OPEN ACCESS
MA'ARIF-E-ISLAMI (AIOU)
ISSN (Print): 1992-8556
mei.aiou.edu.pk
iri.aiou.edu.pk

Islamic Banking Practices: Philosophical Background and Fundamental Differences

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ABSTRACT

Prophet Muhammad (PBUH) presented interest-free Islamic economic system on practical basis with sound institutional reforms. Originally, Islamic economic philosophy is as old as this universe exists in the light of Quran. The Shari'ah provides a methodology to people with reasonable degree of liberty in economic matters. Over the passage of time, Islamic economic theories are institutionalized in last quarter of the 20th century. On practical grounds, Islamic economic philosophy has been institutionalized with a wide range of financial product in compliance with Shari'ah. There are fundamental differences between conceptual models of Islamic banks versus conventional banks resulting with the differences in relationships, agency costs, contractual obligations, legal impacts, accounting treatments and their responses to monetary policy actions. The size of Islamic financial industry has been reached from $1.66 Trillion to $2.1 Trillion and expected to achieve the target of $3.4 Trillion by end of 2018. Hence, Islamic Finance assets are 1% of the global financial market of $127 Trillion in assets."

Keywords; *Islamic economic philosophy, History of Islamic Economic Thought, Islamic finance, Islamic versus conventional banks,*

Introduction

In Islamic economic philosophy provides a complete set of guidance about to develop economic institutions at macroeconomic level and about to deal the economic matters of individuals at micro level as well. Islamic law of business transaction (المالية المعاملات فقه) is an integral area of Islamic law (الفقه الاسلامی). Islamic law of contracts and business transactions deals with the general principles of contracts, the elements of contracts, eligibility criteria of contracting parties, conditions of subject matter, the nature of remuneration or compensation in contracts, classification of contracts in terms of valid, invalid and void contracts.[1] Further, disturbing external attributes must be made as explicit as possible in order to avoid Riba (Interest), Gharar (Uncertainty) and Zulam (Injustice) to any of the parties. Any additional clause that may impose an irrelevant condition as liability beyond the control of the liable party, would be nullified because of injustice. Moreover, the validity of the contract also requires that motivating and underlying cause of a contract should be in accordance to the higher objectives of the Shari'ah. There is also options theory of Islamic law of business contract to manage the complete risk profile about specification, performance, quality and quantity of subject-matter.

The basic concept of conventional banking model is found since medieval roman empire and prevails over the time in different forms, but the current banking practices are developed on capitalistic model in 17th century.[2] This conventional model earns dominant portion of income through interest charged on loan contracts offered in substance of diversified financial products. In reflection of this conceptual model, conventional banks are fundamentally based on Riba (interest) lending and borrowing business operations with risk-aversion behaviour and it leads ultimately to social injustice and economic downfall. Whereas, Islamic banking (Arabic: مصرفية إسلامية) isa financing activity in compliance with Shari'ah (Islamic law) and it is practically applied through the Islamic economics framework. Some of the Islamic modes finance include Mudarab'ah, Musharak'ah, Murabah'ah, Salam, Istisn'ah and Ijar'ah which support the development of real sector economy to enhance growth of an economy. Ayub has noted that Shari'ah prohibits from interest (Riba, Usury, Ribit) paid on all loans of money. Similarly, investment should be strictly in Halal (valid, permissible) goods or services, whereas any investment contrary to Islamic principles (e.g. pork, porn or alcohol) is also Haram (void).[3] In line with same instructions, El-Gamal has explored that several traditions of Holy Prophet Muhammad PBUH are found in prohibition of games of chance and prohibition of bai-al-gharar (Uncertainty of legal results).[4]

Over last 1400 years of Muslims' history, these prohibitions have been practiced in varying degrees in Muslim communities to achieve the objectives of Shari'ah. In the 2nd half of 20th century, a number of Islamic banks formed to apply Islamic law of business contacts to private and semi-private commercial institutions for Muslims' concentration areas. The Islamic banking industry is lauding for returning to the path of "divine guidance of economic welfare" by rejecting the interest based economic system of the West. Overall, a unique feature of Islamic banking is profit-and-loss sharing (PLS) paradigm with complete removal of interest (Riba). In recent days, Islamic banking and finance is an emerging market all over the globe with double digit growth rate consistent the last 15 years. In practice, these differences appear in different terms between Islamic versus conventional banking.[5] Hence, Islamic and conventional banking performing their operations consistent with two different conceptual models. This study intends to peep into the conceptual models of both strands of banking practices along with a review of their historical development.

It is need of time to study the philosophy of the subject matter of Islamic economics with a concentration on historical background through highlighting the fundamental differences of Islamic finance to conventional counterpart. Primarily, this study intends to investigate how Islamic economic philosophy leads to fundamental differences in Islamic banking practices. Further, this study will fill the existing gap between the Greeks and the English in history of economic thoughts. In this study, we have explored the fundamental features of Islamic finance in framework of Islamic law of business transaction (فقه المعاملات المالية) as an integral area of Islamic law (الفقه الاسلامی). Then, the development of Islamic economic thought is discussed historically till initiative of the modern practices of Islamic financial institution. Lastly, we have explored the differential impact of Islamic economic theories on institutions between Islamic versus conventional banks on practical basis in term of financial statements.

1. Prophet Muhammad as An Economist; The Role Model for All Humanity

Islamic economic thoughts are as old as this universe exists in light of Quran. Interestingly, Allah Almighty sent Prophets with support of revelation to guide the people[6] and He assigned them diversified economic professions in practical life. Hazrat Mohammed (PBUH); the last of the prophets appeared as a merchant, a soldier, a leader of house, an economist, a chief Justice all the supreme qualities of earlier in same personality.[7] Due to these superior characteristics, Almighty Allah blessed him with the title of compassionate to all creatures as He revealed "We have sent you for no other reason but to be a mercy for all creatures".[8] Further, Allah has made him the role model for all humanity.[9]

In the biography of Holy Prophet Muhammad (PBUH) when the events are narrowed down in perspective of Islamic economic thoughts, it is found that he led a business caravan to Syria on Modarb'ah partnership bases sponsored by a wealthy Arab lady Khadija.[10] She got impressed because of his professional behaviour and honest profitable dealing and married to him. Similarly, when interest-based transactions were eliminated completely in chronical order of four divine instructions revealed to Holy Prophet Muhammad (PBUH), there appeared a severe liquidity shortage problem for farmers and manufacturers at Madinah market. In accordance to it, Holy Prophet Muhammad (PBUH) allowed forward sale; salam contract for agriculture markets and Istisn'ah contract for manufacturing market subject to specific conditions of Shari'ah compliance contracts.[11] He also manged inflow and outflow sides of Islamic treasury (Bait tul Mal) through all types of zakat on financial capital (dirham and dinanr), crops, animals, minerals and running business.[12] His followers also did employment contracts and dealt in different commodities on lease basis (Ijarah). The spending heads of Islamic treasury are also provided at microfinancing and operational level.[13] The proceedings of holy war were also managed through different proportions 80:20 between participants and Islamic treasury, respectively.[14] In broad spectrum of distribution of wealth, Islamic law of inheritance was introduced assigning different proportion to legal heirs of a deceased person.[15] Overall, Prophet Muhammad (PBUH) presented an interest-free Islamic economic system on practical basis with sound institutional reforms. Meriam-Webster[16] and Moehlman[17] have explained that historically and even today, charging any type of interest is considered usury in Christian, Jewish and Islamic societies.

2. Shari'ah Methodology for Contemporary Economic Practices

The Quran or Sunnah are the primary sources to Islamic ideology and practices in real world. Ibn-e-Taymiyyah (1328) has classified these instructions from perspective of the acts and deeds of individuals into two types. First, Ibadaat (عبادات) are the devotional acts that improve religiousness of a person. It is accepted that devotional acts are sanctioned by injunctions of the Shari'ah. All necessary instructions are given to perform the obligations. Thus, what is not commanded cannot be made obligatory. Second, Adat (**عادات**) are the transactions that need in daily routine matters. The maxim of permissibility will govern these types of matters. There would be permissibility as a general rule in absence of prohibition.

ان الاصل في الاشياء الاباحة الا ان يكون هناك دليل يدل على حرمته

On natural pattern, everything is permissible unless it is prohibited explicitly by Allah (SWT) and His Messenger; Muhammad (PBUH). [18]

Similarly, Securities Commission Malaysia (2009) has compiled a handful draft on Islamic Commercial Law (fiqh-ul-Muamalat) in which these instructions are divided into two main categories:

(i) Primary instructions that explain certain issues in detail.

(ii) Primary instructions that give basic principles and general guidelines.

These diverse types of orientation have intended to serve the certain purpose of Shari'ah. The first category of instructions usually includes fixed issues and matters which are transcendental such as Islamic theology, Ibadaat (عبادات) and other beliefs and acts that may never be changed regardless of the time and place. Likewise, these divine instructions cover all the aspects of marriage, divorce, family matters and inheritance in detail.

The second category of instructions give basic principles and general guidelines in many areas of Adat (عادات). These matters provide a room for flexibility and can be changed over the time, place and circumstances. This degree of freedom can lead to variations in interpretations, although this explanation will not forgo the basic principles of divine sources. Thus, various interpretations and flexibility makes application possible which would not have been possible. In nut shell, different people at different places over different time periods may seek guidance. The lawgiver conceded the right to Muslim Jurists (فقهاء) to frame specific rules for Muamalat/ Adat (عادات), which may be deemed necessary under prevailing circumstances based upon "Ijtehad- اجتهاد". Al-Kasani (1191) has endorsed that this methodology of Shari'ah provides people a reasonable degree of liberty in their dealings with each other and entering into contracts and transactions.[19]

3. Historical Development of Islamic Economic Philosophy

The literature on the development of Islamic economic philosophy has not been on a smooth path. Siddiqi has divided the historical perspective of economic thoughts into four phases. First; the foundation phase that stats from the early period of Islam and dates up to 450AH/1058AD. In this phase, jurists, sufis, and philosophers contributed to the economic thoughts of Islamic literature. Second Phase; this phase occupies over four centuries from 450AH/1058AD to 850AH/1446AD. Over this period, the Islamic scholars derived the rich intellectual heritage of Islam from primary sources and did map it with contemporary practices and that in addition to the Qur'an and Sunnah. Third Phase; it ranges between 850AH-1350 AD to 1446 AH-1932

AD, when stagnation took the Muslim minds in its grip for 700 years approximately. The stagnation long scene was dropped when fresh stirring started. Forth Phase; It begins from 1350 AH/1932AD to ongoing current period of revival.[20]

Further, Islahi has expanded the various phases of Islamic economic thoughts and classified them into six phases with some contribution from author presented in Table 1.

Table 1. Historical Phases of Islamic Economic Thoughts

Phases	**Description**	**Time-Period**	
		Islamic Colander	**English Calendar**
1st	**The Formation Period**; It covers the period just after death of the Holy Prophet (PBUH) till the end of the Companions' era (Sahaba) and companions of the companions (Tab'een) when Islamic economic ideas were fully based on internal sources.	11 AH – 100 AH	632 AD- 718 AD
2nd	**The Translation Period**; In this period the Greeks and other foreign ideas were imported and translated into Arabic language. Hence, the Muslim scholars became on advantage to get benefits from the intellectual legacy of humanity with practical work. (2nd–5th/8th–11th centuries).	2nd – 5th Centuries	8th – 11th Centuries
3rd	**The Re-translation and Transmission Period**; In this phase, the Greco-Arab Islamic ideas with edition and addition reached to Europe through translation and European scholars who got knowledge at Muslim countries.	6th – 9th Centuries	12th – 15th Centuries
4th	**The Imitation and Stagnation Period**; The formation of new ideas was almost stopped in these two centuries.	10th - 11th Centuries	16th-17th Centuries
5th	**The Awakening and Stirring Period**; The voices for renovation and overhaul	12th - 13th Centuries	18th - 19th Centuries

	the thinking were come up from Muslim world.		
6th	**The Modern Islamic Economic Thought**; A good number of Muslim states raised up for political and Islamic economic revival till the contemporary practices of Islamic financial institutions over the globe.	14th century- till date	20th century – till date

The 20th century may also be subdivided into four sub-phases.

I) 1st quarter of the 20th century; In 1st quarter, there was overall institutional development, especially the most of countries developed central banks to manage their financial market for economic development. Parallel to conventional counterpart, a special attention was paid to revisit socio-economic economic literature for revival of Islamic identity. It may take the title of "Pre-take off Period".

II) The 2nd quarter of the 20th century; In this phase Islamic economic thoughts were interacted with conventional economic theories of the West. It may be termed as "Take-off Period".

III) The 3rd quarter of the 20th century; In this 3rd quarter, private individuals came forward as independent researcher on large scale and it can be called "A Big-Push Period".

IV) The 4th quarter of the 20th century; Islamic economic theories are institutionalized in last quarter. when institutions also joined hands to develop it. On practical grounds, Islamic economic thoughts are recognized to develop Islamic financial institutes with a wide range of financial product in compliance with Shari'ah.[21]

It may be discussed with the title of "An Initiative of Modern Islamic Financial Practices" in detail.

4. An Initiative of Modern Islamic Financial Practices

The modern development of Islamic economics and finance started at the turn of the 20th century. In history, the diversified contribution of Muslim scholars of the past is an intellectual heritage of Islam. At same time, they have framed the economic problems faced in their own time at micro and macro level.

Islamic banking refers to a system of banking that is in accordance with Islamic law (Shari'ah principles) in framework of Islamic economics. From a theoretical perspective, Islamic banking is different from conventional banking because interest (riba) is prohibited in Islam, i.e., banks are not allowed to offer a fixed rate of return on deposits and are not allowed to charge interest on loans. A unique feature of Islamic banking is its profit-and-loss sharing (PLS) paradigm, which is predominantly based on the mudarabah (profit-sharing) and musyarakah (joint venture) concepts of Islamic contracting.

In real world, due to divine commitments about interest, borrowing from the banks to meet the liquidity shortage of business and depositing cash in investment accounts were strictly denied by Muslims. As time passed by, governments, businesses and individuals started business with bank intentionally and unintentionally at limited level. On empirical grounds, Bourkhisa and Nabi have explored that 72 % of Muslim population is not participating in financial transactions due to interest sensitive behavior, although they have surplus funds to invest.[22] Therefore, this state of affairs has invited the Muslim intellectuals to come up to meet this potential need by maintaining Muslims' business needs in framework of Islamic law of business contracts.[23]

Under the PLS paradigm, the assets and liabilities of Islamic banks are integrated in the sense that borrowers share profits and losses with the banks, which in turn share profits and losses with the depositors. Advocates of Islamic banking, thus, argue that Islamic banks are theoretically better poised than conventional banks to absorb external shocks because the banks' financing losses are partially absorbed by the depositors (Khan and Mirakhor, 1989; Iqbal, 1997). Similarly, the risksharing feature of the PLS paradigm, in theory, allows Islamic banks to lend on a longer-term basis to projects with higher risk-return profiles and, thus, to promote economic growth (Chapra, 1992; Mills and Presley, 1999).

Since the inception of modern Islamic Finance in the 1970's Islamic Economics and Finance industry has come a long way to be recognized as a viable alternate to conventional finance. Islamic banking has evolved from its relatively modest size to a vibrant industry with an increasing global footprint. Currently, Islamic financial institutions are offering wide range of services to both Muslim and non-Muslim communities throughout the world with a size of US$1.8 trillion and annual growth rate of more than 17 % per year. The growth of Islamic finance industry can be associated to efforts of dedicated regulatory, Shariah, and academic institutions. Over the globe, there are diversified players in the field viz. Islamic banks, investment banks, Islamic fund management companies, takaful companies, Islamic brokerage companies etc. Especially, the introduction of Sukkuk and Islamic stock market indices have also rooted in the Islamic financial markets. These Shariah compliant financial instruments have proved to be a powerful tool in building their confidence in Islamic finance while fulfilling financing needs of public and private sectors. The Islamic financial industry now comprises 430 full-fledged Islamic banks and financial institutions and around 191 conventional banks having Islamic banking windows operating in more than 80 countries. The size of Islamic financial industry has been reached from $1.66 Trillion to $2.1 Trillion and expected to achieve the target of $3.4 Trillion by end of 2018. Hence, Islamic Finance assets are 1% of the global financial market of $127 Trillion in assets.[24]

5. Fundamental Differences Between Islamic Banking and Conventional Banking

There are fundamental differences between conceptual models of Islamic banks versus conventional banks resulting with the differences in relationships, agency costs, contractual obligations, legal impacts, accounting treatments and their responses to monetary policy actions. Kuran (2004) has differentiated that Islamic banks are based on real business deal and real economic activities which take risk and bound in Shari'ah limits to acquire profits while conventional banks are fundamentally based on Riba (interest) lending and borrowing business operations that avoid bearing risks and thus leads to social injustice and later execute to economic crises and depressions. These differences are summarised in Table 3.

Table 2. Differences Between Conventional Banking and Islamic Banking

Conventional Banking System	Islamic Banking System
Conventional banking is based on human- made interest-based model within framework of capitalism.	Islamic banking is based upon the governing principles of Shari'ah within framework of the objectives of Shari'ah.
Money is a commodity with intrinsic value besides medium of exchange and store of value. Therefore, it is sold at a price higher	Money is a medium of exchange and originated for store of value without holding any intrinsic value in it. Therefore, it cannot be sold out at

than its face value and it can also be rented out.	higher prices or it cannot be rented out as well.
Conventional banks earn predetermined interest income from loans. Major portion of their income is interest income.	Islamic banks work on the profit-loss sharing principle, accordingly they focus more on investment projects, assessments and valuations.
Interest on basis of the time value of money, is main source of income.	Profit on exchange of goods and services is the basis for earning profit.
The objective of profit maximization is unrestricted by derivatives trading.	Islamic banks also aim to maximize profit but subject to Shari'ah restrictions.
The agreement for exchange of goods and services is not made in disbursing cash finance, running finance or working capital finance.	The exchange of goods and services is compulsory to execute the agreements of Murabh'ah, Salam, Istisn'ah and Ijarah contracts.
Government takes loans from central banks without initiating capital development expenditure through money market operations.	Government can never take loans through money market operations except making sure delivery of goods to National Investment fund.
Real growth of wealth among public does not take place because money circulates in a few hands.	Real growth of wealth takes place among public through multiplier effect and it transfers into the ownership of a lot of people.
In case of default or delay payment, conventional banks charge a penalty amount against customer recorded as income to banks.	In case of delay payment, Islamic banks charge a self-imposed amount against customer credited in charity account for welfare projects.

Further, Islamic banks cater for the public interest first within the framework of Islamic economics and to achieve the primary objective of halal (lawful) economic growth, whilst the conventional banks concentrate on making profit where interest of the bank comes first without any screening of Halal and Haram. This fundamental requirement of Halal inflow and outflow on Islamic banking balance sheet limits the existing opportunities for Islamic banks. Similarly, central bank confines IFIs in Shari'ah governance framework in addition to its regulatory and supervisory requirements for all commercial banks.

Based upon these facts, it is ample proof that the Islamic banks are well-capitalized, higher inter mediation ratio, and good asset quality. Fundamentally the difference between Islamic banking and conventional banking is that the idea fairness to the clients is theoretically focused on the idea of Islamic Banking itself. Conventional banks aim to maximize returns and minimize risks. The bank's interest income come in the way that is opposed to the Islamic banking system.

6. Balance Sheets' Differences between Islamic and Conventional Banks

In context of bank-centric view, Bernanke, Gertler and Gilchrist have described a broader credit channel with the name of the balance sheet channel from perspective of financial market imperfections that play an important role in transmission of monetary policy actions. They have emphasized on the role of financial market imperfections that increases a firm's cost of credit through weakening the balance sheet of firm directly and indirectly. A direct effect of restricted monetary policy reflects on the firm's balance sheet in accounts payable because of an increase in interest rate to be paid with principal amount to lenders. Similarly, an indirect effect arises, the capitalized value of the firm's long-term assets decreases because of an increase in interest rate. This balance sheet channel is defined from conventional perspective of market imperfection.[25] Now, this study intends to extend another perspective of different responses of Islamic versus conventional banks. It requires to investigate the fundamental differences between the balance sheets of Islamic banks and conventional banks to understand why Islamic banks respond differently as compare to conventional banks to monetary policy actions of central banks. A stylised balance sheet of Islamic bank can be observed in Annexure 1 and Annexure 2.

A balance sheet is the statement of condition or the statement of financial position pf a business entity. Technically, it is a financial report about the value of a company's assets, liabilities, and equity capital at the end of an accounting period, such as a quarter or a year. The financial transactions of a bank are generally recorded on two-sides of the balance sheet; the asset side and the liability side. First, the asset side consists cash, cash equivalents, the financing facilities that the banks provide to their clients. The cash is paid on depositor's demand and held to meet the running expanses of a bank. Now a day, especially vault cash is installed in ATMs (Automated Teller Machines).

Hence, a bank whether it is Islamic or conventional has to maintain a certain level of cash compared to its liabilities to maintain solvency in same way. Further, a bank must hold some cash as reserves; the amount maintained in a bank's account with the central bank as a regulator, that determines the legal reserves for strength of banking sector. The legal reserves account is also used as instrument of monetary policy by adjusting the minimum reserve level in account. The Cash equivalents are short-term asset as they are nearly equivalent to cash. It is a short-term investment that can either be availed as cash or converted shortly to cash without loss of value, like demand deposits, T-bills, and commercial paper. The difference is that the interest-bearing instruments can never be used in Islamic banking operations in same line of action. Then, the core business modes of banks are recorded on asset-side of banks with fundamental differences between Islamic and conventional banks. For instance, a conventional bank advances loans to the clients and finances the business operations on interest-basis, whereas an Islamic bank finance the business operations to clients on the basis of profit such as Murabha, Salam and Istisn'ah, on the basis of profit-loss sharing such as Mudarb'ah and Mushark'ah and on the basis of rent such as Ijarah (See Table 4). These are sale-based, partnership-based and lease-based contracts respectively, between Islamic bank and clients as contractual relationship.

Second, the liability side of a balance sheet refers to the deposit and investment facilities that the bank provides to clients and equity capital at the end of liability side. A conventional bank accepts funds in current accounts on zero interest rate and term deposit accounts on a fixed interest rate for depositors and convert them as asset through interest bearing advances to other clients with shortage of funds. The earned interest distributed amongst the account holders and the bank on predetermined ratio. On the other hand, an Islamic bank deals with two types of accounts; current accounts on basis of loan (Qar'd) at zero-interest rate and investment accounts on the basis of Modarb'ah at predetermined profit-ratio in a Shariah compliant manner. Although, Islamic banks title these investment accounts with different names like saving accounts, term deposit in Table 4 presenting the balance sheet of Alfalah Islamic Bank Pakistan, but underlying contract is based upon Modarb'ah. In Modarb'ah, depositors provide funds that are collected in Modarb'ah pool and an Islamic bank invest them in Shari'ah compliant projects on profit-loss basis. The profit of investment is assigned to participants of Modarb'ah pool according to predetermined ratio as mentioned in account opening form. These two different vehicle contracts Modarb'ah and loan for investment accounts of Islamic and conventional banks, respectively, have different legal and financial impact in contractual obligation and in calculation of risk exposure as well.

This risk exposure's calculation will note conventional banks riskier because depositors are not responsible for any default in loan contract, whereas Islamic banks are less risky because depositors are sharing loss in case of bank's default as underlying Modarb'ah contract bound them to bear the loss. Therefore, capital adequacy ratio's requirements are more for conventional banks as compare to Islamic banks in countries with dual-banking system. Equity capital is dealt among share-holders within framework of Moshark'ah. They are owner of business and liable to obligations as per investment share.

7. Conclusion

Over the passage of time, Islamic economic thoughts provide philosophical underpinned background to the emerging differences between modern practices of Islamic versus conventional banks. Likewise, we can conclude that there have been contribution of Muslim theorists and practitioners over the passage of time in development of Islamic economic thoughts till inception of modern Islamic financial institutions. Further, we can justify that Islam has distinguish features among other divine religions to cope up the modern practice of world with the best alternates. This study will enhance the understanding of academicians, researchers, and bankers about historical development of Islamic economic thoughts. Yet, there is space to link the contemporary practices to philosophy of Islamic economics to achieve the higher objectives of Shari'ah.

Annexure 1. A Stylized Balance Sheet of an Islamic Bank in Pakistan

Islamic Banking Financial Statement of Bank Alfalah

ISLAMIC BANKING BUSINESS

The bank is operating through 153 Islamic banking branches as at December 31, 2016 (December 31, 2015: 158 branches).

STATEMENT OF FINANCIAL POSITION	Note	2016	2015
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		10,191,942	9,516,305
Balances with and due from financial institutions		1,672,323	2,938,812
Lendings to financial institutions		27,997,227	12,610,451
Investments - net		38,670,241	59,424,549
Islamic financing and related assets	A-II.1 & A-II.2	56,720,714	42,056,149
Operating fixed assets		2,128,031	2,285,906
Other assets		2,317,048	2,664,563
		139,697,526	131,496,735
LIABILITIES			
Bills payable		1,862,656	1,428,720
Borrowings		3,833,240	9,984,637
Deposits and other accounts			
- Current Accounts		43,990,411	38,196,882
- Saving Accounts		53,988,674	51,824,143
- Term Deposits		18,038,671	14,714,498
- Others		428,262	429,421
Deposits from financial institutions - remunerative deposits		1,113,125	240,392
Deposits from financial institutions - non-remunerative deposits		1,867	1,946
Other liabilities		6,302,957	5,303,877
		129,559,863	122,124,516
NET ASSETS		10,137,663	9,372,219
REPRESENTED BY			
Islamic banking fund		1,800,000	1,800,000
Exchange equalisation reserve		878	(56)
Unappropriated / Unremitted profit (Head Office Current Account)		6,626,936	6,463,950
		8,427,814	8,263,894
Surplus on revaluation of assets - net of tax		1,709,849	1,108,325
		10,137,663	9,372,219
Remuneration to Shariah Advisor / Board		6,720	4,605
CHARITY FUND			
Opening balance		176,557	131,543
Additions during the year			
Received from customers on delayed payments & others		40,182	80,933
Non-shariah compliant income		9,524	1,295
Profit on charity saving account		6,958	8,527
		56,664	90,755
Distribution of charity			
Welfare Works		(38,357)	(16,397)
Health		(38,850)	(24,163)
Education		(7,700)	(5,181)
Payments / Utilization during the year		(84,907)	(45,741)
Closing balance		148,314	176,557

Source: Annual Report 2016 of Bank Alfalah Pakistan

Annexure 2. Annexures of a Stylized Balance Sheet of an Islamic Bank in Pakistan

		Note	2016	2015
			(Rupees in '000)	
A-II.1	**Islamic Financing and Related Assets**			
	Murabaha	A-II.1.1	10,002,211	10,173,925
	Ijarah	A-II.1.2	7,912,045	7,220,136
	Diminishing Musharakah	A-II.1.3	709,981	506,584
	Musharakah	A-II.1.4	9,893,714	9,902,071
	Running Musharakah	A-II.1.5	10,424,504	3,153,938
	Salam	A-II.1.6	11,888,467	5,016,961
	Istisna	A-II.1.7	1,934,468	1,833,420
	Falah Tijarah	A-II.1.8	100,000	-
	SBP Islamic Export Refinance Scheme	A-II.1.9	2,889,840	3,410,839
	Others	A-II.1.10	965,484	838,275
			56,720,714	42,056,149

A-II.2 Assets under Ijarah (IFAS-2)

a) Brief description of the Ijarah arrangements

Ijarah contracts entered into by the Bank essentially represent arrangements whereby the Bank (being the owner of assets) transfers its usufruct to its customers for an agreed period at an agreed consideration. The significant ijarah contracts entered into by the Bank are with respect to vehicles, plant and machinery and equipment and are for periods ranging from 3 to 5 years.

b) Movement in net book value of ijarah assets

	2016				
	Asset categories				
	Vehicles - Consumer	Vehicles - Corporate	Plant & Machinery	Equipment	Total
	---------- (Rupees in '000) ----------				
At January 1, 2016					
Cost	8,557,297	977,866	321,746	4,185	9,861,094
Accumulated depreciation	(2,510,200)	(314,461)	(157,529)	(3,287)	(2,985,477)
Net book value	6,047,097	663,405	164,217	898	6,875,617
Year ended December 31, 2016					
Opening net book value	6,047,097	663,405	164,217	898	6,875,617
Additions	1,130,853	491,971	373,043	-	1,995,867
Disposals					
Cost	(1,033,177)	(23,238)	(21,642)	-	(1,078,057)
Accumulated depreciation	967,859	93,294	43,752	-	1,104,905
	(65,318)	70,056	22,110	-	26,848
Depreciation	(1,201,642)	(207,184)	(74,959)	-	(1,483,785)
Closing net book value	5,910,990	1,018,248	484,411	898	7,414,547
At December 31, 2016					
Cost	8,654,973	1,446,599	673,147	4,185	10,778,904
Accumulated depreciation	(2,743,983)	(428,351)	(188,736)	(3,287)	(3,364,357)
Net book value	5,910,990	1,018,248	484,411	898	7,414,547

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