Islamic Banking: A new era of financing

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Abstract

The area of Islamic Banking is a unique innovation of conventional financing methods that provide devout Muslims an opportunity to fulfill common banking needs without violating their religious beliefs. Though Islamic Banking has faced phenomenal growth over the last twenty years, few studies have attempted to evaluate its potential to surpass the Muslim world and appeal to the non-Muslim public. The following analysis considers the social details of Islamic lending and compares balance sheets between Islamic Banks and conventional banks, focusing on capital and performance ratios. This research concludes that other than religious reasons the non-Muslim world has little incentive to choose Islamic financing techniques over conventional banking.

Religious Principles and History

The Koran's Economics

"Those who consume interest shall not rise, except as he rises whom Satan by his touch prostrates [i.e. one who is misled]; 'Allah [God] has permitted trading but forbidden interest.'; Whosoever receives a warning from his/her Lord, he shall have his past gains, and his affair is committed to Allah; but whosoever reverts (to devouring interest) those, they are the inhabitants of the fire, therein dwelling forever."[i]. Clearly the Koran, the religious scripts of Islam, condemns the conventional, popular and profitable banking concept before it was actually put into wide scale practice. The standard bank generally participates as the intermediary between creditors and borrowers while making a profit on the margin at different interest rates. However, the 1970s proved that a new financial system was necessary to provide for religious exigencies within an economic framework. Islamic banking, or profit-loss-sharing (PLS), emerged as a response to conventional banking, creating an acceptable method that simultaneously satisfies financial needs and respects Islamic mandates.

An economic criticism of the conventional interest-based banking system portrays the dependency on interest as a useless instrument that contributes to the cyclical fluctuations in the economy. For instance, during the Great Depression as well as the recession of the 80s, interest rates were largely ineffective as a stabilization tool. Former Secretary of State Henry Kissinger stated, “The instability has persisted and the uncertainty has continued. After going through the throes of painfully high levels of inflation, the world economy has experienced a deep recession and unprecedented rate of unemployment, complicated further by high level of real interest rates and unhealthy exchange rate fluctuations,”[ii].

With respect to religion, conventional banks did not provide an environment that acknowledged the restrictions expressed in Islam’s Koran. The Koran, which is believed by the faithful to be the words of Allah that were revealed to his Prophet Mohammad, also contains *Shari’ah* laws that provide specific guidelines for economic and other secular endeavors. These laws emphasize five specific prohibitions that must be observed in order to establish a “just economic system free from all kinds of exploitation”[ii].

The 5 prohibitions[iii]

Islamic economic law can be summarized into five specific bans and commandments.

- Predetermined payment over and above the actual amount of principle is prohibited. This restriction is a ban on *riba*, or additional money, a concept that can be most closely translated to interest. The Koran further emphasizes that usury creates a group of capitalists where wealth is only circulated among a few hands in society.
- Financiers should share in the profits and the losses. The Koran encourages investors to become partners as opposed to mere creditors. As a partner, each party is significantly more involved with matters concerning how the money is spent. A partnership discourages unnecessary expenses on *haram* (unlawful) activities since both entities have a stake in the bottom line. In Islam a large emphasis is placed on the types of activities that an individual

supports. However, by lending money the creditor has no say on how that money can be spent, and thus, could be supporting an activity that he/she is morally against. For these reasons the Koran encourages partnership investments where both parties can contribute to the activities that are taking place and similarly share in the profits and losses.

- Making money from money is not acceptable. According to Islamic thought, money is not a commodity and must be viewed only as a medium of exchange with no intrinsic value. This core belief is what makes the interest, the collection or derivation of money on money, forbidden in Islam.
- *Gharar,* considerable uncertainty or risk, is prohibited. Islam discourages transactions, such as options, futures, and foreign exchange rates, in which both parties do not have perfect knowledge regarding the values intended to be exchanged[iv]. Such transactions without perfect knowledge are considered to be speculative in nature.
- The final law states that all economic transactions should support those practices or products which are not considered *haram*, or unlawful, to Islam. This distinction goes beyond the idea of interest, encompassing the exclusion of investments in areas such as alcohol, casinos, and cigarettes.

Islamic Financial Products and Innovations

Various products have been developed as a response to the Koran's conditions placed on religiously sound financial instruments. These innovations continue to impact financial institutions and clients by facilitating and fostering valid methods of borrowing or lending money. For instance, *murabaha* is a popular financial instrument that refers to trade with markup or cost-plus sale[v]. It is widely used for short term financing and accounts for nearly 75% of all Islamic financial transactions. The investor or bank assumes the responsibility to supply specific goods or commodities, incorporating a mutually agreed contract for resale to the client with a negotiated margin.

Bay Mu'ajjal, or deferred payment sale, allows for the immediate spot delivery of the product, while delivery of the payment is delayed for an agreed-upon period[vi]. The payment can either be made in the future in a lump sum, or paid in installments with no penalty for the extra delay. Similarly, *bay'salam*, or deferred-delivery sale, resembles a forward contract where delivery of the product is in the future in exchange for payment on the spot market. Both of these methods are frequently used in conducting credit sales and resemble mortgage-like instruments.

Ijarah, the Arabic term for leasing, represents a combination of the basic Islamic products mentioned above. It permits the purchase of personal and real property for subsequent leasing at a mutually agreed periodic rent and for a certain term[vii]. Leasing represents approximately 10% of Islamic financial transactions. Distinct features of *Ijarah* include the ability of the client to terminate the contract at any time to acquire the asset at the predetermined price; and upon the lease's expiration, the title is transferred to the lessee given that he/she has met all of the terms and conditions stated in the lease. *Ijarah* is mostly used for the purchase of fixed assets such as plant and machinery, manufacturing and heavy equipment, commercial vehicle, office equipment and computers.

Similarly, *Istisna'a* determines the price and a fixed date of delivery; however, it differs by requiring a party to produce a "specific" asset that is to be made according to certain agreed upon specifications. A popular use is in the sector of house financing, where the client can purchase land as well as seek financing for the construction of the house. Since it is not necessary for the financier (bank) himself to construct the house, the bank can enter into the same type of contract with a third party and set a specific predetermined price with the original client in a way where the bank can make a reasonable profit. However, the bank will be held responsible for the house to match the specifications, and will be required to undertake and pay for alterations if deemed necessary. For example, a family that wishes to buy a $100,000 house can finance this purchase with the help of an Islamic bank. Assume the family makes an upfront payment equaling 20%, or $20,000, leading the bank to invest 80%, or $80,000 on day one. Over the progression of the set time period, the family's monthly payment will include rent to the bank (in the form of profit) as well as the purchase of a portion of shares from the bank. As time progresses, the customer's ownership percentage in the house increases as its monthly rental payment decreases until the Islamic bank has effectively been "bought out" by the customer. Although the rent payments resemble an interest-like instrument, it differs in the fact that the family is not paying for borrowed money, but paying for living in a house, a tangible asset that they do not completely own.

Finally, there are two specific instruments that define the principle behind *halal*, or lawful, financing: *mudaraba* and *musharaka*[viii]. Though these two instruments only constitute 5% of the operations of Islamic financial institutions, they specifically get at the heart of the distinction between a creditor and an investor. In *Mudaraba*, or trust financing, the bank forms a contract and entrusts the borrower with the entire capital needed to finance the project that is used in an agreed upon manner. Upon conclusion of the operation, the bank receives the principle and the predetermined share of the profit while the borrower keeps the remainder. However, the bank stands the risk of losing all of its capital if the venture is unsuccessful. *Musharaka* closely resembles a joint venture and is fairly similar to *mudaraba* financing, except that both, the financier as well as the entrepreneur, take an equity stake in the venture. Therefore, the bank as well as the client have a stake in the equity capital, and the bank can only be liable for losses amounting to the contributed capital. Similar to *mudaraba*, profits are divided on a predetermined basis, and losses are shared in proportion to the contributed capital.

These various products are all valid financial instruments that provide investors, borrowers, and intermediaries a religiously sound way of dealing with money while still earning a profit. It is important to emphasize that acquiring additional income and profits are not unlawful in Islam; what is prohibited is the method by which the additional income is derived. Lending activities, either for money or assets, are acts of benevolence where the lender has no legal right to impose a higher payback value on the borrower, since money should not earn money in Islam.

Nonetheless, these financial innovations serve as the basic building blocks for serving Islamically-acceptable financial products to the Muslim community.

Growth and Impact

The growth

The popularity of this form of financing has gained momentum in the Muslim world as it grows at a rate of 15% per annum. Thus far, Islamic banks have managed to muster over $200 billion worth of *Shari'ah*-compliant assets in over 75 countries[ix].

Twenty years ago Muslims seeking to engage in financial products while still honoring their religious beliefs faced very limited options. However, the financial accommodations mentioned above clearly prove that Islamic Banking has emerged as one of the fastest growing sectors of finance in the world. Yet, the impressive growth of Islamic banking is neither due to increased awareness of Islam nor an expanding population of Muslims. Rather, over the last 15-20 years a significant number of devout Muslims, especially in the Middle East, have accumulated a large volume of wealth[x]. The accumulation of all this wealth resulted in the development of financial institutions providing these depositors with roughly comparable returns and religiously acceptable banking activities[xi].

Atif Abdulmalik, CEO of Bahrain's First Islamic Bank, claims that the transfer of wealth from the state to private individuals in the Arabian Gulf will be a driving force for Islamic financing. "Money in private hands fuels Islamic banking because people go to hell and governments don't"[xii]. As competition continues to grow, financial products within Islamic banking will begin to develop similar characteristics and risk/return profiles to their more traditional counterparts. This evolution would result in a huge transfer of assets from the conventional bank to the Islamic bank, as Muslim investors would choose the Islamically-acceptable investment over a standard product that yields the same return.

In Bahrain, Malaysia, and even the U.K., the demand for Islamic financing is growing and several industry leaders including HSBC and Citibank have already developed Islamic Banking operations. Currently, 8% of Malaysia's banking sector is based on Islamic principles and is expected to increase to 20% by 2010[xiii]. The Kuala Lumpur Stock Exchange "has its own syariah [*Shari'ah*] index to monitor the performance of listed *halal* counters [Islamically acceptable securities]."[xiv]

Impact on Western Financial Markets

Twenty years ago investors who wanted to invest under *Shari-ah* had only the option of earning zero percent interest. However, today with the creation of these various Islamic investment alternatives, Muslim investors are no longer at such a severe disadvantage. There are currently 106 Islamic mutual funds globally, totaling well over $3 billion in assets[xv]. These funds are *Shari'ah* compliant and follow strict guidelines as to the companies in which they invest. Perhaps, one of the most significant indications of acceptance into the western financial system is the development of benchmarks for Islamically viable equities. The London and New York Stock Exchanges, the two most advanced equity exchanges in the world, now have a point of reference for which Muslims can compare the performance of their *Shari'ah*-compliant investments: The FTSE Global Islamic Index (London Stock Exchange) and the Dow Jones Islamic Market Index (NYSE)[xvi]. The Dow Jones currently has 9 Islamic market indices, tracking investments in other countries and regions as well as an Islamic Market Technology Index. The methodology used by the Dow Jones in selecting securities within these indices is as follows[xvii]:

- Exclude all companies in the following industries: alcohol, tobacco, pork-related products, financial services, defense/weapons, entertainment (hotels, casinos, gambling, cinema, pornography, and music).

- Exclude companies if Total Debt divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.

- Exclude companies if the sum of Cash and Interest Bearing Securities divided by Trailing 12-Month Average Market Capitalization is greater than or equal to 33%.

- Exclude companies if Accounts Receivables divided by Total Assets is greater than or equal to 45%.

Since these Islamic benchmarks restrict stock selection to a limited set of industries, a concern exists that they might not accurately reflect the general equity markets; thus, impedes Muslim investors from a comparable standpoint to evaluate their investment performance. A data analysis conducted against the U.S. equity market confirms the accuracy of the Dow Jones Islamic U.S. Market Index (IMUS). Considering that the IMUS tracks 621 *Shari'ah* compliant stocks, the S&P proves to be a valid benchmark with a portfolio that follows 500 companies. Exhibit 1 compares the index prices from May 1999 to October 2002 as well as their percent returns (only available information for IMUS). The similarity in the standard deviations of the returns (.0529 for S&P and .0593 for IMUS) and the correlation between the two index prices of 95.3% confirm that little difference exists in the risk profiles of their respective domains[xviii]. Therefore, the research suggests Muslim investors should be able to obtain similar performance levels on their investments in U.S. equity markets.

Bank Balance Sheet Analysis

Summary

Although the western financial system has adapted to Islamic principles to some extent, the lack of pure Islamic commercial banks within the United States remains evident. A study comparing foreign Islamic banks to the standard banking system helps to explain why this trend is true. Exhibit 5 shows an analysis comparing two pure Islamic banks to two medium sized U.S. financial institutions, by using two non-Islamic banks in the Middle East region as fair counterparts to the U.S. banks. The study below suggests that pure Islamic banks require an intensive equity capital base in order to fund its operations, since the use of debt is forbidden. Thus, the absence of debt shows that returns on equity for Islamic banks are not maximized, as they are in the more conventional financial systems.

Selection of banks

Selecting banks for comparison involved choosing conventional banks in the Middle East region that would stand as good proxies to the traditional financial systems when compared to pure Islamic banks within the same region. Additionally, Citizens Bank and Chevy Chase Bank were used within the analysis to confirm that the Middle East region does not skew the balance sheets and capital ratios of normal commercial banks. These U.S. banks also served as good comparable firms due to their similarity in asset size to Arab Banking Corporation in Bahrain and Gulf International Bank in Abu Dhabi (all roughly $10-20 billion in assets). Although Al-Baraka Bank and Abu Dhabi Islamic Bank, located in Bahrain and the UAE respectively, have asset sizes significantly lower than the others, they prove to be two of the largest pure Islamic Banks with available information.

Analysis of Financials

As Exhibit 6a shows, the percentage of investments to assets considerably differs between the pure Islamic Banks and the others. While investments for Citizens, Chevy Chase, Arab Banking Corp, and Gulf International range from approximately 30% of assets and under, Al-Baraka and Abu Dhabi Islamic Banks have investment to assets ratios of over 75%. The major difference in percentage of investments has to do with the fact that Islamic banks make investments with the customer through various Islamic products rather than lending.

Another major difference between the balance sheets of the pure Islamic Banks and the others lies in the difference of their capital structures. Exhibits 6b and 6c demonstrate these disparities, which are a result of the absence of debt and an increased proportion of equity for the Islamic banks. Al-Baraka and Abu Dhabi Islamic bank's proportion of liabilities to liabilities and equity is roughly 10% below the closest firm in the comparison (Al Baraka v. Citizens). Another noteworthy observation among the liabilities is that Chevy Chase, Citizens, Arab Banking Corporation, and Gulf International receive on average 12% of their funds from the Fed Funds market (for the U.S. banks) and other short-term money markets, while the Islamic banks have no short-term borrowing; they encounter liquidity issues.

As a result of these disparities, Islamic banks tend to have a higher equity capital to assets ratio compared to the conventional system, as displayed in Exhibit 6d. The equity capital to assets ratio is an important relation to understand because it illustrates how much of a bank's equity is required to obtain a certain amount of assets; in the case of Islamic banks a higher amount of equity is needed because of the prohibition of debt. Al-Baraka and Abu Dhabi Islamic Banks exemplify this point by their high capital to assets ratios of 22-23%, far exceeding the others in the study. As a result of their high equity base, the return on equity (ROE) for Islamic Banks tends to be lower. ROE, an important profitability ratio for shareholders, measures the firm's ability to generate earnings from its equity. In this case pre-tax ROE was measured in order to eliminate differentials in tax rates among the host countries of these banks. Al-Baraka and Abu Dhabi Islamic banks tended to have lower ROE's than the other 4 banks. However, these results are expected given that the Islamic Banks cannot leverage to maximize returns, a commonly accepted financial strategy. The following example better explains how the absence of leverage in Islamic banks leads to a lower ROE.

- Suppose a customer approaches an Islamic bank, seeking $100,000 of *Istisna'a* financing in order to purchase a new home. Assume that the Islamic bank's profit margin for such a project is 10%. Thus, the Islamic bank would invest $100,000 of its own capital into the project, receiving a $10,000 return or 10%. However, a conventional bank would approach the same project conditions by leveraging. The bank could invest $50,000 of its own capital and borrow the rest (either from depositors or Fed Funds) at a rate of 3%. At the end of the project, the Islamic bank would receive the same $10,000 but would need to pay off $1,500 in interest expenses, resulting in an $8,500 profit. While the actual dollar profit realized is lower, the Return on Equity has effectively risen from 10% to 17% ($8,500/$50,000).

Challenges Facing the Growth of Islamic Banking

The Islamic financial system has thus far developed to serve the religious Muslim community and provide them with an equal opportunity for financial and economic empowerment. Although Islamic banks have been fairly successful in this feat, various problems will be encountered as banks attempt to expand and generate a client base beyond the Muslim community. For instance, Hong Kong Shanghai Bank Corporation (HSBC), based in the UK, has acquired tremendous experience through its existing Islamic finance arm that serves many Muslim countries. However, it is still reluctant to offer Islamic financial services to the local Muslim community in the UK due to several factors.[xix] The majority of Muslim clients already conduct business with the retail bank; therefore, introducing differentiated products proves to be pointless. Also, the ability to attract new clients based on the availability of Islamic products is limited due to the lack of mobility of Muslims who already hold retail accounts with other banks. Finally, the market share of Muslims in a non-Muslim country, such as the UK, who do not participate in the conventional financial system due to religious purposes, is trivial and therefore not worth the trouble and capital-intensity of establishing an Islamic division.

Another challenge soon to face Islamic banks is the increasing need of transparency in financial investments and statements of the bank. In light of the present environment with erroneous corporate governance affecting market psychology, Islamic finance must adopt standards of accountability, transparency and efficiency. Various organizations are beginning to emerge and setting standards for Islamic banks to follow such as: The International Islamic Rating Agency, The Islamic Financial Services Board, and The Liquidity Management Center[xx]. However, the industry needs a committee to regulate and standardize requirements in order to make investing more attractive to creditors.

Islamic banks must also meet the challenge of serving and attracting clients as well as businesses beyond the Muslim community in order to grow in scale and scope. The obstacle the banks face with this issue is the very nature and principle of Islamic financing: Profit-Loss-Sharing.[xxi] For instance, it is unnecessary for a non-Islamic business as well as non-religious Muslims to take finance on PLS when they could simply borrow at a fixed rate. The conventional system of fixed rate interest obligation requires borrowers to pay a specific rate regardless of the profit or loss produced by the specific business that is financed. However, with Islamic finance, the bank shares in profits and losses with the company. Therefore, a company with a sound business plan and high potential profit is more likely to finance their needs through the conventional system where they will be obligated to pay a rate of approximately 7% rather than sharing their potential profit of say 30% with the bank. However, a more risky venture will tend to prefer the PLS system, where the Islamic bank will share in the losses if the project fails, while the business will escape from significant repercussions.

The nature of an Islamic bank proves to be a difficult business in which small independent banks can thrive. As mentioned above, exhibit 6d clearly states that these banks require a tremendous amount of equity capital in order to provide for religiously sound investments. However, the acquisition of significant capital is difficult without an established reputation and trust from current clients of the bank. For these reasons it is very difficult for a new bank to build these credentials and obtain the needed amount of equity. Therefore, a few of the larger institutions, such as HSBC and Citibank, have created programs for Islamic banking in select countries, though the future returns on these expansions is still questionable. The balance sheet analysis of Abu Dhabi and Al-Baraka Islamic Banks points to a conclusion that suggests that the return on equity for these banks is slightly lower than the norm. These lower returns on equity are another factor resulting in the hesitancy of these major financial institutions to expand their Islamic banking operations to a global level. The continued development of Islamic banking will rely on the willingness of these major establishments to contribute sufficient resources towards this growing market.

Considered as one of the most advanced global industries, the financial sector has developed innovative solutions to serve almost every financial demand of investors. Yet, despite these extremely advanced instruments in such a sophisticated age, they have failed to meet one of humankind's most basic needs – religion. On the other hand, the Islamic religion lies on the opposite side of the spectrum, which starting over 2000 years ago and continuing to the present, has prohibited our most common instrument in financing - interest. Islamic banking in this era has materialized in order to serve as the middle ground between these two extremes where finance meets religion. Though the Muslim community has received several benefits from the creation of this new market, Islamic financial institutions provide little incentive for the larger investing public to choose *Shari'ah* compliant investments over traditional loans.

Endnotes

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[i] Koran 2:275, The Koran, Interest and the Economy.

http://www.quran.org.uk/ieb_quran_economy.htm

[ii] "Concept and Ideology: Evolution of Islamic Banking."

[iii] "Principles of Islamic Banking."

[iv] Ahmed Hussain Interview.

[v] "Islamic Banking: True Modes of Financing."

[vi] An Introduction to Islamic Finance

[vii] An Introduction to Islamic Finance

[viii] "Instruments of Islamic Banking"

[ix] "Conference Discusses Prospects for Islamic Banking in the U.S."

[x] Ahmed Hussain Interview.

[xi] "Islamic Banking and Finance."

[xii] "First Islamic Bank expects continued growth."

[xiii] "Bank Islam upbeat on growth of Islamic banking."

[xiv] "Islamic banking's success spill over."

[xv] "Islamic Equity Funds: Analysis and Observation on the Current State of the Industry"

[xvi] "Alternative system lures adherents: Interest in non-western methods of finance is spreading and embracing a growing range of products and services, writes Farhan Bokhari".

[xvii] "Islamic Market Indexes: Methodology Overview"

[xviii] See Exhibits 2-4.

[xix] "Islamic Investment Products Available In the United Kingdom."

[xx] "Adequacy of Disclosure in Islamic Financial Institutions."

[xxi] "Islamic Banking isn't Islamic."

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Exhibit 1

SPX - S&P 500			IMUS - DJ Islamic Market U.S. Index		
Date	Close	% Return	Date	Close	% Return
1-Nov-02	936.31		31-Oct-02	1359.07	
1-Oct-02	885.76	6%	30-Sep-02	1231.37	10%
3-Sep-02	815.28	9%	30-Aug-02	1377.51	-11%
1-Aug-02	916.07	-11%	31-Jul-02	1388.31	-1%
1-Jul-02	911.62	0%	28-Jun-02	1499.9	-7%
3-Jun-02	989.82	-8%	31-May-02	1634.35	-8%
1-May-02	1067.14	-7%	30-Apr-02	1662.16	-2%
1-Apr-02	1076.92	-1%	29-Mar-02	1790.28	-7%
1-Mar-02	1147.39	-6%	28-Feb-02	1721.07	4%
1-Feb-02	1106.73	4%	31-Jan-02	1794.82	-4%
2-Jan-02	1130.2	-2%	31-Dec-01	1819.43	-1%
3-Dec-01	1148.08	-2%	30-Nov-01	1821.09	0%
1-Nov-01	1139.45	1%	31-Oct-01	1672.1	9%
1-Oct-01	1059.78	8%	28-Sep-01	1588.67	5%
4-Sep-01	1040.94	2%	31-Aug-01	1759.72	-10%
1-Aug-01	1133.58	-8%	31-Jul-01	1889.85	-7%
2-Jul-01	1211.23	-6%	29-Jun-01	1914.47	-1%
1-Jun-01	1224.38	-1%	31-May-01	1972.06	-3%
1-May-01	1255.82	-3%	30-Apr-01	1990.29	-1%
2-Apr-01	1249.46	1%	30-Mar-01	1808.78	10%
1-Mar-01	1160.33	8%	28-Feb-01	1968.35	-8%
1-Feb-01	1239.94	-6%	31-Jan-01	2237.23	-12%
2-Jan-01	1366.01	-9%	29-Dec-00	2191.98	2%
1-Dec-00	1320.28	3%	30-Nov-00	2209.31	-1%
1-Nov-00	1314.95	0%	31-Oct-00	2423.97	-9%
2-Oct-00	1429.4	-8%	29-Sep-00	2436.16	-1%
1-Sep-00	1436.51	0%	31-Aug-00	2651.15	-8%
1-Aug-00	1517.68	-5%	31-Jul-00	2524.59	5%
3-Jul-00	1430.83	6%	30-Jun-00	2601.34	-3%
1-Jun-00	1454.6	-2%	31-May-00	2459.8	6%
1-May-00	1420.6	2%	28-Apr-00	2585.5	-5%
3-Apr-00	1452.43	-2%	31-Mar-00	2700.62	-4%
1-Mar-00	1498.58	-3%	29-Feb-00	2501.08	8%
1-Feb-00	1366.42	10%	31-Jan-00	2520.86	-1%
3-Jan-00	1394.46	-2%	31-Dec-99	2599.41	-3%
1-Dec-99	1469.25	-5%	30-Nov-99	2478.86	5%
1-Nov-99	1388.91	6%	29-Oct-99	2377.74	4%
1-Oct-99	1362.93	2%	30-Sep-99	2258.22	5%
1-Sep-99	1282.71	6%	31-Aug-99	2350.81	-4%
2-Aug-99	1320.41	-3%	30-Jul-99	2334.07	1%
1-Jul-99	1328.72	-1%	30-Jun-99	2374.39	-2%
1-Jun-99	1372.71	-3%	31-May-99	2252.46	5%

Source:
Bloomberg

Exhibit 2

S&P	
Mean	-0.007914
Standard Error	0.008268
Median	-0.01074
Mode	#N/A
Standard Deviation	0.052941
Sample Variance	0.002803
Kurtosis	-0.698199
Skewness	0.149234
Range	0.206744
Minimum	-0.110024
Maximum	0.09672
Sum	-0.324463
Count	41

IMUS	
Mean	-0.010517
Standard Error	0.009264
Median	-0.01286
Mode	#N/A
Standard Deviation	0.059318
Sample Variance	0.003519
Kurtosis	-0.790509
Skewness	0.148053
Range	0.22389
Minimum	-0.120184
Maximum	0.103706
Sum	-0.431196
Count	41

Correlation Coefficient **0.953073**

Exhibit 3

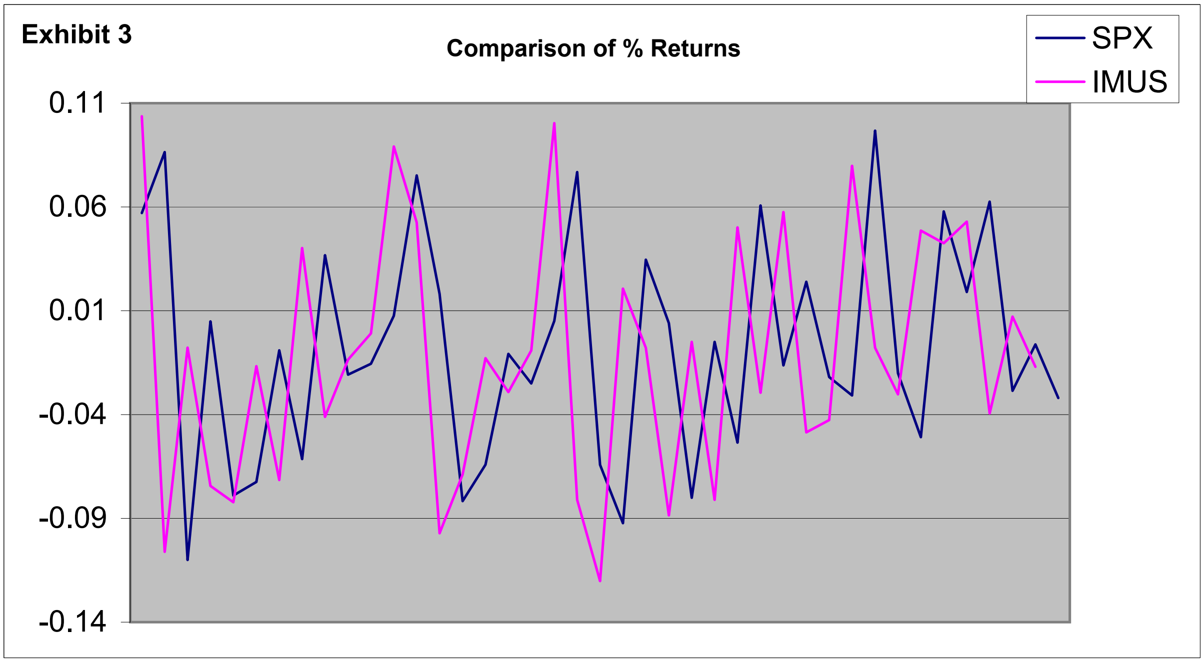
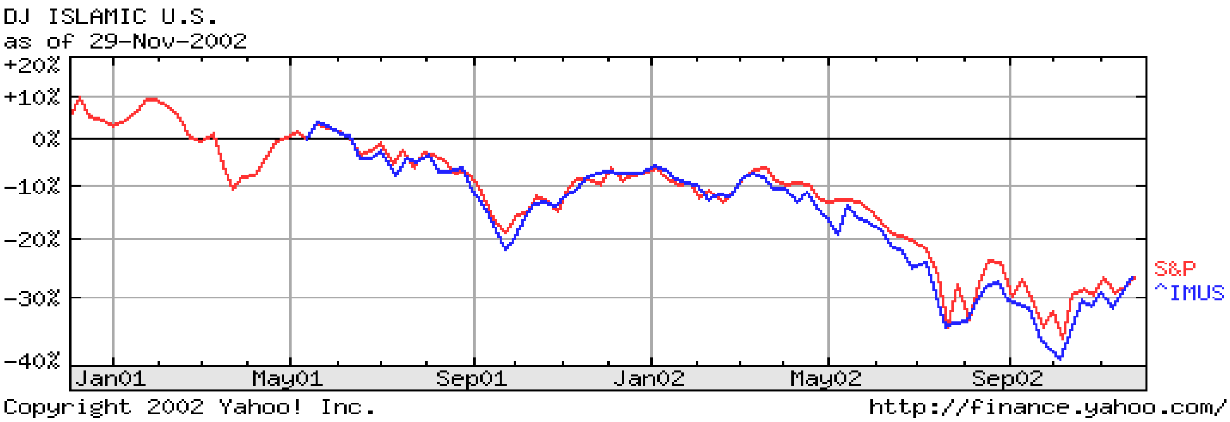


Exhibit 4

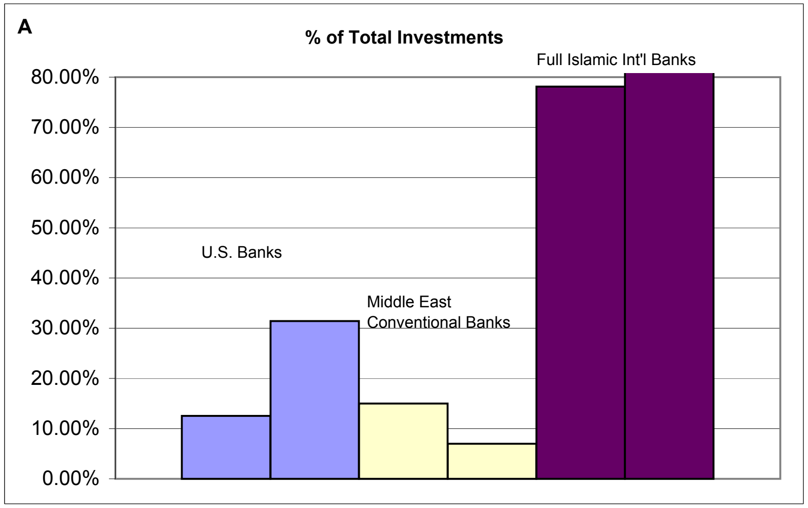


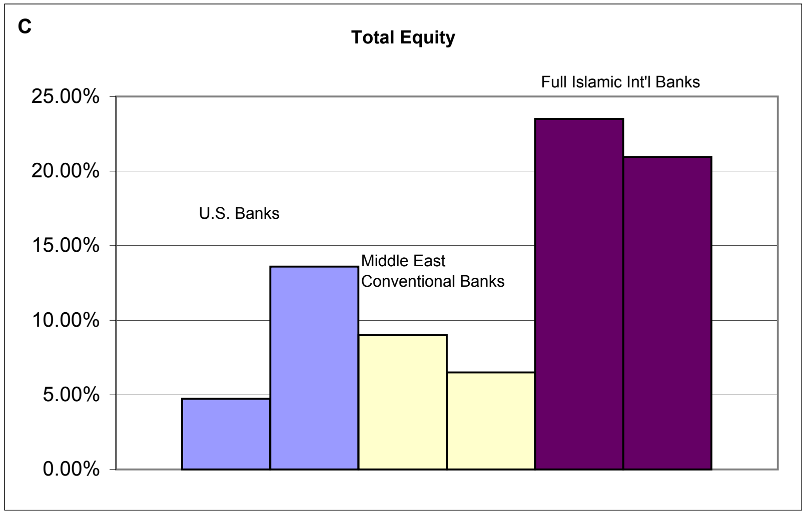
Source:
Finance.Yahoo.com

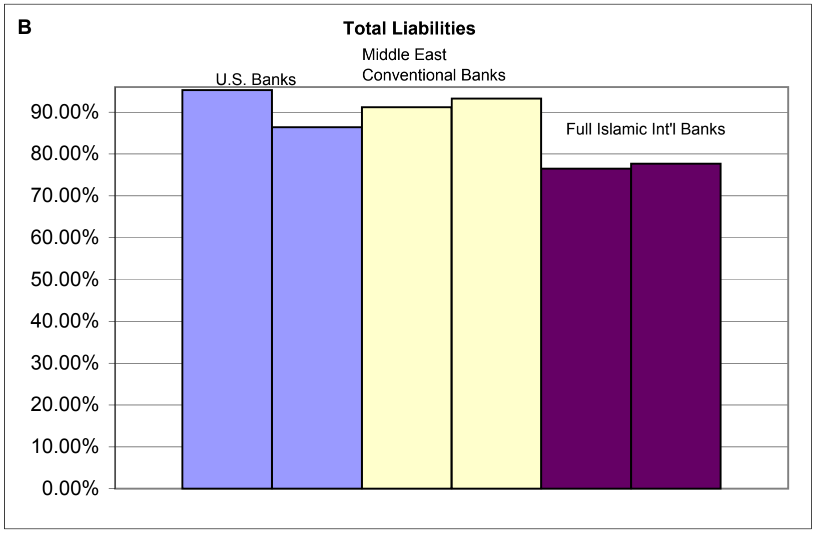
EXHIBIT 5

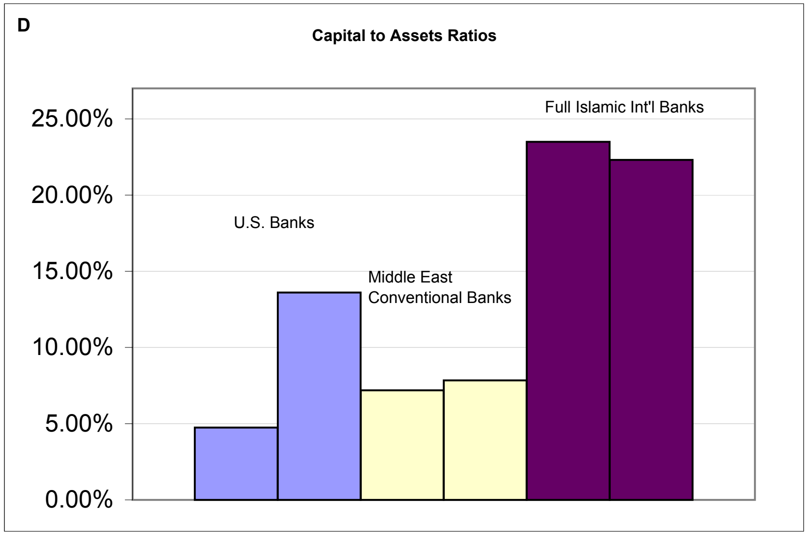
Balance Sheet	*Conventional U.S. Banks*		*Conventional Arab Banks*		*Pure Islamic Banks*	
	Chevy Chase Bank	**Citizens Bank of Massachusetts**	**Arab Banking Corporation**	**Gulf International Bank**	**Al-Baraka Islamic Bank**	**Abu Dhabi Islamic Bank**
	McLean, VA	**Boston , MA**	**Bahrain**	**Abu Dhabi**	**Bahrain**	**Abu Dhabi**
	31-Dec-01	**31-Dec-01**	**31-Dec-01**	**31-Dec-01**	**31-Dec-01**	**31-Dec-01**
Size of Bank	*$11 Billion*	*$20 Billion*	*$26 Billion*	*$16 Billion*	*$259 Million*	*$2 Billion*
Total assets	**100%**	**100.00%**	**100%**	**100%**	**100%**	**100%**
Cash and due from depository instit	4.60%	0.93%	26%	20%	18%	4%
Interest-bearing balances	1.56%	0.64%	1%	0%	0%	0%
Investments:	12.54%	31.43%	15%	7%	78%	88%
Securities	*12.27%*	*31.31%*	*15%*	7%	*2%*	0%
Real Estate	*0.27%*	*0.12%*	0%	0%	*3%*	0%
Manged Funds	0%	0%	0%	0%	*1%*	0%
Islamic Products	0%	0%	0%	0%	*70%*	88%
Related Companies	0%	0%	0%	0%	*2%*	0%
FedFunds & Repos	0%	0.68%	0%	0%	0%	0%
Net loans & leases	74.86%	55.25%	54%	20%	0%	0%
Bank premise and fixed assets	4%	0.56%	2%	0%	0%	0%
Goodwill	1.03%	8.11%	0%	0%	0%	0%
All other assets	1.41%	2.40%	3%	3%	3%	8%
Total liabilities and capital	**100%**	**100.00%**	**100%**	**100%**	**100%**	**100%**
Total liabilities	**95.26%**	**86.40%**	**91%**	**93%**	**77%**	**78%**
Deposits due to customers	68.32%	66.95%	48%	31%	64%	70%
Deposits due to other banks	0%	4.03%	33%	38%	9%	7%
Fed Funds & Repos	4.30%	8.18%	0%	0	0%	0%
Other borrowed funds	17.39%	4.15%	7%	14%	0%	0%
Subordinated debt	2.21%	1.64%	0%	6%	0%	0%
Other Liabilities including Interest	3.04%	1.45%	3%	4%	3%	1%
Total Equity	**4.74%**	**13.60%**	**9%**	**7%**	**23%**	**21%**
Share Capital	1.58%	11.43%	3%	6%	19%	17%
Reserves	0.00%	0.00%	3%	0%	2%	1%
Retained Earnings	3.16%	2.17%	3%	1%	3%	3%
Calculated Ratios:						
Pre-tax Return on Assets	0.93%	1.71%	0.60%	1%	1.06%	1.3%
Pre-tax Return on Equity	12%	8%	8%	8%	4%	5.9%
Equity Capital to Assets	4.74%	13.60%	7%	8%	23%	22%

EXHIBIT 6


A
% of Total Investments
Full Islamic Int'l Banks
U.S. Banks
Middle East
Conventional Banks
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%


C
Total Equity
Full Islamic Int'l Banks
U.S. Banks
Middle East
Conventional Banks
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%


B
Total Liabilities
U.S. Banks
Middle East
Conventional Banks
Full Islamic Int'l Banks
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%


D
Capital to Assets Ratios
Full Islamic Int'l Banks
U.S. Banks
Middle East
Conventional Banks
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%