. Bank of Tokyo-Mitsubishi UFJ has invested in Malaysia investment bank CIMB with a 30% share in the global business of issuing Islamic bonds or Sukuk<sup>264</sup> (Islamic banking windows).

<sup>259</sup> Islamic banking readied: available at <http://www.themoscownews.com> (2 January 2012)

<sup>260</sup> Islamc Banking: Rising Above the recession(video clip:www.muslimeco.ru) (2 January 2012)

<sup>261</sup> Dr. Mohamad Nedal Alchaar, (Secretary General of the Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI) (2 Jauary 2012)

<sup>262</sup> Islamic Finance & Investments : available at <http://www.islamicbanking.ru/en> (2 Jauary 2012)

<sup>263</sup> Religion in Japan: available at [www.en.wikipedia.org](http://www.en.wikipedia.org) (5 Janary 2012)

<sup>264</sup> Japan's megabanks tap into Islamic finance business: available at <http://islamicbanking.blogspot.com/category/islamic-banking-news/japan> (5 January 2012)



The government-backed JIBC (Japan Bank For International Cooperation) said Islamic banking was studying the possibilities of issuing Islamic bonds to help Japanese businesses variety their fund raising.

A Japanese bank official said that Japan is looking to become the first major industrialized nation to product Islamic bonds in hopes of attracting money from oil-rich Muslim countries.

Jamzidi Khalid(CEO of Deutsche Bank AG International Islamic banking and the head of Islamic Structuring for Asia ex-Japan) said the bank hopes to increase its leading niche in the market and also making our conventional product platform available to clients in a Shariah-compliant format(Islamic banking windows) greatly increases our competitive position<sup>265</sup>.

#### **3.4.24 Philippine**

In Philippine,<sup>266</sup> more than 90% of the population are Christians, 10% of the population are Muslim. Most of the Muslim people lives (Mindanano, Palawan and Sulu Archipelago (Bangsamore or Moro region). The Philippines is a country in Southeast Asia in the western Pacific Ocean. The Philippines country lies north across the Luzon Strait(Taiwan) and West across the South China Sea(Vietnam).

Amanah Islamic Bank<sup>267</sup> was first established by Philippine Amanah Bank. The statute required the Bank to invest 75% of its total loan able funds for the purpose of providing, reasonable medium and long-term credit facilities to the people of the Muslim-dominated state in Philippines.

In 1974, The bank issued no interest principle and the partnership principles. This directive was not fully carried out because conventional banking still dominated the Bank's operations. In 1990, the bank became a primarily

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<sup>265</sup> Today zaman: available at [http:// www.todayszaman.com](http://www.todayszaman.com)(27.12..2012)

<sup>266</sup> Philippines: available at <http://www.en.wikipedia.org> (18 January 2012)

<sup>267</sup> AMANAH ISLAMIC BANK: available at <http://www.al-amanahban.com.ph/Hsitory> (18 January 2012)

Islamic bank with the signing of Republic government and knew as the Charter of Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP). In 2008, The bank was sold to another government owned bank (Development Bank of the Philippines). In 2009, AAIIBP is allowed to continuously do both conventional and Islamic banking. DBP invested Php1.0 billion capital to Amanah Bank that marked the partial completion of the recapitalization strategy.

### **3.5 The Global Financial Crisis: Can Islamic banking system help minimize the difficulty and frequency of such a crisis in the future**

#### **3.5.1 Introduction**

The Islamic financial system has been able to gain a very small share of the global financial market until now. If operates perfectly the Shariah, it must be able to create important impact on the international financial system in the near future<sup>268</sup>. The current global economic system (not Islamic economic) continues to be hit by the global financial crisis 2008. Islamic banking is a part of the global economy and can be affected either negatively or positively but Islamic banks are not major investor in conventional western bank therefore Islamic banks are not affected by such crisis. Islamic banking does not deal in debt trading and taking precautions against money laundering<sup>269</sup>. A number of banks in the Gulf region and Arab countries government (king family) wealth funds have investment in Europe and America. Finally most of the Arab countries were affected by the global financial crisis.

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<sup>268</sup> M. Umer Chapra , THE GLOBAL FINANCIAL CRISIS ,p. 22 (21 October 2011)

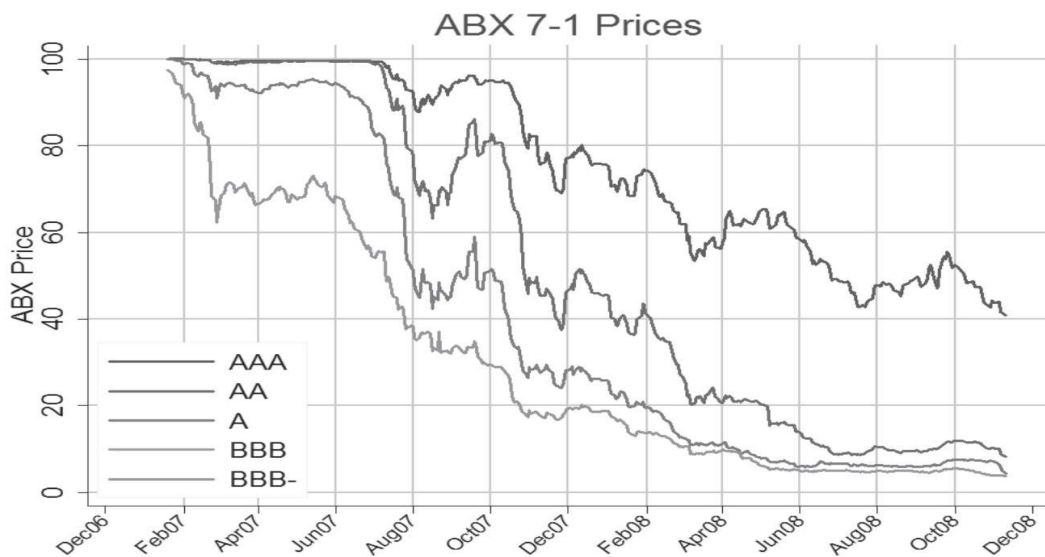
<sup>269</sup> <http://www.asharq-e.com/print.asp?artid=id14245>

### 3.5.2 The happening of the crisis

The main key factor of the crisis was lending up to the housing bubble. The U.S economy policy, both of large capital inflows from abroad and the Federal Reserve had adopted a low interest rate policy.

Figure 20 shows that ABX price index, which is based on the price of 20 credit default trades referencing asset-backed securities containing subprime mortgages rate (for example BBB-)<sup>270</sup>. An investor finding to insure against the default of the emphasizing securities pays a periodic fee which is set to guarantee an index price of 100. The buyer was protected themselves to pay an additional fee of 100-ABX price when purchasing the default insurance. A, AA, AAA, BBB and BBB- are credit quality.

Figure 20: Rising Losses on Mortgage Credit Default trades



Source: LehmanLive (Brunnermeier, 2008) ) From Hayu Susilo Prabowo, dan Hidajat Sofjan, THE SUBPRIME MORTGAGE CRISIS: ISLAMIC ECONOMICS PERSPECTIVE ,Dosen Universitas Az Zahra Jakarta. p.53 (19 October 2011)

The Islamic finance system, which introduces greater discipline into the economy and links credit expansion to the growth of the real economy, is capable of minimizing the severity and frequency of financial crises.

<sup>270</sup> Hayu Susilo Prabowo, dan Hidajat Sofjan, THE SUBPRIME MORTGAGE CRISIS: ISLAMIC ECONOMICS PERSPECTIVE ,Dosen Universitas Az Zahra Jakarta.p.53 (19 October 2011)

### **3.5.3 Explanation of the Financial (housing) Bubbles**

The 2008 Global Financial Crisis is occurred a financial certificate of \$ 100 with 10% rate of interest and 1 year time for a higher amount or for a higher interest for two years time. The main reason for the recent financial bubble can be said to be the interest carrying transactions of the financial derivatives<sup>271</sup>.

Islam has the equal distribution of income. Prohibition of interest can be said to help the problem of poverty since the equal distribution of income causes the aggregate demand (income) and supply (employment). Furthermore, crisis preventive nature of interest-free policies contributes to the economic stability and the common welfare.

Islamic banking can be seen a considerable step and an opportunity for the whole mankind towards a more equitable world. Islamic banking does not seem to create at least financial bubbles that the interest mechanism has recently caused the bubbles shake all the global markets.

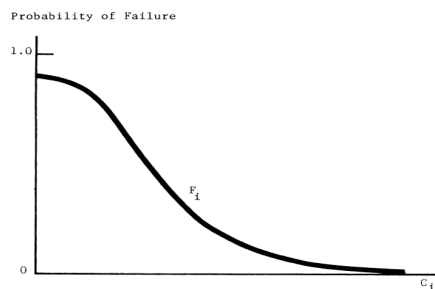
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<sup>271</sup> İsmail Özsoy, PhD (Economics)., Prof., Fatih Univesity, Istanbul, Turkiye ISLAMIC BANKING: Sat Paul Parashar (Bahrain)

### 3.5.4 Compare of the two types before the recent global financial crisis and during the crisis (2006 – 2009)

We analyse the conventional and Islamic banks performance in the GCC (Gulf Cooperation Council)<sup>272</sup> before and during the recent global financial crisis using the six ratio types

#### 1. Capital adequacy ratio (CAR)



The lower the Capital ( $C_t$ )<sup>273</sup>

Assets > liabilities = positive capital

$$A_t - L_t = C_t$$

$$A_t = L_t + C_t$$

$$A_{t+1} > L_{t+1} \text{ or } C_{t+1} > 0 \text{ for all } t$$

$$\text{Hence: } \partial A_{t+1} / \partial L_{t+1} + C_t > 0$$

The higher the probability of failure ( $F_t$ )

$$F_t = \int_{-\infty}^{C_t} g(X_t) dx_t, \text{ such as } \partial F_t / \partial C_t < 0$$

Source: Santomero and Watson (1977)

#### **CAR = Capital / RWA**

#### 2. Cost to income ratio (CTI)

$$\text{Total Cost / Total Income} = \text{Overheads} / (\text{Net Interest Revenue} + \text{Other Operating Income}) * 100$$

#### 3. Return on average assets ratio (ROAA)

$$\text{Net Income} / \text{Average (Total assets)} * 100$$

#### 4. Return on average equity ratio (ROAE)

$$\text{Net Income} / \text{Average (Total equity)} * 100$$

#### 5. Equity to total assets ratio (E/TA)

$$\text{Equity} / \text{Total assets (E/TA)}$$

#### 6. Liquid assets to total assets ratio (LA/TA)

$$\text{Liquid assets} / \text{Total assets (LA/TA)}$$

This all ratios are spread across five bank performance parameters, namely, capital, efficiency, profitability, liquidity and leverage. We studied 12 banks

<sup>272</sup> Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates

<sup>273</sup> Santomero M., Anthony, Watson Ronald (1977). Determining an optimal capital standard for the banking industry, *The Journal of Finance*, Vol 32, No 4. (15 October 2011)

(2006-2009), 6 Islamic and 6 conventional . So, there are 24 observations for each ratio.

Table 20. Descriptive statistics for sample banks

Ratios	Mean (%)	Median (%)	Standard deviation (%)	p-value	t-test
<b>1.Capital ratio</b>					
CAR					
Conventional Banks	15.30	15.25	2.02	0.001228	3.328
Islamic Banks	19.50	19.10	1.19		
<b>2.Efficiency ratio</b>					
CTI					
Conventional Banks	35.14	34.45	9.80		
Islamic Banks	35.16	38.40	10.67	0.497	0.00705
<b>3.Profitability ratio</b>					
ROAA					
Conventional Banks	1.76	1.98	1.41		
Islamic Banks	3.304	1.95	2.78	0.025	2.0166
ROAE					
Conventional Banks	12.49	15.11	12.81		
Islamic Banks	20.13	20.95	9.52	0.0119	2.3452
<b>4.Liquidity ratio</b>					
LA/TA:					
Conventional Banks	22.39	21.55	5.87		
Islamic Banks	24.50	24.90	8.43	0.1608	1.0032
<b>5.Leverage ratio</b>					
E/TA					
Conventional Banks	12.32	11.89	3.27		
Islamic Banks	15.08	14.73	4.13	0.0069	2.565

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.58 (20 October 2011)

Table 20 shows that Islamic banks (CAR) 19.5% are higher than conventional banks (CAR) 15.3% . This difference is statistically significant at 5% alpha. ROAA, ROAE and E/TA are no statistically significant difference between liquidity and efficiency ratio

#### Capital adequacy ratio

$H_{01}: Islamic_{CAR} \leq Conventional_{CAR}$

$H_{A1}: Islamic_{CAR} > Conventional_{CAR}$

Table 21 Analysis of Islamic and conventional banks' CAR, before and during crisis

CAR	Before crisis (06-07)	During crisis (08-09)
Mean-Islamic	<b>21.075</b>	<b>17.916</b>
Mean-conventional	<b>15.275</b>	<b>15.325</b>

t-stat	2.722	2.0158
p-value (one tail)	0.008719	0.0304
t-critical	1.770933	1.7458

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.59 (20 October 2011)

The t-test indicates that the null hypothesis is rejected. Alternate hypothesis is accepted indicating that Islamic banks were better CAR compared to conventional banks for both the periods.

### Cost to income ratio

$H_{02}$ : Conventional  $CTI \leq$  Islamic  $CTI$

$H_{A2}$ : Islamic  $CTI >$  Conventional  $CTI$

Table 22 Analysis of Islamic and conventional banks' CTI, before and during crisis

CTI	Before crisis (06-07)	During crisis (08-09)
Mean-Islamic	<b>34.458</b>	<b>35.866</b>
Mean-Conventional	<b>34.306</b>	<b>35.976</b>
t-stat(one tail)	0.0342	-0.0268
p-value(one tail)	0.486	0.489
t-critical	1.7171	1.7171

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.59 ( 29 October 2011)

The t-test indicates that the null hypothesis is accepted. There is no different between Islamic banks income and conventional banks income for both the periods.

### Return on average assets ratio

$H_{03}$ : Islamic  $ROAA \leq$  Conventional  $ROAA$

$H_{A3}$ : Islamic  $ROAA >$  Conventional  $ROAA$

Table 23 Analysis of Islamic and Conventional banks' ROAA, before and during crisis

ROAA	Before crisis (06-07)	During crisis (08-09)
Mean-Islamic	<b>3.713</b>	<b>2.8958</b>
Mean-conventional	<b>2.3483</b>	<b>1.1692</b>
t-stat(one tail)	2.3086	2.01318
p-value(one tail)	0.01689	0.0296

t-critical	1.7396	1.7340
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Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.60 (29 October 2011)

The t-test indicates that the null hypothesis is rejected at 5% significance level. Islamic banks are higher return on assets than conventional banks for both the periods.

#### Return on average equity ratio

$H_{04}: Islamic_{ROAE} \leq Conventional_{ROAE}$

$H_{A4}: Islamic_{ROAE} > Conventional_{ROAE}$

Table 24 Analysis of Islamic and conventional banks' ROAE, before and during crisis

ROAE	Before crisis (06-07)	During crisis (08-09)
Mean-Islamic	<b>25.29667</b>	<b>7.2025</b>
Mean-conventional	<b>17.7775</b>	<b>14.9658</b>
t-stat (one tail)	2.6223	1.5156
p-value (one tail)	0.008159	0.074563
t-critical	1.724718	1.74588

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.60 (29 October 2011)

The t- test indicates that the null hypothesis is accepted at 5% significant level before the crisis but it is rejected during the crisis. So Islamic banks are higher share holders than conventional banks during the crisis.

#### Liquid assets to total assets ratio

$H_{05}: Islamic_{LA/TA} \leq Conventional_{LA/TA}$

$H_{A5}: Islamic_{LA/TA} > Conventional_{LA/TA}$

Table 25 Analysis of Islamic and conventional banks' LA/TA, before and during crisis

LA/TA	Before crisis (06-07)	During crisis (08-09)
Mean- Islamic	<b>22.2416</b>	<b>26.75</b>
Mean-conventional	<b>24.7</b>	<b>20.083</b>
t-stat (one tail)	0.9346	2.15325
p-value (one tail)	0.1800	0.02344
t-critical	1.7171	1.74588

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.60 (29 October 2011)



The null hypothesis is accepted at 5% significance level before the crisis but it is rejected during the crisis .So Islamic banks are higher liquidity than conventional banks during the crisis.

Equity to total assets ratio

$H_{06}: Islamic_{E/TA} \leq Conventional_{E/TA}$

$H_{A6}: Islamic_{E/TA} > Conventional_{E/TA}$

Table 26 Analysis of Islamic and conventional banks' E/TA, before and during crisis

E/TA	Before crisis (06-07)	During crisis (08-09)
Mean-Islamic	<b>15.8638</b>	<b>14.29215</b>
Mean-conventional	<b>12.1725</b>	<b>12.4633</b>
t-stat (one tail)	3.42838	0.96843
p-value (one tail)	0.001499	0.17249
t-critical	1.734064	1.729133

Source: Sat Paul Parashar (Bahrain), Jyothi Venkatesh (Bahrain) 2010, How did Islamic banks do during global financial crisis p.60 (29 October 2011)

The null hypothesis is accepted at 5%significance level during the crisis but it is rejected before the crisis .So Islamic banks are higher equity than conventional banks before the crisis.

For my conclusion, CAR, ROAA, ROAE AND E/TA indicate that Islamic banks delivered better in profitability over four year period. CAR, ROAE and E/TA of Islamic banks had significantly reduced during the crisis. ROAE, ROAA and LA/TA of conventional banks had significantly reduced during the crisis.

## CONCLUSION

Riba (interest) was forbidden in the Median society of Muhammad, like in the medieval Christian world. Historically, the Muslim jurists understood that any loan that involved an increase in repayments was forbidden and the Islamic state prohibited it. This prohibition was reconsidered with the advent of European influence during the Age of Enlightenment. One of Quran term applications is interest or usury on loaned money. The Quran term is not limited to money but as well includes all loan transactions in which the debtor returns a sum of goods in excess or above the original loan anything in excess of original is considered riba if any item are exchanged of the same kind (such as gold for gold). Riba is any increment on a loan or debt either preconditioned or in rescheduling.

Most of the economist has also observed that the world needs new ways of thinking about finance and economic system. The Islamic financial system has been able to get very small affect of the global financial crisis. Islam prohibited the paying or receiving of interest (riba) as well as fractional reserve. This means that the little amount of equity can be used as collateral to borrow large sums of money. This is what creates a financial bubble. In the middle of such an unprecedented crisis Islamic banking and finance is extremely growing with the global value of Islamic finance approaching \$1 trillion. In the Islamic economy, Islamic banks make the collecting people capital investing around the economy and then distributing the profit amongst its depositors.

Islamic banking and finance industry have already predicted that the industry may have a cure and the fast-growing industry can come forward to solve the financial crisis. But the relatively small size of the Islamic finance industry may make this unrealistic at the moment. For my preceding analysis in the global financial crisis, Islam has a successful history of dealing with economic

problems. Islamic banking and finance exists an unprecedented opportunity to present the details of the Islamic economic system and the solutions of Islamic finance has for some of the current problems.

It is sometimes suggested that Islamic banks are rather complacent. They tend to behave as though they had a captive market in the Muslim masses that will come to them on religious grounds. This complacency seems more pronounced in countries with only one Islamic bank. Many Muslims find it more convenient to deal with conventional banks and have no qualms about shifting their deposits between Islamic banks and conventional ones depending on which bank offers a better return. This might suggest a case for more Islamic banks in those countries as it would force the banks to be more innovative and competitive. Another solution would be to allow the conventional banks to undertake equity financing and/or to operate Islamic 'counters' or 'windows', subject to strict compliance with the *Shariah* rules. It is perhaps not too wild a proposition to suggest that there is a need for specialized Islamic financial institutions such as *mudaraba* banks, *murabaha* banks and *musharaka* banks which would compete with one another to provide the best possible services.

The expansion of Islamic banking has been quickly growing the past few years (2000) all over the world. For my conclusions, we learned five different kinds of Western Theories of Interest and Islamic Theories of Interest. In addition, we got the knowledge of Interest, Interest of debts, credit interest, Interest of exchange, Interest of surplus and Interest of delay. Usury is defined in Islam, Christianity and Judaism. Riba is defined in the Quran and Hadith. Interest explained with goods and capital. As well as what is the different between inflation and interest, the different between increased future price and interest, comparing with Interest and with rent and profit, explaining of debt with the Islamic point of view. In other chapter, what is

the interest free banking system, financial modes in the Islamic Banking, what is the different between interest free bank and conventional bank, how interest free banking works, Accounting and Auditing organization for Islamic financial Institution, where to use zakah, what is the Shariah Supervisory Board working systems, what is the Islamic economic system. For my preceding analysis in Muslim countries that Oman, Afghanistan and Iraq did not have Islamic banking. Egypt country is the first born Islamic banking system, Bahrain in the Middle East and Malaysia in South- East Asia are really interested in the Islamic banking. The Malaysia government was necessary to the establishment in 1983 of the country's first Islamic bank in Asia (the Bank Islam Malaysia Berhad). Iran all banking system are Shariah principle. Bangladesh, Indonesia and Pakistan countries Muslim population are very high that while Islamic banking system will grow near future. From my preceding analysis in Non Muslim countries that the first Islamic bank was established in Philippine and the first Islamic bond was started in Luxembourg and the biggest Islamic banking system are still succeed in United Kingdom. . Finally, we lent the interest free banking trends in the world comparing five different kinds of Muslim countries regions and five different kinds of Non Muslim countries regions. First, All Muslim countries and people have to use interest free banks and then Non Muslim countries in a minority Muslim have to use Islamic banking window system in conventional banks. Second, Non Muslim countries in a minority Muslim have to explain or attract interest free banking system for non Muslim people. In future, the full fledged Islamic bank system will open all non Muslim countries using capitalist economic system or democracy system.

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