

Contents

Preface	xiii
Introduction	xvii
About the Author	xxiii
1 Case Study 1: <i>Ijara</i> Contract	1
1.1 Learning Outcomes	1
1.2 Role of <i>Ijara</i> in Islamic Finance	1
1.3 The <i>Ijara</i> Contract as a Mode of Islamic Finance	2
1.3.1 What is the <i>Ijara</i> Contract?	2
1.3.2 What is Car <i>Ijara</i> ?	2
1.3.3 In what Sense is Car <i>Ijara</i> Interest Free?	2
1.3.4 What is the Difference between a Conventional Lease and an Islamic Lease?	3
1.3.5 The Meezan Bank Car <i>Ijara</i> Scheme	6
1.4 Appendix: <i>Ijara Fairwa</i>	9
1.5 Case Study Questions	9
2 Case Study 2: <i>Musharaka</i> Contract	13
2.1 Learning Outcomes	13
2.2 Role of <i>Musharaka</i> in Islamic Finance	13
2.3 Summary of <i>Musharaka</i>	14
2.4 <i>Sharia'a</i> Rules for Profit and Loss with <i>Musharaka</i>	14
2.4.1 Distribution of Profits	14
2.4.2 Sharing of Losses	15
2.5 Management of <i>Musharaka</i>	15
2.6 <i>Sharia'a</i> Rules for <i>Musharaka</i>	15
2.7 Case 1	16
2.7.1 Questions	17
2.8 Case 2	17
2.8.1 Questions	17

3	Case Study 3: Diminishing <i>Musharaka</i> Contract	19
3.1	Learning Outcomes	19
3.2	Diminishing <i>Musharaka</i> as a Mode of Islamic Finance	19
3.3	Summary of Diminishing <i>Musharaka</i>	20
3.4	<i>Sharia</i> 'a Rules for a Diminishing <i>Musharaka</i> Contract	20
3.5	What is the Difference between <i>Ijara Wa Iqtina</i> and Diminishing <i>Musharaka</i> ?	21
3.6	Applications of Diminishing <i>Musharaka</i>	21
3.6.1	House Purchase	21
3.6.2	Service Sector	22
3.7	Case Assumptions	22
3.8	<i>Sharia</i> 'a Considerations to be Noted	22
3.9	Practical Shape of the Transaction	23
3.10	Case Study Questions	23
4	Case Study 4: <i>Mudaraba</i> Contract	25
4.1	Learning Outcomes	25
4.2	<i>Mudaraba</i> as a Mode of Islamic Finance	25
4.3	<i>Mudaraba</i> and PLS – Pure Islamic Banking	25
4.3.1	<i>Mudaraba</i> – Profit Sharing Agreement	26
4.3.2	<i>Sharia</i> 'a Rules for <i>Mudaraba</i>	27
4.4	Case 1: <i>Sharia</i> 'a Islamic Bank	28
4.4.1	Case 1 Questions	28
4.5	<i>Mudaraba</i> Contract with Various Partners	30
4.5.1	Case 2 Questions	30
4.5.2	Case 3 Questions	30
4.5.3	Case 4 Questions	31
4.5.4	Case 5 Questions	31
4.5.5	Case 6 Questions	32
5	Case Study 5: <i>Murabaha</i>, <i>Musharaka</i>, <i>Ijara</i> and <i>Ijara wa Iqtina</i> Contracts	33
5.1	Learning Outcomes	33
5.2	Case 1: <i>Murabaha</i> Contract	33
5.3	Case 2: <i>Musharaka</i> Contract	34
5.3.1	<i>Musharaka</i> with Profits	34
5.3.2	<i>Musharaka</i> with Losses	35
5.4	Case 3: <i>Ijara</i> : Operating Lease Contract	35
5.5	Case 4: <i>Ijara Wa Iqtina</i> : Finance Lease Contract	36
5.6	Case 5: <i>Mudaraba</i> with <i>Murabaha</i> Contracts	36
5.6.1	Car <i>Mudaraba</i> with <i>Murabaha</i>	36
6	Case Study 6: Islamic Home Finance	37
6.1	Learning Outcomes	37
6.2	<i>Sharia</i> 'a-Compliant Mortgages	37
6.3	<i>Sharia</i> 'a-Compliant Structures for Islamic Home Finance	37
6.3.1	<i>Murabaha</i>	38
6.3.2	<i>Ijara wa Iqtina</i>	38

	Contents	ix
6.3.3	Diminishing <i>Musharaka</i>	39
6.3.4	What is the Difference between <i>Ijara wa Iqtina</i> and Diminishing <i>Musharaka</i> ?	40
6.3.5	Applications of Diminishing <i>Musharaka</i>	41
6.3.6	<i>Istisna'a</i> Contract	41
6.4	Appendix 1: Manzil Home Purchase Plans (<i>Murabaha</i>)	41
6.4.1	<i>Murabaha</i> ('Deferred Sale Finance')	41
6.4.2	How does the Manzil Home Purchase Plan Work?	41
6.5	Appendix 2: Devon Bank	42
6.5.1	Residential <i>Murabaha</i> Purchase Agreement	42
6.6	Appendix 3: Manzil Home Purchase Plans (<i>Ijara</i>)	43
6.6.1	<i>Ijara</i> ('Lease-to-Own')	43
6.6.2	How does it Work?	43
6.7	Appendix 4: Devon Bank	44
6.7.1	Residential <i>Ijara</i> Sale and Lease Transaction	44
6.8	Appendix 5: Meezan 'Easy Home' Diminishing <i>Musharaka</i> Agreement	44
6.8.1	Islamic Financing on a Diminishing <i>Musharaka</i> Basis	44
6.8.2	What makes 'Easy Home' <i>Sharia'a</i> Compliant and how does it Differ from a Conventional Mortgage?	45
6.8.3	Why is the Profit Margin Charged by Meezan Bank Correlated to Conventional Mortgage Market Trends?	45
6.8.4	Is the Profit Rate Variable or Fixed?	45
6.8.5	What if a Customer Fails to Pay Monthly Instalments?	45
6.9	Case Study Questions	46
7	Case Study 7: Sources of Finance for Islamic Banks	49
7.1	Learning Outcomes	49
7.2	Where do Islamic Banks get their Money from?	49
7.3	Sources of Funds for Islamic Banks	49
7.3.1	Current Accounts	49
7.3.2	Savings Deposits	50
7.3.3	Investment Deposits	51
7.4	Case Study Questions	53
8	Case Study 8: Financial Statement Analysis for Islamic Banks	55
8.1	Learning Outcomes	55
8.2	How do the Financial Statements of Islamic Banks Differ from those of Conventional Banks?	55
8.3	Case Study Activities	55
8.4	Case Study Questions	77
9	Case Study 9: Islamic Investment Prohibitions	79
9.1	Learning Outcomes	79
9.2	Muslims have Strict Rules about what they are Allowed to Invest in	79
9.3	Islamic Investment Prohibitions	80
9.4	The Prohibition of Interest (<i>Riba</i>)	81

9.5	<i>Zakat</i> and Islamic Prohibitions	82
9.5.1	Who can Receive the <i>zakat</i> ?	82
9.5.2	How is <i>zakat</i> Connected with Islamic Prohibitions?	82
9.5.3	Issues Regarding <i>zakat</i> , <i>Tamlik</i> and <i>Sadaqah</i>	82
9.6	Case Study Questions	84
10	Case Study 10: Opening an Islamic Bank within a Western Regulatory Framework	91
10.1	Learning Outcomes	91
10.2	First Islamic Bank in the European Union	91
10.3	Issues in Creating an Islamic Bank Within a Western Regulatory Framework	92
10.3.1	Background to the Creation of the Islamic Bank of Britain (IBB)	92
10.3.2	The FSA's Approach to Banking Authorisation	92
10.3.3	IBB and the FSA	95
10.3.4	Islamic Financial Products Offered by IBB	101
10.3.5	How does IBB Ensure that its Products are <i>Sharia'a</i> Compliant?	105
10.3.6	Financial Statements for 2005 and 2006	107
10.4	Case Study Questions	108
11	Case Study 11: Leverage and Islamic Banking	109
11.1	Learning Outcomes	109
11.2	Leverage and Islamic Banking	109
11.3	What is Financial Leverage?	110
11.3.1	What is the Debt to Equity Ratio?	110
11.4	Financial Terminology: a Guide	110
11.4.1	Earnings Before Interest and Taxes (EBIT)	110
11.4.2	Earnings before tax (EBT)	111
11.4.3	Earnings after tax (EAT)	111
11.4.4	Return on equity (ROE)	111
11.4.5	Earnings per share (EPS)	112
11.5	Case Study Assumptions	112
11.6	Case Study Questions	113
12	Case Study 12: Impact of Non-performing Loans on Islamic and Conventional Banks	115
12.1	Learning Outcomes	115
12.2	Islamic Banking Principles Involve Risk Sharing, which should make them Less Vulnerable than their Conventional Counterparts	115
12.3	Equity-Based Versus Debt-Based Banking	116
12.4	Case Study Assumptions	116
12.5	Case Study Questions	117

	Contents	xi
Case Study Answers		119
Glossary		151
Bibliography		157
Index		165

<http://www.pbookshop.com>

<http://www.pbookshop.com>