



The Islamic Bank of Asia

What is Islamic Banking?

The basis for all Islamic banking lies in the principles of the Shariah, or Islamic Law, which are taken from The Quran and As-Sunnah - examples of Prophet Muhammad (pbuh) (i.e. sayings and actions). The Islamic form of banking is only about 40 years old and it is only a part of the Islamic financial market. The Islamic financial market itself consists of a) Islamic Banking; b) Takaful; c) Islamic Equities; and d) Islamic Financial Planning.

Central to Islamic banking is the fact that money itself has no intrinsic value. As a matter of faith, a Muslim cannot lend money to, or receive money from someone and expect to benefit – interest (known as riba) is not allowed. To make money from money is forbidden – wealth can only be generated through legitimate trade and investment in assets. Money must be used in a productive way.

The principal means of Islamic banking are based on trading – it is essential that risk be involved in any trading activity. Any gains relating to the trading are shared between the person providing the capital and the person providing the expertise.

The Islamic Bank of Asia is a stand-alone bank. We are not part of a larger conventional group that combines Shariah banking and conventional banking.

Principles

The term Shariah refers to Islamic law as revealed in The Quran and through the examples of the Prophet Muhammad (pbuh) – The Sunnah.

The authority of Shariah is drawn first and foremost from the specific guidance laid down in the Quran.

The second major source is the Sunnah, which translates as the Way and refers to the way in which Prophet Muhammad (pbuh) lived his life. This is based on Al-Hadith, which is a collection of everything that Prophet Muhammad (pbuh) said, did, or approved of.

Another important source is Qiyas, which involves the interpretation and analysis of The Quran and As-Sunnah of existing law to suit modern-day situations.

Al-Ijma' is another source which will be sought if all the above sources are not found and this is where The Shariah Advisors (Ulama) will interpret and analyse existing law to suit modern-day situations.

The Shariah Board Members of The Islamic Bank of Asia are experts in the interpretation of Islamic law and its application in modern day financial institutions.



The Shariah Board's Role

The Shariah Board of The Islamic Bank of Asia comprises experts in the interpretation of Islamic law and its application within modern day financial institutions. They are world leading scholars representing a wide spectrum of the Islamic faith and they ensure that Shariah compliance is at the heart of everything we do and every product and service we offer.

The Board meets on a regular basis to review all contracts and agreements relating to our transactions as well as to advise us, guide us and sanction any new service that we introduce. The Board certifies every account and service we provide - without their approval, we cannot introduce a new product or service.

Glossary of Selected Islamic Terms

Sunnah: The title given to the collection of recorded words and actions of the Prophet Muhammad (pbuh). Most of what he said or did throughout his lifetime is recorded in the Sunnah. Sunnah: Literally "a path or way, a manner of life". Sunnah is that which Muhammad did, which he enjoined, and which was not forbidden by him when done in his presence.

Al-Hadith: Arabic pl. alhadith; in English academic usage, hadith is often both singular and plural; are traditions relating to the sayings and doings of the Islamic Prophet Muhammad (pbuh) and his companions, or sahaba. Hadith collections are regarded as important tools for determining the Sunnah, or Muslim way of life, by all traditional schools of jurisprudence.

Shariah: Islamic law, governing the life of Muslims, which is derived from the Holy Quran and Sunnah

Halal: In the English language it most frequently refers to food that is permissible according to Islamic law. In the Arabic language it refers to anything that is permissible under Islam.

Haram: prohibited, forbidden

Islamic Banking: A banking system in which related transactions and activities are conducted in accordance with the tenets of Shariah that allows asset-backed financing and prohibits interest-based dealings.

Wadiah: a bank is deemed a keeper and trustee of funds. The bank guarantees the refund of the whole amount or any part thereof of a depositor's funds when the depositor demands it.



Istisna: A medium-term mode of financing. It is a contract for manufacturing (or construction) whereby the manufacturer (seller) agrees to provide the buyer with goods identified by description after they have been manufactured/constructed in conformity with that description within a pre-determined time-frame and price.

Ijara: is a form of leasing. It involves a contract where the bank buys and then leases an item – perhaps a consumer durable, for example – to a customer for a specified rental over a specific period. The duration of the lease, as well as the basis for rental, are set and agreed in advance.

Ijara-Thumma-Bai or Ijara – Bi-Thamleek: is another form of Ijara, except that included in the contract is a promise from the customer to buy the equipment at the end of the lease period, at a pre-agreed price. Rentals paid during the period of the lease constitute part of the purchase price. Often, as a result, the final sale will be for a token sum.

Ijara with diminishing Musharaka: The principle of Ijara with diminishing Musharaka can be used for home-buying services. Diminishing Musharaka means that the bank will reduce its equity in an asset with any additional capital payment the customer makes, over and above the rental payments. The customer's ownership in the asset increases and the bank's decreases by a similar amount each time the customer makes an additional capital payment. Ultimately, the bank will transfer ownership of the asset entirely over to the customer.

Mudaraba: A form of partnership where one party provides the funds and the other provides the expertise and management. Any profits accruing are shared between the two parties on a pre-agreed ratio, while the capital loss is borne by the fund provider.

Mudarib: A contracting party in a Mudaraba financing which acts in a fiduciary capacity as the agent or fund manager.

Murabaha: A contract of sale between a buyer and a seller in which a seller purchases the goods needed by a buyer and sells the goods to the buyer on a cost-plus basis. Both the profit (mark-up) and the time of repayment (usually in instalments) are specified in an initial contract.

Bai al salam: is when the purchase price of goods is paid in advance (spot) and the delivery will take place in the future.

Musharaka: means public financing partnership. It involves placing capital with another person and both sharing the risk and reward. The difference between Musharaka arrangements and normal banking is that you can set any kind of profit sharing ratio, but losses must be proportionate to the amount invested.

Qard: A Qard is a loan, free of profit.



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Riba : Riba means interest, which is prohibited in Islamic law. Any risk-free or guaranteed interest on a loan is considered to be usury.

Salam (Islamic forwards): is a sale where the seller undertakes to supply specific goods to the buyer at a future date in exchange for an advanced price fully paid at the spot.

Sukuk: An asset-backed bond which is designed or structured in accordance with Shariah and may be traded in the market.

Takaful (Insurance): is an Islamic insurance concept where a charitable collective pool of funds is collected based on mutual cooperation, responsibility, assurance, protection and assistance between groups of participants.

Waqf: An endowment or a charitable trust devoted exclusively for Islamic purposes

Shariah Board/Committee: An independent body comprising specialist jurists in fiqh almua malat (Islamic commercial jurisprudence) responsible for directing, reviewing, supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Shariah Rules and Principles

AAOIFI: Accounting and Audit Organization for Islamic Financial Institutions. It is a Bahrain-based institution which issues Islamic Shariah and governance standards to be followed by Islamic financial institutions.

Zakah: A religious levy ordained on Muslims and payable annually at a rate of 2.5% net assets to certain beneficiaries prescribed by Shariah.