

# Al Baraka **PULSE**

November 2018

An Economic Bulletin from  
Al Baraka Banking Group  
Research & Development

COVER FEATURE:

## Al Baraka's Journey Towards Digital Transformation

Route to the Future:  
Al Baraka Garaj and Insha

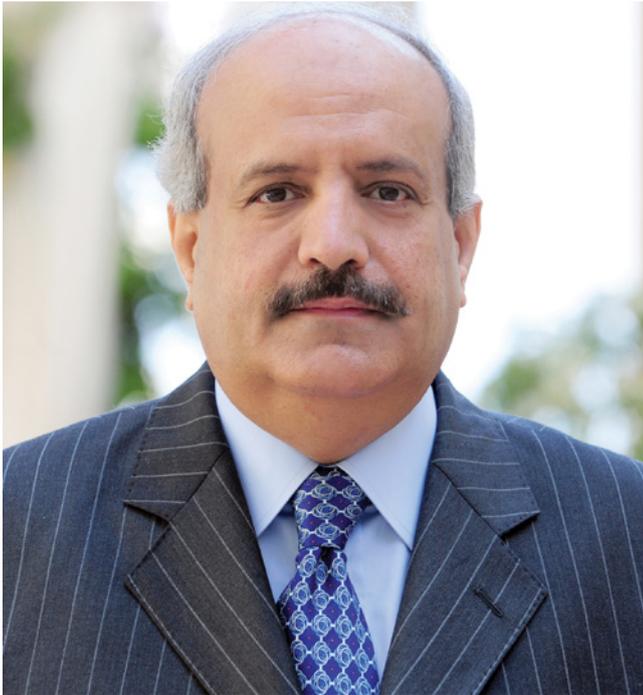
# Inside

- 02** **Notes** from the President & Chief Executive
  
- 05** **Cover Story:**  
Al Baraka's Journey Towards Digital Transformation  
  
Route to the Future:  
Al Baraka Garaj and Insha
  
- 11** **Case Study:**  
Jordan Islamic Bank's pulse in renewable energy
  
- 16** **Notes** on the instructions of the Shari'a Governance issued by the Central Bank of Bahrain
  
- 20** Industry News





# Notes from the President & Chief Executive



We seek to link digital transformation to financial inclusion, which means that individuals and companies have access to useful and affordable financial products and services that meet their needs.

So, here we are, meeting you again with our second issue of "Al Baraka Pulse". We are grateful for all the positive responses and views we have received on the first issue of the Bulletin, and the encouraging feedback received throughout the Group and from our external audiences.

As we have outlined earlier, this Bulletin is being published with the purpose of highlighting the rich experience of the Group in all aspects of Banking and Management. Hence, in this issue, you will find a report of the innovative achievements in the fields of digital transformation, financial technology and green banking.

As we see, digital transformation and financial technology have become a major part of global banking strategies. Therefore, Banks must today, establish new channels of interaction with customers, adapt to changes in work techniques, and pay attention to maintaining the balance between dealing directly with their customers and delivering services across diverse networks. This transformation will lead to increased digital awareness across the various departments of banks, employees, customers and all stakeholders, as well as the adoption of many human, technical and logistical changes in the work environment and of course the development of business strategies based on the world of possibilities opened by digital disruption.

What we would like to emphasize here is that Al Baraka Banking Group, being one of the largest Islamic banks, which has an

advanced experience in embodying the financially, socially and economically responsible banking model and having our own approach in dealing with dynamics of digital transformation. We seek to link the digital transformation to financial inclusion, which means that individuals and companies have access to useful and affordable financial products and services that meet their needs – be it transactions, payments, savings, credit and insurance - and these services are presented to them in a responsible and sustainable manner.

Being able to access a transaction account is the first step towards financial inclusion, more broadly, because the transaction account allows people to save money, send payments and receive them. The transaction account can also serve as a gateway to other financial services. This is why ensuring that people worldwide access the transaction account is at the heart of the World Bank Group's financial inclusion initiative by 2020, and we have set our strategic objectives to be part of this initiative as well as our goals of sustainability and social responsibility have been linked to the Sustainable Development Goals of the United Nations.

Financial inclusion has become a priority for policymakers, governments, regulatory bodies, development agencies, banks and financial institutions worldwide. Financial inclusion has been identified as a key factor in achieving seven of the 17 sustainable development goals. Digital transformation is one of the key strategies for achieving financial inclusion.

The second issue of Al Baraka Pulse has updates for you on some of these important issues.

**Adnan Ahmed Yousif**  
President & Chief Executive  
Al Baraka Banking Group



***Our Partnerships have resulted in:***

Total Assests <b>\$ 25 billion</b>	Total Deposits <b>\$ 21 billion</b>	Number of Customers <b>Over 2.7 million</b>	<b>3</b> Continents <b>16</b> Countries	<b>675</b> Branches	<b>12,795</b> Employees
---------------------------------------	--	--	--	------------------------	----------------------------

Please visit [WWW.ALBARAKA.COM](http://WWW.ALBARAKA.COM) for more details



COVER FEATURE:

# Al Baraka's Journey Towards Digital Transformation

Author: **Albalooshi, Ahmed**

*Senior Vice President - Head of IT  
Al Baraka Banking Group*



# Al Baraka's Journey Towards Digital Transformation



With the global banking and financial services industry undergoing significant changes, Al Baraka Banking Group (ABG) has realized the major impact of these changes on the business growth strategies of Al Baraka Units and hence the performance of the group. Despite the fact that Al Baraka has started its Digital Transformation Journey since 2014, the group believes that it's time for the Units to collectively build their digital business strategies and gear up for the digital transformation.

Accordingly, it was identified that there is a need to provide the Units with knowledge and awareness of the strategies and tools required to aid this process. Therefore, Al Baraka Banking Group has organized a workshop titled "Framework for Digital Strategy" which took place in Istanbul, Turkey during 26-27 June 2018. The workshop was attended by delegates from all of Al Baraka Units including the representative office in Libya. The workshop was conducted by Gartner with the objective of providing the Units with the tools to develop their Digital Strategies and shape their digital transformation roadmap.

Prior to the workshop, ABG conducted a digital maturity pre-workshop survey. The purpose of the survey was to identify the position of Al Baraka Units in the digital maturity scale, the strength areas, and areas to improve in order to enhance the digital maturity level. The assessment was conducted based on Gartner's digital maturity and urgency measures that covered six major dimensions including Digital Banking Awareness, Digital Urgency, Business Strategy, Business Characteristics, and IT Strategy.

The workshop also covered three different case studies for digital transformation, in which two of them were from the Units' experience- Al Baraka Turk Participation Bank and Jordan Islamic Bank. In addition to an external case study based on DBS Bank in Singapore. These case studies showcased that the digital transformation is a strategic initiative which requires the support from all the functions in the bank, and that customer's involvement in the digital transformation is critical for the successful transformation. The digital business strategy is the first step towards a successful digital transformation. Accordingly, ABG believes that innovations are essential to drive digital maturity

further and to better bridge the gaps between traditional business capabilities and a new, digital value proposition. In this context, the group emphasizes on the adoption of agile development processes for improving speed to market, and effective change management across the organization for sustainable innovation.

The outcome of the workshop was presented to the Unit's CEOs during the General Strategy Meeting (GSM) in Cairo and accordingly the roadmap was approved. Currently, ABG is diagnosing the current state of digitalization in the Units. Once this stage is over, the Units will develop their digital business strategy and seek their management and Board of Directors' approvals. It is expected to execute the strategies by May 2019.





# Route to the Future: Albaraka Garaj and Insha

## Albaraka Turk Participation Bank



Mobile and Internet Technologies have changed lives of people more than many great turning points of the history. This change significantly differentiated channel usage and priorities of consumers in reaching banking services. Banks are facing new customer demands and expectations stemming from changing consumer sociology.

Fintech startups have a great potential to shake the banking industry. Banks are facing the risk of losing 30% of their sector revenues due to fintechs. Fintech Startups have a growth trajectory far above the growth rate of banks.

In today's world, in an increasingly competitive environment, companies struggle to learn how to innovate and grow. At Albaraka Türk, we launched the Albaraka Garaj Acceleration

Center, where we can collaborate with startups to experience efficient innovation models. We have placed Albaraka Garaj in our headquarter in Istanbul in order to ensure the formation of innovation culture that we consider as the vital component of a company's innovation journey. Albaraka Garaj also provides a range of opportunities for entrepreneurs working on technological applications in order to bring innovative solutions to the banking and finance sector, and at the same time, it nourishes a culture of entrepreneurship and technology within the institution.

How does that happen? Since the startups we have chosen are in the field of finance and technology, we are able to transfer their know-how directly to the corporation. Because we work directly with entrepreneurs, adaptation of internal projects is easier and more efficient. At the same time, it contributes to the personal development of the employees.

In our bank where the spirit of entrepreneurship and innovation is on the rise, 'Insha' has been set out to solve the banking problems that Muslim Community is facing in

Europe. Insha is a Shari'a compliant digital banking account and we will only do interest-free mobile and online banking. By introducing Insha, Albaraka Türk moves one step further in its vision of becoming the world's best participation bank.

## Rising on a Unique Business Model!

Insha received the necessary approvals and licenses from Bundesbank of the Federal Reserve Bank of Germany. It is a platform bank that will provide participation banking services in continental Europe with a modular structure using the infrastructure of SolarisBank AG, the world's first and only BAAS (Banking As A Service) bank. By using SolarisBank, AG's banking license and infrastructure, Albaraka Türk finds the opportunity of using its own brand in Europe.

In this first phase of our banking service, basic banking services such as account opening, account management, payments and money transfer is being provided.



Turkish, German and English support services and a one-click Call Center service is part of the service package. Money transfer services from Germany to Turkey will also work 5/24. In the next stage, the main products of participation banking, insurance products, investment banking products will be included in the system. In the final stage, banking license will be taken and participation banking will be fully realized. Insha does not only provide mobile and internet banking services but also provides various digital services such as prayer reminder, mosque map and zakat calculator that Muslims need.

In its first stage, Insha will serve in Germany and will soon start serving in France, Italy, Austria, the Netherlands, Spain and Belgium, and finally will spread to all of continental Europe.

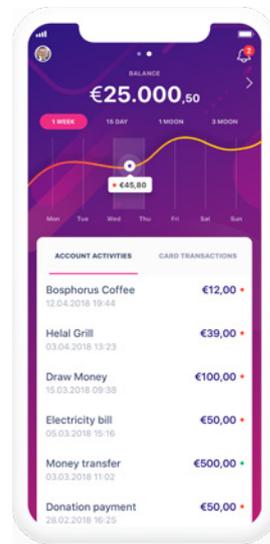
## A Startup Spirit!

Insha demonstrates a completely new working model that has not been tested yet, with regards to both its organizational model and its way of delivering products and

services.

Insha, on this journey as a progressive attempt, welcomes the fintech revolution in the financial industry in its homeland. It does not just welcome, it dreams of being the pioneer of this revolution. Insha represents both Turkey and participation banking by moving our digital participation banking service to Europe.

The Banking sector apparently continues to focus on digitization and also provides various services through various channels to satisfy especially new generations. As AlBaraka Türk, we aim to lead the digitization process in Islamic Banking by diversifying our channels. In our digitization journey, we closely follow the developments in financial technologies which has a great potential to serve a broader customer base through service channels which are accessible, user friendly, fast, secure and low-cost. Struggling to realize that potential, Insha is a solid proof of our competence in financial technologies sphere.



**Insha, on this journey as a progressive attempt, welcomes the fintech revolution in the financial industry in its homeland.**



**Jordan Islamic Bank**   
A member of Al Baraka Banking Group

CASE STUDY

# Jordan Islamic Bank's Pulse in Renewable Energy



# Jordan Islamic Bank 's Pulse in Renewable Energy

## Preface

Since its establishment in 1978, Jordan Islamic Bank (JIB) has contributed to the consolidation of Islamic banking in Jordan and abroad and supported the national economy. It has achieved a leading position in the Islamic business and banking world and has been keen to fulfill its social and banking responsibilities side by side.

The Bank has provided since its incorporation, significant programs that are characterized by sustainability, community raising and increased productivity, including renewable energy and environment protection, within an integrated system that emphasizes the Bank's commitment to contribute to serving and meeting the needs of the society in line with the Bank's mission and values.

## Interest in Renewable Energy

The issue of renewable energy is one of the most important focus areas of the bank in the field of social responsibility and contributes to support the Jordanian government in its quest to reduce the bill of local energy, and reduce energy expenditures because of the high cost to the bank.

On 30<sup>th</sup> July, 2013, the first branch of Jordan Islamic Bank (Hai Nazal within the Capital Governorate of Amman) was operated according to Photovoltaic system in the generation of electric power. Thus, Jordan Islamic Bank is the first bank in the Hashemite Kingdom of Jordan to take advantage of renewable energy sources in generating electricity from solar cells. Since the success of this experiment, the bank has embarked on its plan for this purpose to benefit from renewable energy in 21 branches until the beginning of 2018. The cost of the systems purchased for this purpose amounted to JD 674,000. These systems generated about 2 million KWH and 876,000 KWH and its savings of the bank's electricity bills amounted to

JD 817,000 so far, which is more than the cost of purchase. The bank recovered all its expenses on the systems and this was reflected in the increase in the bank's profits from the savings of electricity costs from these energy saving systems, which will continue to provide the branches with power for twenty five years, thus saving the costs of the bank's bills and expenses in this field.

## JIB's Solar Power Plant Project and its phases

When the Jordanian government approved the laws to allow local enterprises to produce renewable energy and make concessions to the electricity distribution companies operating in the Kingdom, according to Wheeling, JIB undertook the necessary studies aimed at benefiting more from renewable energy through the establishment of power plants. These stations are distributed to the local power distribution companies, the franchisee in the Kingdom. These stations aim to cover the bank's energy bills or most of them, thus reducing energy expenses.

In the year 2017, the bank started the establishment of the Jordan Islamic Bank's power station using renewable energy which was implemented under the supervision of Energy Team at Jordan Islamic Bank. Work on the plant took about nine months to complete, its actual operation was on 21 May, 2018 where its official opening was on 25 July, 2018 under the patronage of H.E Mr. Adnan Ahmed Yousif. The project is located in a land owned by the bank at the site of the Bank's Bonded Center in Sahab, King Abdullah II Industrial City on a land of 45 donums. The plant is considered to be the largest roof-top project in the Hashemite Kingdom of Jordan where the site has been optimally invested (constructed open Hangers for Bonded, multi-purpose underground warehouses and construction of the plant above the Hangers), including

( four Hangers, the space of one Hanger is 4750 square meters) and ( four Hangers , the space of one Hanger is 3750 square meters). The solar panels of the station area is 20,000 square meters above the five hangers and with a generating capacity of 2.7MWP (peak megawatt). The plant covers 75% of the electricity consumption in the branches, offices and management of the bank and 100% of the consumption of 38 branches and offices of JIB located in Amman, Zarqa, Madaba and Balqa Governorate, as well as the three buildings of the head office (Shemisani and Wadi Saqra). In the future, this plant will be expanded through the exploitation of the rest of the Hanger surfaces to install solar cells to cover the entire branches of Amman by 100%.

The cost recovery period of the plant is estimated to be approximately one and a half years. The latest technology was used to build the station and it is estimated to have a life span of approximately 25 years. It is estimated that the annual cost of the electricity bill after the installation of the plant will be reduced by one million and one hundred thousand Jordanian Dinars annually. The plant produced

from the date of its actual operation on 21May,2018 until 21July, 2018, about 800,330 KW and a saving of approximately JD 228,000.

## Strategic objectives of renewable energy projects

In accordance with the strategic sustainability plan of Jordan Islamic Bank, relying on 50% of the bank's consumption of renewable energy ,protecting the environment, reducing the negative impact on it and in support of the national economy, JIB has started adopting renewable and clean energy in the management of its business which is among the projects of JIB to reduce the costs of energy use, and to reduce the import of traditional power generation inputs that put pressure on foreign currencies. Also, it contributes to the promotion of the use of new technology to preserve the environment and the economy at the macro level, thus saving the Jordanian government's budget in the purchase of oil to produce electricity for the quantity produced, which serves the treasury of the Kingdom and saves foreign exchange.



## The Bank's Projects and Products in the Field of Renewable Energy

The Bank has provided initiatives in the field of renewable energy to address the energy problem, which is one of the challenges facing the national economy, including:

- Continuation of the Bank's adoption of alternative energy-saving projects at its headquarters.
- Opening power plant using renewable energy for the branches of Amman on 25 July, 2018.
- Work is underway to establish a station of energy generating in Irbid, to cover the electricity consumption of JIB's branches, and offices at the Northern Governorates (Irbid, Ramtha, Jerash, Ajloun and Mafraq) with a generating capacity of 999KWH and will be opened in 2019, God willing.
- JIB replaced traditional lightening units with energy-saving lightening units (LED) characterized with longer operational age compared to traditional lightening units. That will result in reducing maintenance costs. The energy-saving lightening units (LED) provides better lightening, low thermal emissions and very low level of ultraviolet radiation. This will lead to reducing lightening negative-impacts and save 35% of electricity consumption value on a yearly basis. By mid- 2018, LED units were present at 71 branches and offices as well as the Head Office building and the Disaster Recovery Center. The work is underway to install LED units at the remaining JIB's branches and offices.
- Usage of Variable Refrigerant Flow (VRF) systems which save 25% of electricity consumption annually compared to other air conditioning systems. This system can be controlled centrally . Therefore, it provides optimal solutions, saves more electricity and reduces maintenance costs. VRF systems are present at 43 branches and offices as well as Head office Building and one of the bank's subsidiary companies. The work is underway to install VRF systems at the remaining branches and offices of JIB.

- JIB installed water-saving tools in 2015 upon conducting the necessary checks to identify places of panels installation. By mid 2018, those tools were installed at 39 branches and offices as well as Head Office Building and three investment complexes and one of the subsidiaries.

- To enhance the social role of the Bank by providing support and contribution to various initiatives that contribute to the establishment of sustainable development bases, particularly in the field of environment and energy, JIB has provided support to the National Program to enable multiple agencies (schools, mosques and others) to cover their electricity needs with clean and inexpensive technology. Where it contributed to support the installation and operation of solar power units to generate electricity for several mosques and Al-Ma'mourah elementary and secondary school for females in the southern Jordan Valley region, which lies within the remote areas of Jordan and the poorest, and supporting the national program to enable the kingdom's schools in remote areas to cover their needs of electricity with clean and inexpensive technology to alleviate the material burden and to provide a better learning environment for students to improve their academic level.

- The Bank provides financial and advisory solutions to enable citizens to access their needs by providing environmentally friendly and affordable financing for projects and products, thereby enhancing environmental behavior and motivating the various sectors to adopt a sustainable approach to environmental conservation including Hybrid and Electrical Vehicles which are economic in fuel consumption and ensure clean environment.

- The bank has launched "our Sun " product to finance renewable energy systems for individuals, companies and factories to install renewable energy systems, feasibility study and suitability of the system for the unit (residential, commercial, etc.) at which the panel will be installed in cooperation with the seller company of the system and on easy terms.

- The bank has executed financing for electricity generation projects using cells in the mode of Islamic financing (Istisna'a contract) in accordance with the provisions and principles of Islamic Sharia Such as the financing provided to the Islamic



---

## The initiatives of Jordan Islamic Bank in the use of renewable energy are practical applications for the Bank to assume its social, economic and developmental responsibilities.

Charity Center for about JD 5 million, in addition to signing agreements to support renewable energy projects with Jordan Renewable Energy & Energy Efficiency Fund and the Jordan Loan Guarantee Company, to guarantee the risks of renewable energy financing for individuals and government institutions and small, medium and large enterprises (SMEs).

## Enhancing the Bank's position in the Jordanian market

The initiatives of Jordan Islamic Bank in the use of renewable energy (mentioned previously) are practical applications for the Bank to assume its social, economic and developmental responsibilities to be characterized by

effective contributions to support the economy, national industry and the rules of development and social security and its components through finding alternative and environmentally safe sources of energy to meet the various challenges.

It is also an achievement for the Jordanian banking sector among the various sectors in the field of innovation projects that contribute to support the national economy and alleviate the crisis that has cast a shadow over the economic and social sector with a high energy bill has been imposed on citizens and state institutions in both public and private sectors, in order for JIB to be the first Jordanian bank introduces solar energy to its business since 2013, thus achieving a precedent and achievement in the field of renewable energy as a model for other Jordanian institutions and companies, urging them to use renewable energy in the management of their business.

# Notes on the instructions of the **Shari'a Governance** issued by the Central **Bank of Bahrain**

Author: Sh. Al- Mahmood, Mohammed Abdul Latif  
*First Vice President - Head of Internal Shari'a Audit*  
*Al Baraka Banking Group*



# Notes on the instructions of the Shari'a Governance issued by the Central Bank of Bahrain

## Introduction

In August 2017, the Central Bank of Bahrain (CBB) issued instructions on Islamic governance. Its application took effect on 30 June 2018. The issuance of Shari'a Governance guidelines at this time is an important step by the CBB aimed at strengthening Islamic banking sector in the Kingdom of Bahrain as a first if not the only incubator for the Islamic banking industry. These instructions are in detail to control the performance of licensed Islamic banks in Bahrain, giving reasonable assurance to the parties to the relationship - whether shareholders or customers with such banks - that this performance complies with the provisions and principles of Islamic Shariah.

As stated in the provisions of the Shari'a Governance in Article (1.1.2.2), the structure of Shari'a governance consists of the following:

- (A) The Shari'a Supervisory Board.
- (B) The Unit for the Coordination and Application of Shari'a Principles (Shari'a Supervisory).

- (C) Internal Shari'a Audit Unit.
- (D) Audit of independent external legal compliance.

We aim here to shed light on the most important features of what is stated in the guidelines of Islamic governance. Since these instructions are comprehensive in their content and contain a number of important elements worthy of standing then we saw that we address this subject in a series of articles as allowed space available.

We aim here to shed light on the most important features of what is stated in the guidelines of Islamic governance. Since these instructions are comprehensive in their content and contain a number of important elements worthy of standing then we saw that we address this subject in a series of articles as allowed space available.

In this section, we will address the definition of Shari'a governance and the scope of the implementation of Shari'a governance guidelines and the Shari'a Board as the most important component of Shari'a governance.

## Definition of Shari'a Governance

The model in SG-A.1.1 defines Shari'a governance as:

"The system through which the Islamic Bank of Bahrain is licensed to comply with the principles of Islamic Shari'a in all its activities ..."

The same article identifies the main objectives of the Shari'a Governance Framework as follows:

- A. Provide a structure and a system that governs all activities of the licensed Islamic Bank of Bahrain in order to ensure compliance with Shari'a principles at all times and levels.
- B. To enable the Bahraini Islamic Bank, licensed to be considered to comply with the law by stakeholders, including the general public.

## Scope of the application of the Shari'a Governance Guidelines

The instructions set out a special section specifying the financial institutions subject to these instructions in two sub-articles (SG-B.1.1, SG-B.1.2). The provisions of these two Articles stipulate that all licensed Islamic banks in the Kingdom of Bahrain shall comply with the provisions of these Instructions unless otherwise provided. Therefore, Islamic insurance companies are exempt from applying these instructions within the Islamic financial institutions. In addition, all Islamic banks of all types of statements - wholesale banks and retail banks - are covered by these instructions without exception.

As for the branches of foreign banks licensed to operate in Bahrain as branches offering Islamic financial services, the parent institution must have a governance system equivalent to the provisions of these instructions, in addition to allowing the application of effective legal governance to activities carried out by branches of foreign banks.

Therefore, it is expected that the Central Bank will assess the efficiency and adequacy of the governance system of branches of foreign banks through the availability of the elements of the four-governance structure mentioned above. In the event of loss of some elements, it may be requested to be completed at the branch level at the very least. For example, if the parent company does not have a legitimate supervisory body, the licensed branch in Bahrain will be required to have its own legal body.

As these instructions bind Islamic banks operating within the limits of their activities in the Kingdom of Bahrain, SG-B.2.1 has extended the scope of these instructions to the activities of Islamic banks, which operate outside Bahrain through its foreign branches. These instructions apply to foreign branches of Bahraini Islamic banks unless the requirements of the local authorities are more stringent than those of the Bahraini Shari'a governance.

The requirements of local authorities are to be applied. For example, if the requirements of the local authorities require the Shari'a Board to hold a semi-annual meeting with the Board of Directors while Bahraini Shari'a Governance guidelines are limited to at least one meeting, it is the local requirements that must be applied.

## Shari'a Supervisory Board

The Shari'a Board had the largest share of Shari'a governance guidelines. This is expected as the Shari'a Committee represents the core of the structure of Shari'a governance and the most important element among its components. The aim of these articles is to achieve the efficiency and effectiveness of the Shari'a Board in performing its oversight role in the activities and activities of the Islamic Bank. We will highlight the main provisions of these articles regulating the work of the Shari'a Supervisory Board.

### A. Appointment of the Shari'a Board and its Rules of Procedure

The provisions stipulated that the minimum members of the Shari'a Board are three members who specialize in the jurisprudence of transactions. The appointment of the Shari'a Board shall be made by the Shareholders at the General Assembly meeting upon the recommendation of the Board of Directors.

The Islamic Bank shall also prepare an internal regulation of the Shari'a Board approved by the Board of Directors to determine the scope of work of the Shari'a Board. The instructions stipulated the minimum elements to be met in this regulation, which regulates the membership of the Commission, the manner of its composition, the appointment of its Chairman and the Secretary, the terms of reference and responsibilities of the members of the Commission and its meetings, the termination of membership and the relationship with the Board of Directors, senior management and other departments.

## B. Duties and Responsibilities of the Shari'a Board

The instructions stipulated that the Fatwa and decisions of the Shari'a Committee are binding on the Islamic Bank. Therefore, the Shari'a Board must be given all powers that enable it to perform its supervisory duties.

The Shari'a Board's responsibilities have been defined in overseeing the operations and activities of the Islamic Bank to ensure compliance with the provisions and principles of Islamic Shari'a. In addition to the ratification of all contracts, documents and new products. The instructions have instructed the Shari'a Board to notify the Central Bank in writing of any failure by the Board of Directors to deal with any serious legal non-compliance by the Islamic Bank's management.

It is the responsibility of the Shari'a board to adopt the annual plan for forensic auditing and to review the legal reports issued either by the legal auditor or by the legitimate auditor. The instructions also required the attendance of a member of the Shari'a board.

## C. Meetings of the Shari'a Board and the relationship with the Board of Directors

The instructions have given considerable attention to the meetings of the Shari'a Board. The aim of these articles is

to ensure that members of the Shari'a Board receive all the information related to the agenda of the meeting in a timely manner and that the session management enables members of the Shari'a Committee to perform their role in an optimal manner, known. In return, a member of the Shari'a Board must attend three-quarters of the meetings (75%) during the year. There is no objection to being present through audio or visual media.

## D. Independence of the Shari'a Board

The independence of the Shari'a Board is the main focus of the effectiveness and efficiency of the Shari'a Supervisory Board's performance. Therefore, its decision must be objective and not prejudiced by personal considerations negatively or positively. The decisions of its members must be taken away from any influences exercised on the members of the Board either by the Board of Directors of the Bank or its executive management.

In order to ensure this independence, the instructions prevented the members of the Shari'a Board from being members of the executive management, members of the board of directors or controlling the Islamic bank. A member of the Shari'a board should also be a member of the Shari'a Committee. In the event of any conflict of interest, a member of the Shari'ah Board must declare in writing to the Shari'a Supervisory Board of this conflict and refrain from participating in the discussion or decisions or procedures in the conflict.

---

**The Shari'a Board's responsibilities have been defined in overseeing the operations and activities of the Islamic Bank to ensure compliance with the provisions and principles of Islamic Shari'a.**



# Islamic banking assets hit \$1.69trn in Q1: IFSB

Compiled by: **Dr. Alaali, Hassan**  
*Economic Consultant*

With the inclusion of new countries' data, the total assets of the Islamic banking industry grew to \$1,699 billion in the first quarter of 2018 (2018Q1) from \$1,573 billion in 2017Q1, marking an increase of 8 per cent, said the Islamic Financial Services Board (IFSB).

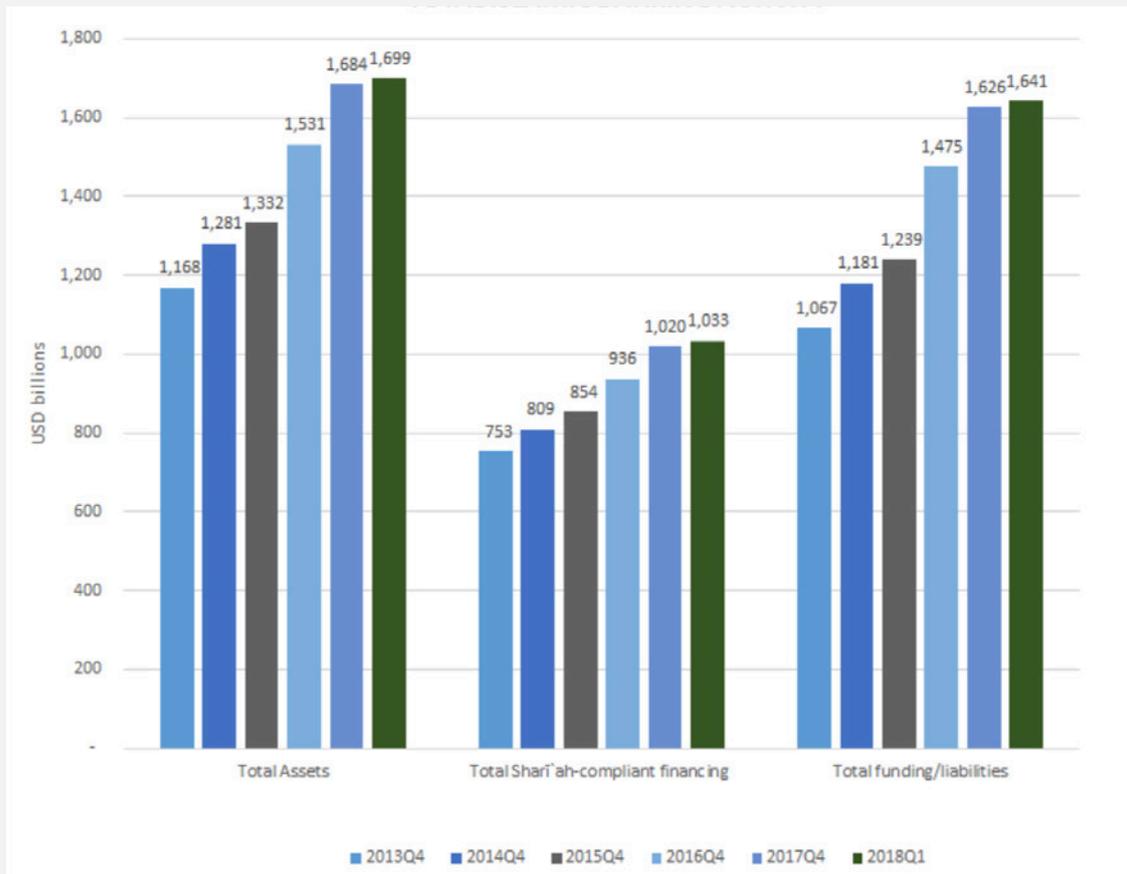
IFSB has announced the dissemination of country-level data on financial soundness and growth of the Islamic banking systems for Q1 of 2018 from 21 IFSB member jurisdictions. This tenth dissemination includes the data from four newly joined countries, namely: Qatar, Palestine, Lebanon, and the first time for the UK. This dissemination completes the availability of quarterly data from Q4 of 2013 to Q1 of 2018. The countries currently participating in the IFSB's Prudential and Structural Islamic Financial Indicators (PSIFIs) database project include: Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kuwait, Lebanon, Malaysia,

Nigeria, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Sudan, Turkey, the UAE and the UK.

The Secretary-General of the IFSB, Dr. Bello Lawal Danbatta stated: "With the dissemination of Islamic banking data of the United Kingdom for the first time, the PSIFIs database have achieved an important step in extending its outreach to another important Islamic finance market."

"Under Phase IV of this project, current template for data collection for the Islamic banking sector is being extended to the template of detailed sector-level financial statements (DFS) for more granular data on income statements as well as financial positions, which provides more in-depth understanding to the data users on the trends and stability of Islamic banking activities in participating jurisdictions and at global level.

## TOTAL ISLAMIC BANKING ACTIVITY



Note: Estimated based on aggregated data from 19 countries.

"The IFSB has also undertaken several efforts to expand the database coverage to Islamic insurance (takaful) and Islamic capital market sectors (ICM), including conducting an industry wide survey, finalisation of the list of indicators and compilation methodologies," he added.

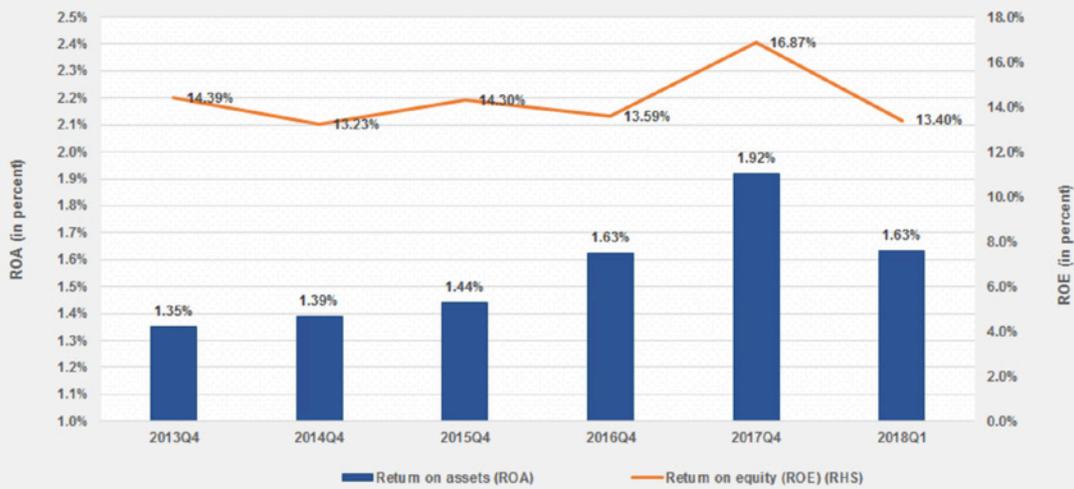
Financing by Islamic banks from the jurisdictions participating in the PSIFIs project which grew by 6.7 per cent reached \$1,033 billion in 2018Q1 from \$968 billion in 2017Q1. The number of full-fledged Islamic banks and Islamic windows of conventional banks in 21 IFSB member participating countries stood at 188 and 85 in 2018Q1 as compared to 184 and 84 in 2017Q1 respectively.

Since the Islamic banking database is already covering over 95 per cent of global Islamic banking activity, the IFSB's next focus is to establish a global database which

will provide detailed sector-level financial statements for each participating countries. Similarly, while completing the background work for extension of the project to ICM and takaful sectors, the IFSB Secretariat will invite selected ICM and takaful regulatory and supervisory authorities for participation in this project in the fourth quarter of 2018.

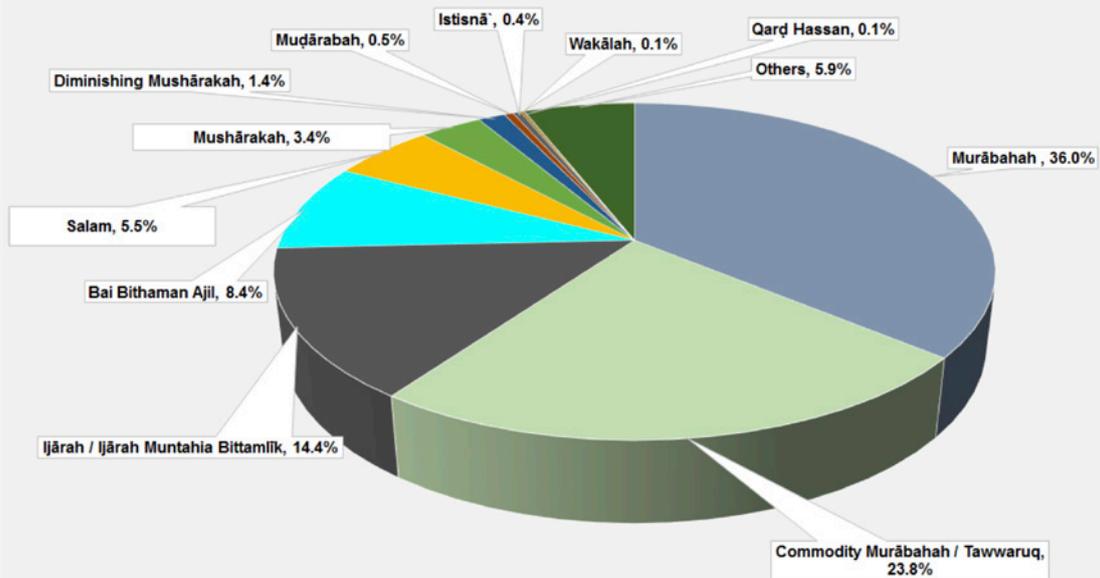
The current global financial crisis brought to surface many mistakes and violations which are attributed to poor governance in major banks. The crisis emerged to force law makers in the world to conduct a thorough and comprehensive study of the financial and banking legislations and systems at the domestic level in each country and globally. These studies have indicated a wide scope of weakness areas which triggered the crisis firstly in the United States of America and led to its unprecedented filtration later, in all financial and banking systems.

### RETURN ON ASSETS AND RETURN ON LIQUIDITY



Note: Estimated based on aggregated data from 18 countries.

### FINANCING BY TYPE OF SHARI'A COMPLIANT CONTRACT- 2018Q1



Note: Estimated based on aggregated data from 14 countries.

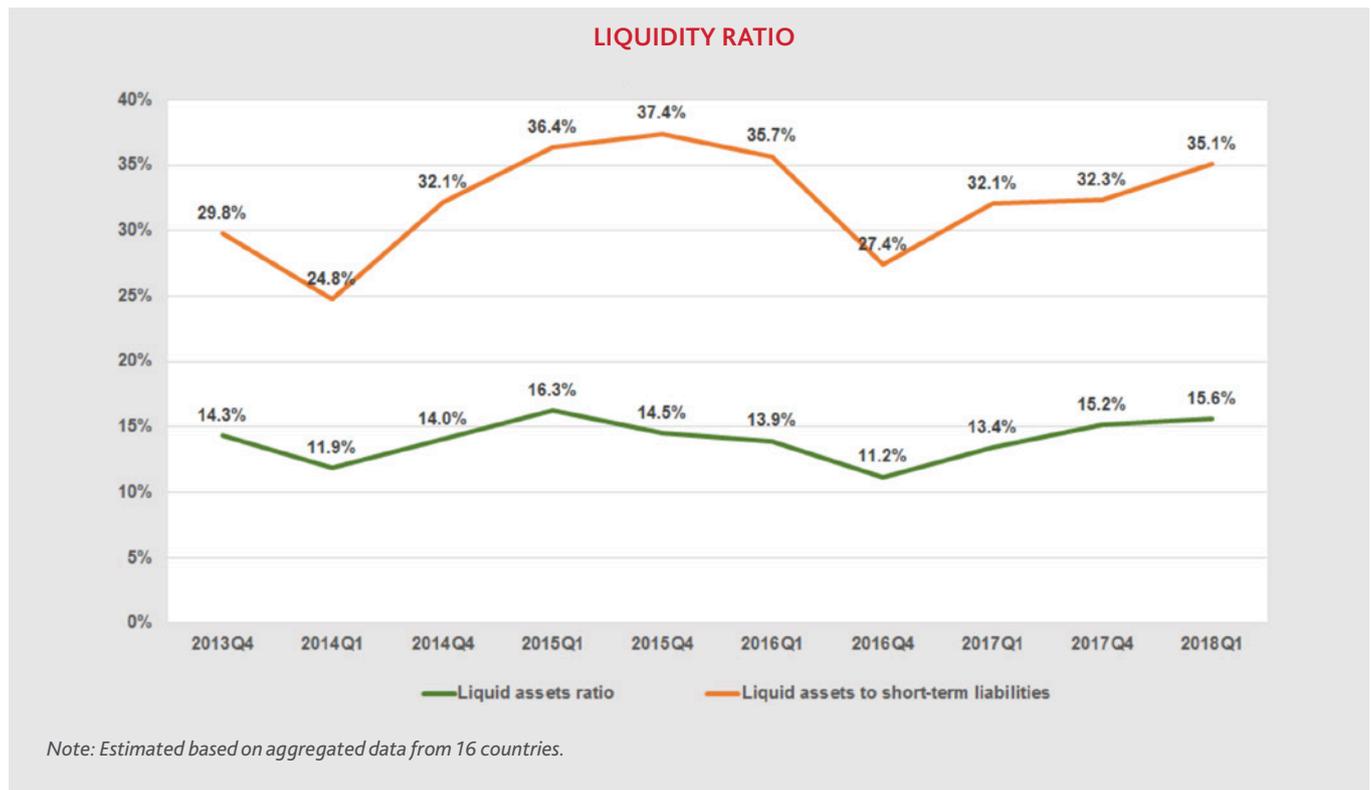
The crisis has shown that several banks did not have the adequate capital to support the risk position they have adopted, as they later discovered that they have gone beyond their expectations prior to the crisis. This undoubtedly violates the basic principles of Basil II in relation capital adequacy.

However, one of the other main reasons which led to the deterioration of the crisis was the step taken by a large

number of banks of global spread to build up a large debt base inside and outside the budget, which was associated with gradual elimination of capital level and type. In the meantime, there were several banks which owned an inadequate stock of liquidity, accompanied by huge credit losses due to concentrates in investments ensuing from poor management of concentrates and counterparty risks, especially those resulting from investment in credit derivatives.

National and global control authorities have called for developing the current banking rules and criteria, in addition to setting advanced global rules which could contribute to enhancing the abilities of banks to bear shocks by identifying the risk position of banks through more comprehensive methods. The Basel Committee assumed a leading role

in this area by introducing extensive adjustments on the three main pillars of Basel II, represented in the introduction of new rules and criteria which collectively formed the so called Basel III.





The views and opinions expressed in this issue (magazine) are those of the authors and do not necessarily reflect the official policy or position of Al Baraka Banking Group.

Copyright © Al Baraka Banking Group 2018

Contact email : [albarakapulse@albaraka.com](mailto:albarakapulse@albaraka.com)