

BANK PERFORMANCE IN THE PERCEPTION OF ISLAMIC FINANCING RECEIVABLES (IFR) AND ITS COMPONENTS

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ABSTRACT

Bank Muscat (BM) is a prominent contributor in financial services in Oman, which focuses on corporate, personal, Islamic, global, and investment banking activities. BM provides loans and advances to their customers in two different categories viz., loans and advances (conventional) and Islamic financing receivables (IFR). As per the BM's statement of financial position, IFR includes three types of credits to their customers are housing finance, corporate finance, and consumer finance. The objectives of the study are to identify the growth percentage, compound annual growth rate (CAGR), trend and growth of IFR and its components of BM, during the study period (2013 to 2018). The study is based on secondary data, it has been collected from annual reports of BM. The overall result of the study indicates that the growth percentage of IFR and its components are positive throughout the study period and CAGR for IFR, housing finance, consumer finance, and corporate finance are 31.79%, 19.37%, 32.08%, and 52.32% respectively. The growth rate for all four items indicates a positive value. For the entire period of the study, the actual value of IFR and its components has reached the trend value. Overall, the performance of BM is satisfactory in respect of IFR and its components.

Keyword: - Performance, Loans and advances, Islamic Financing receivables (IFR), housing finance, consumer finance, corporate finance.

1. INTRODUCTION

Islamic banking is a financial institution that consistent with principles of Islamic law (sharia). There are different methods of Islamic banking operations around the world. Some of the mode of operations of Islamic bank are profit sharing and loss bearing (Mudarabah), safe keeping (Wadiah), joint venture (Musharaka), cost plus action (Murabahah) and leasing operation (Ljar). In the perspective of financial services and contribution to economic development of country, Islamic bank and conventional bank are similar. But they are differ in follow the principles. Islamic banks follows sharia principles in the operation. Further Islamic bank and conventional banks are differs in that while conventional bank follows interest based principles, but Islamic banking is based on interest free principle and it follows profit-and-loss (PLS) sharing performance of the business. Naveed (2014) [1] the study conducted in 2014 and it forecasted the Islamic finance industry market size to reach \$3.4 trillion at the end of 2018.

Islamic banks contribution in countries development is inevitable specifically backing in GDP growth. It contributes a remarkable role in finance to farmers and SME sector as well as economic growth of the country Fasih (2012) [2] and Huda (2012) [3]. The origin of Islamic bank in Oman is recent in the year 2013. The Central Bank of Oman provided the license to launch new Islamic banks in Oman. Al Izz Islamic Bank and Bank Nizwa are the first Islamic banks in Oman. Followed with implementation of Islamic banking regulatory frame work the conventional banks are permitted to open sharia – complaint windows along with their conventional banking operation. Based on the new frame work existing conventional banks started sharia –complaint window in different names. Bank Muscat’s Islamic window is known as Meethaq. Bank Dhofar (Maisarah), NBO (Muzn), Bank Sohar (Sohar Islamic) Oman Arab Bank (Al Yusr) and Ahilbank (Al Hilal) (Oxford Business Group (2018)) [4].

In general lending of money is one of the important functions of the banking sector. Lending money to the needy people is the core activities of the bank. Conventional banks’ lending money to individuals, traders, businesses, industries etc. The interest earns from these lending are the major source of income for its operation. But Islamic banks and Islamic windows in conventional banks offers products that are confirm the complaint of sharia or Islamic law. The present study analyses the performance of Bank Muscat - Islamic window’s activities specifically focus on ‘Islamic financing receivables’ (IFR).

1.1 Financial Sector in Oman

Annual report (2017) of the Central Bank of Oman (CBO), mentioned that the Oman Banking sector regulations and reforms have resulted in a strong banking system over the years. Oman financial sector falling under CBO jurisdiction comprises mainly conventional commercial banks which includes locally incorporated banks and foreign banks branches in Oman, locally owned Islamic banks, conventional banks with Islamic windows, specialized banks, non-profit finance and leasing companies, money exchange and draft issuing establishments and money changing outlets. The details of each finance sector and its corresponding numbers are presented in table 1.

Table 1 Financial Sectors in Oman

SN	Financial Sector	Nos.
1	CONVENTIONAL COMMERCIAL BANKS	7
	1. Locally Incorporated Banks	
	Bank Muscat	
	National Bank of Oman	
	HSBC Bank Oman	
	Oman Arab Bank	
	Bank Dhofar	
	Bank Sohar	
	Ahli Bank	
	2. Foreign banks – Branches	
	Standard Chartered Bank	
	Habib Bank	
	Bank Melli Iran	
	Bank Saderat Iran	
	Bank of Baroda	
	State Bank of India	
	First Abu Dhabi Bank (formerly known as National Bank of Abu Dhabi)	
	Bank of Beirut	
	Qatar National Bank	
2	ISLAMIC BANKS	2
	Locally Incorporated Banks	
	Bank Nizwa	
	Al Izz Islamic Bank	
3	CONVENTIONAL BANKS – ISLAMIC WINDOW	5
	Bank Muscat – Meethaq	
	Bank Dhofar – Maisarah	

	NBO - Muzn	
	Bank Sohar - Sohar Islamic Oman Arabe	
	Bank- Al Yusr Ahilbank - Al Hilal	
4	SPECIALISED BANKS	
	Oman Housing Bank	2
	Oman Development Bank	
5	Non-bank finance and leasing companies	6
6	Money exchange and draft issuing establishments	16
7	Money changing outlets	36

Source: Central Bank of Oman - Annual Report 2017

1.2 Islamic Banking /Windows Operations in Oman

The central Bank of Oman was issued 'Islamic Banking Regulatory Framework (IBRF)' on 18th December 2012. As per the norms of IBRF, it allowed to undertake Islamic banking activities in Oman through setting up a full-fledged Islamic banks or the conventional banks can start Islamic banking windows and to provide Islamic financial products. The regulation specifically insists the licensee shall conduct all of its banking activities, operations and transactions fulfills the sharia rules and principles.

The Regulatory framework clearly stated what is Islamic financing products and various types of Islamic finance contracts.

"Islamic financing products means entering in to or making arrangement for another person to enter into a contract to provide a financing product in accordance with Shari'a rules and principles. Islamic finance contracts include Murabaha, Musharaka, Diminishing Musharaka, Murabha, Musawama, Salam, Istina'a and Ijarah, among others"

– Islamic Banking Regulatory Framework [<https://cbo.gov.om/Pages/IslamicBankingRegulatoryFramework.aspx>].

1.3 Islamic Modes of Financing

The IBRF provide a detailed information about most commonly used Islamic contracts or modes of financing. Generally it include Murabaha, Musawama, Mudaraba, Musaraka, Diminishing Musharaka, Salam, Istisna'a, Ijarah and Sukuk. A brief information about each financing mode is as follows.

a. Murabaha

Murabaha is the first modes of Islamic financing adopted by the Islamic banks and conventional banks run through Islamic windows. It is an arrangement of sale of goods by a person to another whereby the seller is the licensee is obliged to disclose the cost of goods sold to the buyer or customer, the activity execute through either on cash basis or deferred payment basis. The margin of profit is declared and included in the sale price of goods agreed to be sold. The sale arrangement under Murabaha includes both tangible and intangible assets.

b. Musawama

Musawama is the second mode of financing under the Islamic financing methods. It is a general kind of sale, it almost follows all the principles of Murabaha, but different in obliged to reveal the cost of the product. Under Musawama kind of sale in which the price of the commodity to be traded is stipulated between seller and the buyer without any reference to the price paid or cost incurred for the product, mainly the seller is not obliged to reveal his cost. Musawama is applicable where the seller is not in a position to determine the exact cost of the commodity that are discussing for the sale.

c. Mudaraba

Mudaraba is an arrangement between two groups are people participates with his money and another with his efforts. The money involved in the transaction is called as Rabb ul Maal and the person with effort is called Madarib. They invest the fund in a specific manner and share the profit form the investment in an agreed manner.

d. Musharaka

Musharaka is the joint venture or joint enterprise relationship is established with the mutual consent of the parties to formulate the contract and to share the profit or losses according to their initial contract of joint venture.

e. Diminishing Musharaka (DM)

DM arrangement of activity is applicable only for tangible assets. Under this arrangement two or more persons form a co-ownership of a tangible asset in an agreed proportions. Later as per the agreement one co-owner pay in periodic installment to the other co-owner to buy the proportionate share of the other co-owner until the title of the tangible asset is completely transferred to the purchasing co-owner.

f. Salam

Salam is the contract of sale between seller and buyer (Licensee). As per the arrangement the seller promised to supply a specific goods to the buyer at a future date in a consideration of a price fully paid in advance at the time of main contract of sale is made.

g. Istisna'a

Istisna'a is one of the kinds of sale agreement between buyer and the manufacture of commodity. Here the buyer places an order to manufacture, assemble, or construct or so to do anything to be delivered at a future date.

h. Ijarah

Ijarah is otherwise called as Islamic leasing. This is the contract between the owners of an asset (Lessor/Licensee) with another person (Lessee). As per the contract the lessor transfer other than consumables to the lessee for an agreed period for an agreed consideration. The title of the ownership remains with lessor only the asset is transferred to lessee.

i. Sukuk Structures

Sukuk structures are based on the contract arrangements under this system all the mentioned modes of operations are applicable. For example Murabaha sukuk, mudaraba sukuk, musharaka sukuk etc.

1.4 Profile of Bank Muscat

Bank Muscat was set up as a public joint stock company by the merger of two established banks in Oman are Bank Muscat and Al Bank Al Ahli Al Omani, in the year 1993. Both these banks operated in this region since 1982 and 1976 respectively. Bank Muscat is the leading bank in Oman. According to Bank Muscat's annual report 2019, it is the largest bank in terms of assets, the total of RO 12.29 billion. It provides wide range of services to the customers through 152 branch offices, 668 automated teller machine and cash deposit machines and numerous point of sale and terminals. Bank Muscat runs its operation as conventional bank since now. The Islamic Banking Regulatory Framework (IBRF) was issued on 18th December 2012 and it allowed to undertake Islamic banking activities in Oman. Further it allows to setting up full-fledged Islamic banks or Islamic banking windows of conventional banks. After the implementation of IBRF, the bank started Islamic window in the name of Meethaq. The Meethaq accounts for 30% market share in terms of assets and is the market leader in Islamic banking in Oman. The annual report 2019 mentioned that Meethaq has crossed a milestone of over RO 1 billion in assets.

1.5 Bank Muscat – Islamic Window (MEETHAQ)

Meethaq is the complementary system to the Islamic banking industry in Oman. It is a pioneer of Islamic banking activities in Oman from Bank Muscat. The strategy is attract the customers by innovating and introducing various products based on sharia principles. Meethaq maintains the leadership in the region in terms of financial receivables, branch network, Islamic financial products and services, information technology and human resources. The sharia's supervisory board of Bank Muscat's Meethaq Islamic Banking window organized a first meeting in the year 2018 under the Chairmanship of Sheikh Dr Ali Qaradaghi. The board of directors and Mr. Sulaiman al Harthy, deputy chief executive officer - Islamic banking at Bank Muscat participated in the meeting.

Bank Muscat provides various financing to their customers by conventional banking and Islamic banking window. The financial products through Islamic window are Meethaq home financing, Meethaq personal finance, Meethaq car financing, Meethaq personal goods finance, Meethaq travel finance and Meethaq based debit and credit cards, Meethaq working capital financing, Meethaq term & project finance, Meethaq trade service and Meethaq corporate finance.

1.6 Statement of Financial Position And Islamic Financing Receivables - Bank Muscat

One of the important financial statements of the bank is statement of financial position. Bank Muscat statement of financial position comprises various assets among these loans and advances (L&A) and Islamic financing receivables (IFR) are significant. Before 2013 the bank's statement of financial position shows that the loans and advances along with other assets, later there is a separate item of IFR which includes in to the statement of financial position. According to various years of annual reports of Bank Muscat indicates IFR consists of housing finance, consumer finance and corporate finance as a whole. The table 2 shows the content of items in statement of financial position before and after introducing IBRF.

Table 2 Statement of financial position before and after implementation of IBRF

Before implementation of IBRF		After implementation of IBRF	
Assets	Notes	Assets	Notes
Cash and balances with Central Banks	5	Cash and balances with Central Banks	5
Placements with Banks	6	Due from Banks	6
Loans and Advances	7	Loans and Advances	7
Other assets	8	Islamic Financing Receivables	7
Investment securities:		Investment securities:	
- Available for sale	9	- Available for sale	9
- Held to Maturity	9	- Held to Maturity	9
Investment in Associates	11	- Fair value through profit or loss	9
Property and Equipment	12	Investment in Associate	11
		Other assets	8
		Property, Equipment and software	12

1.7 Objectives of the study

The main objective of the study is to identify the performance of Bank Muscat in the perception of Islamic financing receivables and its components. The sub objectives of the study are as follows.

1. To identify the growth percentage and CAGR of IFR and its components in Bank Muscat
2. To identify the trend and growth of IFR and its components in Bank Muscat.

1.8 Chapter Arrangements

The research paper comprises five chapters are introduction, review of literature, research methodology, data analysis and interpretation and conclusion.

2.0 REVIEW OF LITERATURE

Measuring the bank performance is important in the point of view of stakeholders of the bank. The stakeholders needs to understand the bank's financial conditions in respect of its operation including short and long term. There are few key ratios available to measure the performance of banks are credit deposit ratio, capital adequacy ratio, non-performing asset ratio, return on assets ratio and provision coverage ratio. The current study mainly focus on growth percentage & CAGR, trend and growth of IFR and its components. Studies are very limited in the area of

IFR, but many studies analyses the performance of the banks through ratio analysis. Therefore this section covers few literatures related to bank performance through growth percentage & CAGR and trend and growth technique of measuring the performance of the bank.

A study conducted by Malyadri P and Sirisha S (2015) [5] analyses the trend and progress of Indian banks applied CAGR which expressed in percentage. Another study conducted by Agrawal P and Yadav AK (2015) [6] analyses the comparative growth rate of Punjab national bank and HDFC bank for the period of ten years. Magnification (growth) rate and compound annual magnification (growth) rate is applied the researcher for analyzing current and future prospects of e-banking in India (Clonia, Reeta and Asht, M (2016) [7]. Other few studies focuses the comparative growth of bank deposits in Kerala and all the banks in India since nationalization. The study found that the commercial banks in Kerala have achieved spectacular growth during the post-nationalization period. The growth rate is the basic measurement of the performance.

Akhter.W, Ali raza, Orangzab and Akram M (2011) [8] study applied trend analysis for measuring the performance of Islamic banking in Pakistan. Kahf, Monzer. (2019) [9] analyses strategic trends in the Islamic banking and institutions and the movement of Islamic banking and finance in future. Another research analyses the trend of the global Islamic banking sector particularly the murabaha mode of financing and it revealed that it dominates the current lending structure Yasushi Suzuki, S. M. Sohrab Uddin, (2016) [10]. Alharbi A (2015) [11] study analyses the development of the Islamic banking system. The study focuses the origin of Islamic banking system in the world also analyses the trend and growth of Islamic banks. Iqbal, Zamir (1997) [12] study focuses the overall Islamic information of Islamic financial system and its growth.

3.0 RESEARCH METHODOLOGY

The present research examines growth percentage & CAGR and trend and growth of IFR and its components in the Bank Muscat during the study period of 2013 to 2018. Both growth percentage & CAGR and trend and growth are assessed based on the value of its total IFR, total housing finance, total consumer finance and total corporate finance under IFR. The growth percentage and CAGR have been calculated through the following formulas. The study is mainly based on secondary data, the data was collected from annual reports of the Bank Muscat. The data analysis includes growth percentage & CAGR and trend and growth.

The formula for the calculation of growth percentage and CAGR is as follows.

$$\begin{aligned} \text{Growth \%} &= (\text{Ending value} - \text{beginning value}) / \text{Beginning value} * 100 \\ \text{CAGR} &= (\text{Ending value} / \text{Beginning value})^{(1/\text{\#of years})} - 1 \end{aligned}$$

The growth rate and trend is calculated through the following formula.

$$\begin{aligned} \text{Growth Rate } b &= \Sigma xy / \Sigma x^2 \\ \text{Trend} &= a + bx \quad [\text{where } a = \Sigma y / N] \end{aligned}$$

4.0 DATA ANALYSIS AND INTERPRETATION

In this section an attempt is made to analyse the data in two aspects are i) growth percentage and CAGR for IFR and its components and ii) trend and growth of IFR and its components.

4.1 Growth Percentage and Compound Annual Growth Rate (CAGR)

Over the number of years the value of any item may change. Here the bank IFR and its components of housing finance, consumer finance and corporate finance are changing in the study period. An attempt is made to find out the growth percentage and CAGR for IFR and its components of the bank are presented in table 3.

Table 3 Growth percentage and Compound Annual Growth Rate (CAGR) of IFR and its components
(Amount in RO in 000's)

Year	IFR		Housing Finance		Consumer Finance		Corporate Finance	
	Amount	Growth %	Amount	Growth %	Amount	Growth %	Amount	Growth %
2013	279,313		199,995		10,870		73,579	
2014	400,290	43.31	272,763	36.38	30,374	179.43	104,784	42.41
2015	634,729	58.57	328,545	20.45	45,235	48.93	272,019	159.60
2016	855,007	34.70	389,515	18.56	43,140	-4.63	436,990	60.65
2017	970,113	13.46	456,588	17.22	44,959	4.22	486,377	11.30
2018	1,110,430	14.46	484,705	6.16	43,700	-2.80	603,404	24.06
	CAGR	31.79%		19.37%		32.08%		52.32%

The analysis shows that the growth percentage of IFR, housing finance, consumer finance and corporate finance are positive during the study period except consumer finance for the period of 2016 and 2018. The growth percentage is highly volatile, there is an increase in overall but the percentage of increase is varies from year to year. The CAGR of IFR and its components are positive. In overall the growth percentage and CAGR point of view the bank shows satisfactory performance.

4.2 Trend and Growth of IFR and its Components

4.2.1 Total IFR

Islamic financial receivables is the Islamic product under Islamic window of Bank Muscat. IFR is shown in the financial statement only after the financial year 2013, followed with the introduction of IBRF. The IFR includes three major items of financial products are housing finance, consumer finance and corporate finance. An attempt is made to find out the trend and growth rate of IFR for the study period is presented in table 4. The amount of IFR is considered for calculation is after deducting provision for impairment.

Table 4 Growth rate and Trend of Total IFR (Amount in RO in 000's)

Year	Total IFR	X	Trend
2013	279,313.0	-2.5	273,647.1
2014	400,290.0	-1.5	447,513.7
2015	634,729.0	-0.5	621,380.4
2016	855,007.0	0.5	795,247.0
2017	970,113.0	1.5	969,113.6
2018	1,110,430.0	2.5	1,142,980.0
Growth Rate $b = \frac{\sum xy}{\sum x^2} = 173,866.63$			
Trend = $a + bx$ [where $a = \frac{\sum y}{N} = 708,313.7$]			

This analysis shows that the growth percentage of total IFR is 173,866.63 and that indicates that it is positive. It is observed that the actual total IFR of the bank has increased from 279,313 thousands RO (Omani Rial) to 1,110,430 thousands RO. During the study period the trend of total IFR increased from 273,647.1 to 1,142,980 from 2013 to 2018. During the study period the value of IFR has increased. From the analysis it is found that the total IFR of the bank is satisfactory.

4.2.2 Housing Finance under IFR

The bank provides Islamic product in the name of housing finance under IFR. The trend and growth of housing finance for the study period is presented in table 5

Table 5 Growth rate and Trend of housing finance under IFR (Amount in RO in 000's)

Year	Housing Finance	X	Trend
2013	199,995	-2.5	209,923.6
2014	272,763	-1.5	268,094.9
2015	328,545	-0.5	326,266.2
2016	389,515	0.5	384,437.5
2017	456,588	1.5	442,608.8
2018	484,705	2.5	500,780.0
Growth Rate $b = \Sigma xy / \Sigma x^2 = 58,171.286$			
Trend = $a+bx = [\text{where } a = \Sigma y / N] = 355,351.8$			

This analysis shows that the growth rate 58,171.28 of housing finance, indicates a positive trend, this shows that the performance of the housing finance of the bank satisfactory. It is inferred from the table that the housing finance increased all the years. The table clearly indicates that the housing finance has increased attractively from beginning to the end of the study period (from 199,995 thousand RO to 484,705 thousands of RO). This shows that the housing finance of the bank is satisfactory.

4.2.3 Consumer Finance under IFR

Another Islamic product under the Islamic window is consumer finance. The bank provides consumer loans under IFR arrangements. The trend and growth of consumer loans of the bank is presented in table 6

Table 6 Growth rate and Trend of Total consumer finance under IFR (Amount in RO in 000's)

Year	Consumer Finance	X	Trend
2013	10,870	-2.5	21,678.95
2014	30,374	-1.5	27,559.24
2015	45,235	-0.5	33,439.52
2016	43,140	0.5	39,319.81
2017	44,959	1.5	45,200.10
2018	43,700	2.5	51,080.38
Growth Rate $b = \Sigma xy / \Sigma x^2 = 5,880.2857$			
Trend = $a+bx = [\text{where } a = \Sigma y / N] = 36,379.67$			

The result of this analysis shows that growth rate 5880.28, of consumer finance, indicates positive trend. The consumer finance of bank Muscat has increased every year except the years 2016 and 2018. In general consumer finance increased from 10,870 thousands RO to 43,700 thousands of RO during the study period. This shows that the consumer finance of the bank is satisfactory.

4.2.4 Corporate finance under IFR

The corporate finance provided by the bank to the required companies through Islamic window. The trend and growth of finance is presented in table 7

Table 7 Growth rate and Trend of Total corporate finance under IFR (Amount in RO in 000's)

Year	Corporate Finance	X	Trend
2013	73,579	-2.5	46,748.71
2014	104,784	-1.5	159,859.4
2015	272,019	-0.5	272,970.1
2016	436,990	0.5	386,080.9
2017	486,377	1.5	499,191.6
2018	603,404	2.5	612,302.3
Growth Rate $b = \frac{\sum xy}{\sum x^2} = 113,110.71$			
Trend = $a + bx = [\text{where } a = \frac{\sum y}{N}] = 329,525.5$			

This analysis shows that the growth rate of corporate finance is 113,110.71, and indicates as positive. It is observed from the actual corporate finance of the bank has increased from 73,579 to 603,404 thousands of RO. During the study period trend of corporate finance increased from 46,748.71 to 612,302.3 of thousands RO from 2013 to 2018. From the analysis it is found that the corporate finance of the bank is satisfactory.

5.0 CONCLUSION OF THE STUDY

The present study analyses the performance of Bank Muscat in respect of IFR and its components viz. housing finance, consumer finance and corporate finance. The study collected secondary data from the annual reports of Bank Muscat for the period of 2013 to 2018. The study calculated growth percentage for the entire study period. In overall the Bank Muscat's IFR and its components growth percentage is positive and are progressive. As per the analysis growth percentage of IFR, housing finance, consumer finance and corporate finance are 31.79%, 19.37%, 32.08% and 52.32% respectively. Further the study analyses the trend and growth of IFR and its components, all these items have positive growth and the actual amount reaches the trend value during the study period. In overall the Bank Muscat performance in respect of IFR and its components are satisfactory.

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