

Islamic Banking Knowledge

There are significant and many differences between the two systems. The Islamic bank do not deal with usury (RIBA) or trade in debt or undertake transactions involving gharar (uncertainty), or sharia non-compliant transactions, as all such acts are prohibited by sharia. The scope of Islamic bank is based on financing or investing in areas that are not prohibited by Islamic law. Additionally, Sharia aims to regulate the exchange of money by converting it into tradable goods or through Ijara and other tools sourced from Islamic jurisprudence.

There are other major differences related to the overall banking system, contracting mechanisms, financing method and others, The Articles of Association is an Islamic bank stipulates that it is forbidden to deal in lending and borrowing with interest. The Islamic Bank is different from conventional banks through the method that money is taken and invested.

Also, the risks associated with Islamic banking contracts are quite different from that of interest-bearing loan contracts of conventional banks.

The Overall Baking System

1. Islamic Banks are just mocking us.

Islamic Banks have become a distinct industry through its philosophy, ideas and systems. They now have institutions that serve them by developing sharia standards, such as 'Accounting and Auditing organization for Islamic Financial Institutions'(AAIOFI) WHICH CONSIST OF MANY Islamic scholars from various Islamic institutions that prepare contracts, amongst other services, along with other supporting institutions. The Islamic banking Industry is being pursued globally by all countries over the world, and its reality has become undeniable through the contracts and financing that it offers.

Also, the Islamic finance industry operates under the supervision of central banks that regulate, monitor and audit their operations and their economic effects. Evidently, Islamic banks have tangible social effects through the mobilization of local trade within the country.

2. Islamic banks financing is nothing but a matter of twisting documents to appear as formal transactions.

Islamic bank sign contracts with their customers by using legitimate contracts that are drafted by sharia scholars, legal consultants, and bankers. Hence, all parties involved in such contracts must execute what was stated therein. Moreover, the Islamic bank reflects what is stated in the contract, including transferring and registering ownership of the goods through government agencies and then selling or leasing them through valid contracts. Moreover, sale contracts in Islamic legislation are binding by a mere verbal offer and acceptance hence its legitimacy couldn't be more affirmative upon signing a written contract at the mutual consent of both parties. Moreover, the

sharia Supervisory Board oversees the contracts executed by Islamic bank and reviews all documents that are signed by customers.

3. Islamic bank manipulate terms and finance products for profit purposes.

Banks were established to meet the financial and banking needs of the people. Conventional banks have dealt with the needs of people on the basis of usury (cash versus cash) whereas Islamic banks deal with people's needs on the basis of purchase and sell of goods, and providing services (cash versus goods or services versus cash). Islamic banks terminologies and finance tools are derived from Islamic jurisprudence books, fatwas of Sharia Supervisory Board, and from the sharia standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), all of which are clearly reflected in the practice of Islamic banks.

4. Islamic banks charge more profit than conventional banks.

This issue varies from country to country and to the size of the bank. In many countries, Islamic banks charge less than their conventional counterparts, additionally, they may declare more profits for investment accounts than conventional banks.

Islamic Banks bear more risks than conventional banks. For instance, it buys the commodity and undertakes the responsibilities for its loss and guarantee, and when it leased, it also bears the responsibility for its loss and the cost of its insurance and basic maintenance throughout the lease period.

Anyway, these matters are subject to supply and demand forces, as well as market norms, and the like.

5. Automated and accounting systems in Islamic banks are a mere simulation of conventional banking systems

There is no prohibition in taking advantage of systems used by conventional banks and other international companies, since the ruling on any contract shall be based on its terms and conditions. Moreover, everyone has the right to use automated and software systems if it does not lead to sharia non-compliant issues. Given that Islamic banks are distinct by having different accounting and systems compared to their conventional counterpart. There are now international companies that offer software and accounting services specifically for Islamic banks.

6. Islamic banks charge customers fees and profits that are unknown.

From the outset, the Islamic bank must disclose all profits and fees being charged to the customers. For example, the bank must clarify, to its customer, the profit either as a percentage of the total purchase cost or as a fixed lump sum amount. Also, the bank is not allowed to charge any fees on a transaction or service unless it has actually incurred a cost or exerted an effort. Moreover, disclosure of such fees is a requirement of the regulatory authorities.

7. Islamic bank do not properly apply the correct Islamic concepts and standards.

In principle, the ruling on the validity of concepts and standards of Sharia is the concern of the specialists in Sharia and Fiqh jurisprudence, and Islamic banks are bound by the principle of halal and Haram

Islamic banks are obliged to present all business documents to the sharia supervisory Board, whom in turn reviews and corrects them. Islamic banks in many countries are also bound by the sharia standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI).

8. Employees of Islamic banks are from conventional banking backgrounds.

There is nothing that prevents Islamic banks from employing banking and accounting experts with prior experience in conventional institutions, as long as they abide by sharia rules when dealing with customers. Moreover, such employees want to work with Islamic banks and in turn, Islamic banks are keen on developing their skills through specialized Sharia training courses for them to perform their job according to Islamic finance guidelines.

9. Islamic banks do not observe the purposes of Sharia.

Islamic banks consider the purpose of safeguarding money (which is one of the five purposes of Islamic law: safeguarding religion, self, mind, offspring, and wealth) as well as ensuring Halal and good earning through the following:

- Providing Islamic finance, which is far away from prohibited acts, so as to save people from sins.
- Finding Sharia compliant solutions for housing vehicle and personal finance, to help people meet their needs.
- Helping people to invest their money away from prohibited acts, so as to save people from sins.

Contribute to the community through providing interest free loans (Qard Hassan) to low-income people in addition to Zakat funds, donations, charity funds reserved from sharia non-compliant transactions and funds from delinquent customers who have been committed to donate.

Assisting insolvent and handicapped/disabled customers, by giving them more time, without charges and without burdening them further.

10. Islamic banks do not take into account the interests of the poor.

It should be noted that Islamic banks are not charity or donation organizations, but they are for-profit commercial companies and institutions which realize profits through purchase and sale. Nonetheless, they provide monetary assistance to the poor and needy through Zakat funds and the like.

11. Islamic banks do not contribute to economic development.

One of the most important contributions of Islamic banks is the development of the financial sectors of the countries in which they operate in. Their work is based on mobilizing the local market through financing purchase and sale transactions. Islamic banks also have financed many projects, and still continue to do so to assist in the development of the countries and societies, and their projects are a clear proof of that. This is also one of the requirements of the governance systems to which they are committed to. Those who look closely at current projects in our country will notice that most of these projects, housing projects for example, were financed by Islamic banks.

12. The existing financial system is essentially a capitalist regime which is based on interest (Riba), and Islamic banks are a part of this system through their dealings within it.

The existence of the capitalist regime and its dominance in the international markets does not mean closing the door to the Islamic financial system. Most countries that have licensed Islamic banks have combined the two systems. The acceptance of one system and prevention of any other system means stopping any economic and social reform in a country. Islamic banks deal with transactions that do not violate Sharia law, and the regulatory bodies, through their laws, have become evidently aware of the existence and importance of Islamic banks to the country's economy and have therefore issued laws and regulations specific to their line of business.

Central banks, thankfully, have become aware of the important role of Islamic banks.

13. Islamic banks deal with central banks that in turn deal with the usurious U.S Federal Reserve Bank.

The central bank in any country is the regulatory body which governs and regulates all member banks in the country. It is responsible for all the banks in the country and decides its fiscal policy. Despite all that, Islamic banks dealing with the central bank are within the Islamic framework and are not related to the transactions conducted by the central bank with other conventional banks. Moreover, transactions that are held between the central bank and the U.S Federal Reserve bank do not prevent Islamic banks from applying the provisions of Islamic sharia in their transactions and financing.

14. Islamic banks have accounts with conventional banks.

There is no harm in dealing with conventional banks, provided that the contracts signed are in conformity with sharia principles. Opening reciprocal current accounts between Islamic banks and conventional banks is usually done in order to collect fees, pay debts, pay dues to Islamic banks customers, transfer funds and for any other reason to speed up transactions. Also, it is a known fact that Islamic banks do not pay profits on current accounts, however, if any interest is received from conventional banks it must be disbursed immediately to charity.

15. Islamic banks sometimes deal with conventional banks.

No harm for an Islamic Bank to deal with a conventional bank, especially in construction projects and the like, as long as the projects and contracts do not violate the provisions of Islamic laws.

16. Islamic bank use the global interest rate

The Islamic banks do not deal with the interest rate, but rather use the standard global interest rate indicators as a benchmark for determining the appropriate profit rate. As any increase in the profit rate over and above the global benchmark would affect the market, Banks's clientele, and other competing banks. However, the contractual system with customers remains sharia compliant, and the presence of an internationally acceptable global rate does not prevent Islamic banks from using it to calculate profit.

17. Islamic banks help people to fall in debt.

Islamic banks as a for-profit organization seek to earn their profits from finance transactions. They provide financing to those who request it, and thus the customer has to study his financial position before applying for financing. Islamic bank is also requiring competing with their conventional counterparts and provide facilities that attract people to Islamic financing through finding sharia compliant alternatives.

Despite of that, Islamic banks are partially responsible to make individual aware of the hazards of unnecessary borrowing and the piling of debts.

The Islamic banks are the only institutions that advise their customers, through their terms and conditions, to avoid over-spending and to consume conservatively.

18. Islamic banks are too lenient when providing consumer financing.

Islamic banks do not interfere in the desire of consumers, and the culture of consumption and luxuries has been prevalent for some time. Therefore, it is unacceptable to demand Islamic Banks to carry the burden of resolving this problem, since this is a cultural issue that everyone should participate to resolve it. Moreover, Islamic banks refrain from financing consumer goods that might be harmful to the society.

19. Islamic banks do not provide interest free loans (Qard Hassan)

Providing an interest free loan "Qard Hassan" is a commendable virtue, however, considering that Islamic banks are for-profit institutions, they do not offer this type of loan, except within tight exceptions. For instance, there are some banks that provide such loans to low-income people or to support institutions which are involved in such causes.

20. Islamic banks do not provide financing to S.M.E.s but seek to attract the largest amount of capital.

Islamic banks differ in their approach of providing finance to certain targeted groups. There are some Islamic banks that are specialized in providing services to S.M. E's. Historically, Islamic banks in Bahrain have contributed immensely in the relief of S.M.E businesses.

21. Islamic banks have sometimes contributed to the rise of property and commodity prices due to their speculative behavior in the market.

Some banking system have allowed Islamic banks to purchase, sell and lease for financing purposes but they do not act as traders and speculators in this regard .Islamic banks have helped many individuals to own their homes through Sharia-compliant products and have also contributed to many real estate development projects, and thus contributed in availing adequate housing units at affordable prices. Increase in prices may be referred to supply and demand rather than the presence of Islamic banks.

22. Islamic banks are combining and merging a number of contracts into a single deal for the purpose of providing finance.

There is no objection in merging two or more non-contradicting contracts into a single contractual system in order to satisfy a certain financing need, as long as there is no Sharia impediment in the merger of such contracts. There is a need to distinguish between interrelated contracts which some may be sharia non-compliant, and between a memorandum of understanding which serve as a guidance when executing transactions between the two parties (the bank and the customer).

23. Islamic banks charges fees when the customer is late in paying his installments.

In principle, it is not allowed for an Islamic Bank to late payment penalty on delinquent customers. However, due to the fact that some customers have taken advantage of this in the past, Islamic banks have resorted to the principle of (commitment to pay to charity or to donate) in order to penalize such customers. The bank, therefore, deducts a certain percentage from the delinquent installment of these customers and credits the same into a special charity/donation account. Any payment from the charity account is done under the supervision of sharia supervisory Board, and the bank does not benefit from it neither financially nor morally: as clearly stated in the contracts signed by customers.

24. Some Islamic banks are owned by conventional bank, and some conventional banks open Islamic windows or branches.

This is fine if the Islamic Bank adheres to the Islamic Sharia and its Islamic identity, and if the sharia supervisory board and the internal sharia department are functioning, and as long as the banks balance sheet is separated from that of the conventional Bank. These conditions are set by the AAOIFI standards.

25. Islamic banks compete with businesses.

Islamic banks do not compete with businesses but contribute to increasing the profitability of businesses by financing their needs to buy goods or provide financing for their customers, and to rectify the transactions of businesses in accordance with the provisions of Islamic law.

26. Customers are unaware About the reality of the signed contracts.

The Islamic bank should not be asked about the reality of contracts signed with the bank, but the customer himself must read and review the terms of the underlying contract. However, Islamic bank have a moral role in educating customers and in drafting contracts in simple, concise and clear terms, along with giving customers enough time to read these contracts.

27. Islamic Banks's contracts are unamendable; therefore, the customer does not have the right to negotiate, modify or change the terms of the contract.

Islamic Banks draft their contracts according to its needs, and after the revision of the sharia supervisory board and legal advisors. Such contracts are issued for a large segment of customers, and if each customer is allowed to negotiate the clauses, this will then create further issues. However, the Islamic banks should take into consideration the comments raised by customers on these contracts, provided that they do not contradict with the provisions of Islamic law.

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The Sharia Supervisory Board

1. Sharia Supervisory Boards in Islamic banks, do not have an active role.

Sharia Supervisory Board are considered the most important element in Islamic financial institutions, and its role is not confined to supervision and audit, either directly or through the sharia audit department, but also to review all financing and operational transaction before approval. Additionally, they review the implementation of the processes and then issue rulings (Fatwas) and answer queries. Moreover, the sharia supervisory board reviews contracts, documents and templates and approve them and provide sharia and awareness courses.

2. Members of the Sharia Supervisory Board belong to the bank and this does not make them independent.

Members of Sharia board are not employees of the bank, but are fully independent, and they are appointed by the general Assembly, and under the direct supervision of central Bank. In addition, the instructions issued by the central Bank prohibits members of the board from having any executive role in the bank. The central bank also intervenes to approve the membership of the sharia board. Moreover, the services of the sharia board member cannot be terminated without the approval of the central bank. This is to ensure the independency of members from the executive management of the bank and their intervention in the affairs of the Sharia Supervisory Board.

3. Receiving money from the bank by Sharia Board members is considered a violation to their duties and puts them under the control of the management of the bank.

Members of the sharia boards receive their remuneration for auditing, reviewing, verification and for other services provided by them to the bank, similar to the external auditing and advisory bodies. Hence, obtain compensation or reward from their services cannot be restricted. Their appointment and dismissal is subject to let them perform their duties without any restrictions or accountability from their banks. Also, the reward received by the member is subject to the approval of the General Assembly, and it is a compensation for providing their services and efforts and allocating the time to each party.

4. Sharia Supervisory Board members' names are repeated in a number of Islamic financial institutions.

The member of sharia supervisory board does not apply for appointment, but banks ask them to join their boards membership. Apparently, scarcity of scholars specialized in Islamic finance studies had led to the repetition of the same names. This repetition is also evident for law audit and consulting firms that deal with banks. Also, as the number of students studding sharia, law and banking increase the more there will be specialized scholars in decreased repetition of names.

5. Sharia Board have recently approved some products and mechanisms that weren't accepted in the past.

The Sharia principle states that "Rules should not be criticized when changed through time" Islamic jurisprudence is flexible, especially in the field of commercial transaction, and one of the sharia principles states that "Commercial transactions are permissible in principle, unless it violates a firm sharia guideline" The sharia board's judgement on any subject submitted to them reflects the view as presented to them. However, if some matters have changed on the same subject or even if its perception differed due to the passage of time, this eventually would lead to the change in its rulings (Fatwas), as long as there is nothing to prohibit them.

6. Sharia Board issue ruling (Fatwas) and resolutions without any clear reference or criteria governing them.

The sharia supervisory board have an agreed upon charter which stipulates on how the board reaches its decision. Moreover the sharia board is committed to issue their ruling based on the sharia standards as laid down by the accounting and auditing organization for Islamic Financial Institutions (AAOIFI), in addition to the Central Sharia Board of the country, if any, as they are committed to issue their rulings (Ijtihad) in the light of those standards without discrediting them. Also, the AAOIFI standards have set out certain criteria and guidelines for issuing Fatwah, there are also regulations for the governance of Sharia supervision, issued by the supervisory bodies which are strictly followed and implemented by the sharia Boards.

Moreover, the sharia Board are often committed to the collective opinions issued by the Fiqh councils and specialized international conferences.

7. There are differences and contradictions in the fatwas issued by members of Sharia boards in banks.

Differences are common in some issues, and we do not know of any contradictions in the fatwas of sharia boards. Also, the board issues its rulings (Fatwas) based on the information, data, and explanations received from field professionals

Product and Finance offered by Islamic Bank

A) Murabaha

1. Purchase of good by the bank and the reality of its possession.

The Islamic bank must purchase the commodity before selling it. Purchase and possession of the commodity by the bank differs according to transaction circumstances, and transfer of ownership from the seller to the buyer is by mutual consent of both parties, as states by the Prophet's sayings (peace and blessing of Allah be Upon him), such as, the bank may own a car by purchasing it through a telephone call or fax. The ownership of the car is then transferred to the bank, Either

through actual or constructively. Therefore, the bank will bear the responsibility of the loss of the property after the ownership as it is guaranteed by the bank, The owner, The sharia audit department will therefore make sure of Banks's possession of the car, and if any error occurs, the sharia supervisory board will disburse the profits of such transactions to charity and any other transactions that do not comply with this requirement.

2. Murabaha used by Islamic financial institutions is not the Murabaha in Islamic transcripts.

The rule of jurisprudence in Fiqh says that "All things, in principle, are permissible" There is no objection in creating any form of financing tools as long as it doesn't contain any sharia non-compliant elements, and as long as the good is rightfully owned by the bank prior to selling it through Murabaha. It's also worth mentioning that the origin of Murabaha is mentioned in early Islamic Fiqh transcripts.

3. The Islamic bank force the customer to sign a binding promise that cannot be broken.

The binding promise that is signed by the customer is used when the bank first purchases the commodity as requested by the customer, and is used to compensate the bank for its losses when the customer refuses to purchase the commodity and the bank is forced to sell the commodity at a loss. The bank here will charge the customer the actual losses only. However, if the bank did not incur any loss or is able to return the commodity, then the bank will not charge anything to the customer.

B) Ijarah Muntahia Bittam leek

1. The Ijarah Muntahah Bittam leek instrument adopted by Islamic banks for financing purposes is in fact a sale contract.

The Ijarah Muntahah Bittam leek implements the guideline if Ijara in all its aspects. The bank shall bear the liability in case of loss of the asset during the period of the Ijara, because it is the owner of the asset. It also bears the major maintenance cost of the leased asset along with its insurance expenses, as the owner of the asset. However, the property or asset is transferred to the lessee at a later stage using an independent sale contract, which is not linked to the lease contract. However, the claim that Ijara is a mere artificial or mockery sale is not true, this description may be true for contracts that do not comply with the sharia standards and guidelines governing this type of contract.

2. Does the bank own the property?

The Islamic Bank must own the property before leasing it, Moreover, it has to be registered in the bank's name, if regulatory agencies allow it.

3. Ijarah Muntahia Bittamleek is not permitted by some scholars because of some suspicions and concerns raised by them.

The Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have approved Ijara Muntahia Bittam leek, in addition to the approval of several Sharia Supervisory Board due to its importance, especially for those who wish to own real estate guidelines have been put in place and correctly being implemented by Islamic banks. It is an important tool, especially for those who wish to own real estate and other assets. The views of some jurists who have not allowed this tool does not rule out the validity of the opinion of those that have allowed it. The Fiqh councils and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), do not permit any form of financing tool until they have studied all the evidence and sayings of scholars. The Sharia Board shall only rely on the opinion of AAOIFI, which consists of fifteen jurists of all jurisprudence sects or more.

C) Tawarruq (Personal Finance Murabaha)

1. Tawarruq in banks is just a trick to get cash.

The Tawarruq mode of finance which is practiced by some Islamic banks is a Murabaha sale, whereby the bank buys and owns the commodity and then sells it to the customer through a Murabaha sale. The customer then sells the commodity to third party to obtain cash or appoints a third party, other than the bank, to sell the commodity. Therefore, this type of financing is acceptable as long as there are underlying assets, and the guidelines of sale have been met. Access to cash by selling the commodity owned by the client is not prohibited by sharia, as long as each leg of the transaction is being processed independently between the three parties.

Moreover, permissibility of Tawarruq, in principle, is not disputable; the issue is with organized Tawarruq. Here, the bank acts as the principal purchaser of the commodity, and at the same time acts as an agent to the customer, to whom the bank sold the commodities to. The bank as agent to the customer (buyer), then sell the commodity to the third party and deposits the sale proceeds in the customer's account. Some Jurists have prohibited this type of financing in order to curb its exploitation from those who do not take into account the provision of the Islamic Sharia. This is why many Sharia Board in Islamic financial institutions have not allowed banks to act as an agent to the customer.

2. Tawarruq is similar to "Ina sale" which is forbidden in Islam

Tawarruq differs from "Ina sale" in the number of parties involved in the transaction. In the "Ina sale" there are two parties involved, whereas in Tawarruq there are three parties. Moreover, it's not allowed in Tawarruq to re sell the commodity to the first seller, but rather it should be sold to a different party. Unlike "Ina sale" whereby the commodity is handled by different parties and is eventually re sold to its first owner.

3. Goods involved in Tawarruq transaction are not real and artificial.

Islamic banks usually deal with local and international goods. These goods are specifically described and singled out and are owned, physically or constructively, by the customer, usually, can inspect and physically possess the goods whenever he wishes, especially if they were local goods. The goods used for Tawarruq vary from diamonds, building materials, sugar and others.

4. The goods involved in Tawarruq are sometimes outside the country, making it difficult to see and inspect them.

There is no Sharia regulation that determines if the goods involved in Tawarruq should be inside or outside the country, as long as such goods are available and can be purchased and delivered, either physically or constructively, by singling them out or transporting and storing them. Islamic banks certainly would want these goods to be available locally is limited. We hope in the near future to have an Islamic market that can accommodate the large number of orders.

5. Tawarruq transactions (Personal Finance Murabaha) are quickly processed and the proceeds are deposited to the customer account, whereby the customer does not feel its genuineness.

Because some banking transactions are now conducted electronically, which speeds up operations in a short time, there is no objection in keeping Islamic banks in line and expectations. This does not mean that they are fake operations; as long as they are done under Sharia guidelines, in terms of ownership and other guidelines.

6. The Islamic Fiqh Academy has prohibited Tawarruq practiced in banks, or what is sometimes called organized tawarruq.

In its resolution No.179 (195/), the Islamic Fiqh Academy forbade Tawarruq (organized and reverse), because of complicity between the financier and the customer (Tawarruq applicant). However, the academy has allowed, in the same resolution mentioned above, for the importer to purchase the commodity with a deferred sale price in order to sell it in cash, probably at a reduced price, to another buyer (an independent third party), for the purpose of obtaining cash.

Obviously, the Tawarruq performed by Islamic bank to finance individuals have avoided all the above-mentioned suspicions. The bank does not interfere in the customer's final sale of the commodity, as it is done either by the customer himself or by appointing a company as an agent. It is also possible for the customer to receive the commodity and sell it to whoever wishes.

7. Tawarruq is an instrument that does not contribute to the achievement of the objective of the Islamic economy and does not take into account the purposes of sharia (a zero-sum game)

Tawarruq was allowed by Sharia scholars as an attempt to meet the rising need of customers for cash in order to settle their debts and pay their expenses such as salary and others, as other Islamic products cannot fulfil these needs. Therefore, some Islamic banks have expanded its application due to its simplicity and popularity as this latter need is difficult to meet people's needs such as marriage, investment, education, health care and others by using other modes of finance. Additionally, attending to customers' needs benefits the society and commercial businesses and all parties involved such as bank profiting from sales, customers receiving their cash, and commercial businesses turnover their inventory. Hence, if an organized market would come into existence, it would facilitate the revival of economies leading to the fulfillment of many needs.

However, sharia supervisory board are against expanded use of Tawarruq, especially if such financing can be concluded through adopting other Islamic products.

8. Islamic bank have begun to intensify the use of Tawarruq products at the expense of other products such as selling, leasing, Musharaka and others.

It is not acceptable for Islamic Banks to rely on the product of Tawarruq and stay away from other Islamic products, as the use of Tawarruq was allowed only for the purpose and Islamic banks should rely on other products as much as possible. The extensive use of a product is not a reason for stopping or preventing its usage. However, the sharia supervisory board should monitor closely financing cases using this product in order to prevent those cases which were done without an actual and sincere need.

D) Credit Cards

1. Islamic banks claim that they grant credit cards on the basis of "Qard Hassan" while they are actually receiving interest (the so-called fees)

Credit cards vary from one bank to another according to the contract signed between the two parties and the mechanism approved by the bank. Currently, the most popular one is the QardAlHassan card which is granted against fees for services. It is well known that the bank bears some costs on the issuance of this type of cards which vary according to the different characteristics and type of these cards. The bank also bears subscription fees for membership to the organization which provides these cards, as well as the costs of providing these benefits and services provided by the card. This card fee can be collected once a year or deducted as installment monthly. These kinds of fees are taken even if the customer does not use the card. Moreover, they are not linked directly to the QardAlHassan.

2. The fees calculated on the card are just a trick to take the same interest rate charged by conventional bank.

The Islamic Bank determines upfront the amount of fees charged in the contract as a lump sum amount, rather than specifying it as a percentage of the amount borrowed. Moreover, it is not allowed for the Islamic Bank to increase the amount of fees charged than what was initially agreed upon, but the bank may waive the fees of part thereof.

3. Cash withdrawal fees.

Islamic bank sometimes offers cash withdrawals from their credit cards and incur some costs for the delivery of those funds to the customer at anywhere and in any currency they wish. For this reason, the bank may charge fees for cash withdrawals.

4. Prizes are awarded by a draw.

The Islamic Bank sometimes grants points to the cardholder for their withdrawals. These points enable the cardholder to enter into a draw for prizes offered by the bank's shareholders. Such prizes are offered by the capital owners (i.e shareholders) and not by the borrowers (customers). The sharia principle says that (every loan that result in a benefit is usury), which means that a pre-agreed conditional benefit from a loan is considered as usury.

Investments

A) Mudarabah (Speculation)

1. Islamic Banks credit amounts of money, as profit, in its customers investment accounts, on a monthly or annual basis.

The Islamic Banks as a Mudarib uses Mudaraba to manage customers investment accounts. Any profit realized is distributed according to the agreement. These amounts deposited in customers investment accounts represent profit realized from investing these funds. These profits can be deposited monthly or annually, as agreed with the client (Ral Al mal)

2. Profit distributed by Islamic Banks are usually small, compared to the profit earned by the bank.

The Islamic Bank Invest depositors' funds, that are available for withdrawal, in short-term investment with low risk characteristics. Therefore, the returns are small. Additionally, the size of the investment portfolio affects the amount of profit yielded. Therefore, shareholders often waive part of their profits to support the profits of investment accounts holders.

3. Islamic banks commit themselves to pay a fixed profit amount on investment accounts.

The Islamic Banks is prohibited to commit a fix profit amount/rate as it is considered a guarantee of capital and profit. The Islamic Bank can only give estimates of the expected profit based on historical returns or based on feasibility studies.

However, in some cases, the bank may pay a fixed profit, if the income of the investment portfolio is steady and stable such as Ijarah and salam products.

4. Islamic banks do not clarify the areas of investment of these funds.

Islamic banks usually invest depositors fund in the bank's general investment pool, which mostly include financing provided to customers, as detailed in the bank's annual financial statements.

5. Islamic banks are offering prizes on investment accounts, whereby the winners name is determined by a draw.

Islamic Banks offer prizes as a gift on investment deposits, paid by the shareholders, and are not deducted from the profits of customers investment or saving accounts nor do depositors bear such a cost .Moreover, a special account which is based on Mudaraba, whereby the funds are invested according to banks strategy and profits are paid to customers (Rab Al Mal) according to the terms and conditions agreed Upon.

6. The account of customers in Islamic Banks are subject to loss, contrary to their conventional counterparts.

This confirms the legitimacy of these accounts, because profit and capital are not guaranteed for such investments, However, it is worth to note, that there are mandatory and optional reverse set by Islamic banks to protect the bank against any losses or unforeseen circumstances or in cases where profit may dive lower than the market rate.

B) Investment by Agency (Wakala Bil Istithmar)

1. Some Islamic Banks when they apply the Agency contract.

It is not permissible to set a fixed profit for Wakalas/investment agencies, just like Mudaraba. However, giving a profit rate is allowed, given that the agent may commit himself not to enter into any investment that may not yield a minimum level of return.