Chapter 6

Islamic Banking Systems of Saudi Arabia and Thailand: A comparison

We have examined in some depth the salient features of Islamic Banks in Saudi Arabia and Thailand in chapters 4 and 5 and have also analyzed the current situation in both the countries with different aspects. Saudi Arabia which is predominantly a Muslim country is having world's largest Islamic Bank operating in their country whereas Thailand a Buddhist nation is served by a single bank which was established in 2003. This chapter will deal with a comparative study of general and operational aspects of Islamic Banks in both countries.

6.1 Geography and Climate

Saudi Arabia: The Kingdom of Saudi Arabia is the largest country in the Arabian Peninsula and occupies some 2.3 million square kilometers (865,000 square mile). It is bounded to the west by the Red Sea; to the north by Jordan, Iraq and Kuwait; to the east by the Arabian Gulf, the United Arab Emirates, Qatar, and Bahrain, and to the south by the Sultanate of Oman and Yemen. Much of the country is desert. Whilst the climate in Saudi Arabia is mainly warm and dry, variations occur between the coastal areas and the interior regions.1

Thailand: Totaling 513,120 square kilometers (198,120 square mile), Thailand is the world's 51st-largest country by total area. It is bordered to the West and North West by Myanmar and to the East and North East by Laos, to the South East by Cambodia and to the South by Malaysia. The local climate is tropical and characterized by monsoons. There is a

rainy, warm, and cloudy southwest monsoon from mid-May to September, as well as a dry, cool northeast monsoon from November to mid-March. The southern isthmus is always hot and humid.²

6.2 Population and Language

Saudi Arabia: Based on the last official census the Kingdom has a population of 21 million including 4.6 million expatriates from different parts of the world. Arabic is the official language of the Kingdom. Whilst English is widely spoken in business and government circles, all correspondence with the government authorities is conducted in Arabic. There are about 25 million people who are Muslim, or 97% of the total population. Saudi Arabia is an Islamic country.³

Thailand: It is the 20th-most-populous country with around 64 million people. The capital and largest city is Bangkok. About 75% of the population is ethnically Thai, 14% is of Chinese origin, and 3% is ethnically Malay; the rest belong to minority groups including Mons, Khmers and various hill tribes. The country's official language is Thai. The primary religion is Buddhism, which is practiced by around 95% of the population.⁴

6.3 Government

Saudi Arabia: The Saudi Arabian government which has been an absolute monarchy since its inception refers to its system of government as being Islamic. The King who is the present prime minister and a Council of Ministers from the executive and legislative branches of the Government responsible for formulating the country's economic policy and guiding development. The Council of Ministers is supported by a Consultative Council "Shura" which has 150 distinguished men of the Kingdom as its members appointed

³ Dr. Mohamed Al-Amri & Co, No.1, p.1.
by the King. Being the cradle of Islam, the Kingdom's legal system and laws are based on
"SHARIA" Islamic principles. The laws and regulations applicable to all businesses are
promulgated by Royal Decrees. The Kingdom is divided into 13 provinces, the
administration of which is presided over by governors.5

Thailand: The country is a constitutional monarchy, headed by King Rama IX,
the ninth king of the House of Chakri, who, having reigned since 1946, is the
world's longest-serving head of state and the longest-reigning monarch in Thai history. The
politics of Thailand is currently conducted within the framework of a constitutional
monarchy, whereby the Prime Minister is the head of government and a hereditary
monarch is head of state. The judiciary is independent of the executive and the legislative
branches.6

6.4 Currency and Foreign Exchange Regulations

Saudi Arabia: The unit of currency is the “Saudi Riyal” (SR) which is divided into
100 subunits called “Hilala”. There have been small adjustments from time to time in the
exchange rate between the Saudi Riyal and the US dollar. In 1986 the exchange rate was set
at SR 3.75 to US$ 1.00. Capital and income are allowed to be repatriated and personal
savings and management fees remitted abroad without restriction.7

Thailand: The “Baht” is the currency of Thailand. It is subdivided into 100 satang.
The issuance of currency is the responsibility of the Bank of Thailand. The baht was pegged
to the U.S. dollar at an exchange rate of 30 baht = one dollar.8

5Dr. Mohamed Al-Amri& Co, No.1, p.2.
7Dr. Mohamed Al-Amri& Co, No.1, p.2.
6.5 Economic Aspects

Saudi Arabia: The economic transformation of Saudi Arabia over a 20 year period from a basically agrarian economy to a growing industrialized power with petroleum-based has placed considerable demands upon its banking system. The economy of Saudi Arabia is petroleum-based. Its oil industry yields roughly 75% of budget revenues and 90% of export earnings. It comprises about 45% of the country's gross domestic product with approximately 260 billion barrels of oil reserves. This represents about 24% of the proven total petroleum reserves of the world.9

Thailand: Exports an increasing value of over $105 billion worth of goods and services annually. Major exports include Thai rice, textiles and footwear, fishery products, rubber, jewelry, cars, computers and electrical appliances. Thailand is the world's no.1 exporter of rice, exporting more than 6.5 million tons of milled rice annually. Rice is the most important crop in the country. The traditional agrarian economy of Thailand has diverged into a multi-faceted economy, with Thai industries now boasting the latest and most sophisticated technology. Several important factors have contributed to the country's enviable growth. The abundance and diversity of Thailand's natural resources complement the country's large expanses of fertile land and ideal growing conditions. Thailand, as a result, enjoys agricultural self-sufficiency, which enables it to become the key food exporter in Asia.10

6.6 The Inception of Banking

Saudi Arabia: Initially, it was a money exchanger to provide a service for pilgrimage. However a large amount of the day to day banking business was performed by

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9 Energy Information Administration, 2009
the traditional money exchangers, which did not cover all the banking activities required in a modern society. The banking business, which was not traditionally undertaken by the money exchangers, was left to foreign banks, such as ABN Algemene Bank, Nederland, being a pioneer in the kingdom. Therefore, the kingdom's first foreign banking institution was Dutch and opened in 1928. However, the first Saudi Arabian bank, the National Commercial Bank (NCB), was founded in 1953 by a Royal Decree of King Abdul Aziz, the Mahtouz and the Musa Kali families to petition the King for permission to establish a bank. With their background as money-changers they had the foresight to create the NCB in the hope that it would act as banker to the Saudi Royal families (in the absence of a central bank) and also take business from the other money-changers.

Thailand: Though Thailand was never a British colony, it was a British-owned bank which first introduced conventional banking in Thailand. It was only in 1888 that a conventional bank was first established. The British-owned Hong Kong and Shanghai Bank commenced banking activities in Thailand in 1888. And the domestic or local bank was the Siam Commercial Bank, presently known as Thai Commercial Bank, established in 1906.

6.7 Central Bank

Saudi Arabia: The growing financial and monetary difficulties in which the Saudi government found itself led Abdul Aziz to agree to seek foreign help in the early 1950. Attention particularly centered on the advisability of creating a central bank to solve the country's financial and monetary problems. On 20th April 1952 a Royal Decree ordered the

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establishment of the Kingdom's Central Bank, to be named the "Saudi Arabian Monetary Agency" (SAMA), with a capital of 500,000 Saudi Gold sovereigns or US$ 6 million.15

**Thailand:** Initially, all central banking activities were performed by the Thai National Banking Bureau, which was established in 1939. However, these activities were taken over by the central bank. The central bank of Thailand was established in 1942 named "Bank of Thailand" (BOT), the responsibility for all central banking functions. The Bank of Thailand started operations on 10 December 1942. Just like any other central banks, the BOT is responsible in formulating monetary policy, supervising, financial institutions to ensure that they are secured and supportive of economic development, acting as banker as well as recommending economic policy to the government, acting as banker to financial institutions, managing the international reserves, and printing and issuing bank notes.16

### 6.8 The Banking Structure

**Saudi Arabia:** The banking structure in the kingdom of Saudi Arabia is composed of commercial (12 Banks) and specialized credit banks (5 Banks). Most medium and long term financing is carried out by the specialized credit banks while commercial banks are engaged in short term lending activities. SAMA established several specialized credit institutions as Saudi Agriculture Bank (SAB), Saudi Credit Bank (SCB), Public Investment Fund (PIF), Saudi Industrial Development Fund (SIDF), and Real Estate Development Fund (REDF).17

**Thailand:** The banking structure of Thailand include of Thai Commercial Banks (13 Banks), Foreign Banks (18 Banks), and Specialized Banks (6 Banks 4 companies). The Islamic Bank of Thailand is the one category under control of Specialized Banks.18

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17 Sutan Emir Hidayat, Suliman Abdurrahman Alkur, *Public Awareness on Corporate Social Responsibilities of Saudi Islamic Banks* in 8th International Conference on Islamic Economics and Finance, Center for Islamic Economics and Finance, Qatar Faculty of Islamic Studies. Qatar Foundation.
6.9 Commercial Banks

**Saudi Arabia:** The 12 commercial banks in Saudi Arabia, 3 banks are wholly owned by Saudis such as The National Commercial Bank, Al Rajhi Bank (RAJHI) and Riyad Bank. There are 9 foreign joint ventures banks as The Saudi British Bank (SABB), Saudi Investment Bank (SAIB), Alinma Bank, Banque Saudi Fransi (BSF), Samba Financial Group (SA.MBA), Saudi Hollandi Bank (SHB), Arab National Bank (ANB), Bank AlBilad and Bank AlJazira (BJZ).19

**Thailand:** Thai commercial banks (14 Banks) are Bangkok Bank, Bank of Aydhaya, CIMB Thai Bank, Industrial and Commercial Bank of China (Thai), Kasikorn Bank, Kiatnakin Bank, Krung Thai Bank, Land and Houses Bank, Siam Commercial Bank, Standard Chartered Bank (Thai), Thanachart Bank, Tisco Bank, TMB Bank and United Overseas Bank (Thai).

Foreign Banks (15 Banks) are Bank of America National Association, Bank of China, BNP Paribas, Citi Bank, Credit Agricole Corporate and Investment Bank, Deutsche Bank, Indian Oversea Bank, JPMorgan Chase Bank, Mizuho Corporate Bank, Oversea-Chinese Banking, RHB Bank Berhad, Sumitomo Mitsui Banking, Bank of Tokyo-Mitsubishi UFJ, Hong Kong and Shanghai Banking and Royal Bank of Scotland N.V.20

6.10 Islamic Bank

**Saudi Arabia:** Islamic Banks in Saudi Arabia has been ambiguous with various issues. During the early stage of its development, SAMA was faced with the dilemma of how to prompt banking activities in the kingdom without violating Islamic codes, the commercial banks in Saudi Arabia charge and pay interest rate but they are reported as fee and


20 Bank of Thailand Website, [http://www.bot.or.th/English/Pages/BOTdefault.aspx](http://www.bot.or.th/English/Pages/BOTdefault.aspx), (15 Sep 2012)
commission. SAMA has done nothing to prohibit such charges, since without these charges it would be very difficult for the bank to operate efficiently. Saudi Arabia was not permitted Islamic banks licensed due to political reasons; the creation of an Islamic bank would mean the existing twelve are un-Islamic. It means that, SAMA acts not necessity to allow Islamic bank licensed because it deems the wholly of commercial bank in Saudi Arabia is Islamic. And the country’s rulers cannot publicly come out against Islamic banking, especially when they are involved in an ideological battle with their own fundamentalists. There are no easy answers for SAMA to solve these problems with a dilemma. However, the first permit granted to an Islamic bank was in March 1987. When SAMA obligated Al-Rajhi Company for Currency Exchange and Commerce was finally converted into the country’s first Islamic bank. Al-Rajhi was prohibited by SAMA from calling itself Islamic. Although Al-Rajhi refrained from using “Islamic” in title.

It can be summarized that Islamic bank license was allowed to only one bank Al-Rajhi bank, the first Islamic bank of Saudi Arabia and the world’s largest Islamic bank. At the end of year 2006 the 12 banks in Saudi Arabia there are 3 Islamic retail banks (Al-Rajhi, Al-jazira and Al-bilad) reported all their operations were conducted in a Shari’ah-compliant manner (full pledge). While 9 other Saudi Arabian banks conduct a portion of their business along Islamic lines, keeping separate from other operations and there are Islamic window to provide a Shari’ah-compliant service and production for client.

**Thailand:** There is only one Islamic bank in Thailand was called as “Islamic Bank of Thailand” officially opened on 1 June, 2003. With a registered capital of Bt1 billion and paid up capital of Bt99.8 million. The Islamic bank of Thailand was supervised by the Ministry of

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finance and Bank of Thailand, under the category of Specialized Banks. The actual idea for the establishment of an Islamic bank can be traced back to 1994 when the Royal Thai Government signed the "Indonesia-Malaysia-Thailand: Growth Triangle – IMT-Gt Project". As the majority of the population in this tri-partite area are Muslims whose ways of life are governed by the principles of Islam.

6.11 Objectives of Islamic Bank

**Saudi Arabia:** The Bank established an independent Shari'ah Board, formed and ratified by the Constituent General Assembly with the objective of ensuring that all Bank activities are subject to the approval of the Shari'ah Board. Since, the deposit growth of Islamic banks have been higher than the Saudi banking sector as seen the CAGR growth of 17.4% seen in the report 2002-05 as compared to 12.9% recorded by the Saudi banking sector for the same period. This leads to very high spreads for the Islamic banks as a consequences, many conventional banks have developed Shari'ah-compliant un-remunerated deposits in recent years. This is particularly true in Saudi Arabia, where conventional banks target aggressive Shari'ah compliant deposits through Islamic Windows. It is to be noted that most bank in the kingdom have launched Islamic banking product, either through a separate Islamic Window or subsidiary.

**Thailand:** The objectives of the Bank are to carry out banking and investment activities in accordance with Shari'ah for Muslim people in Thailand. This is a solution for Thai Muslims because of Thailand never has Islamic banking before. The Government of Thailand has outlined various objectives which ought to be achieved by Islamic banks operating in Thailand. To meet the banking and credit needs of the Muslim population in

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Thailand in conformity with the Shari'ah, to cultivate the savings habit among Thai Muslims, particularly for pilgrimage purpose, to supply low cost funds for entrepreneurs who wish to undertake investment projects especially in the southern border provinces. To attract savings and investment from other Muslim countries and to encourage non-Islamic financial institutions to participate in the Islamic banking sector.28

6.12 Share Holder

**Saudi Arabia:** In 1968, SAMA was approaching foreign banks with branches in the Kingdom in an attempt to convert these banks “into a Saudi joint stock company with a Saudi participation of 60 percent”. This procedure later became known as the “Saudization” of the commercial banks and became an official policy of the government (normally 20 percent in the hands of prominent Saudi business families and the rest 40 percent with the general public). The foreign bank maintained a 40 percent equity stake in the bank.29

**Thailand:** The Islamic Bank of Thailand Act, B.E.2545 was prescribed as the Finance Ministry can be holding up to 49% and according to regulation, foreign holding are limited to 33%. However, the private sector can be holding not exceed 15% except the organizations or State enterprise of government.30

6.13 Capital

**Saudi Arabia:** There are many Islamic Banks in Saudi Arabia although it has the world’s largest of Islamic Bank in the Kingdom called Al-Rajhi Bank. Founded in 1957, Al Rajhi Bank is one of the largest Islamic Banks in the world with total assets of SAR 184 billion (US 49 bn), a market capital of over US$4 billion, employing 7,500 associates.31

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28 Bala Shanmugam, Vignesen Perumal, Afieya Hanuum Ridzwa, No.1, p.128.
29 Mohamad Elhage, No.21, p.36.
30 The Islamic bank of Thailand Act, B.E.2545
31 Al Rajhi Bank: Press Pack: January 2011, p.3.
Thailand: Islamic Bank of Thailand officially opened on 2003 with a registered capital of Bt 1 billion (around 30 million Dollars) and paid up capital of Bt 969.8 million. Until 2011, the registered capital increased to Bt 86,785,500,000 (around 2,800 million Dollars).32

6.14 Customer Target and Officer

Saudi Arabia: Most of the people in Saudi Arabia are Muslim. Hence, almost every customer and officials of Saudi Arabian banks are Muslims. However, there are many Saudi Banks who have opened the branches outside of kingdom to attract foreign customer.

Thailand: Since Muslims are in minority in Thailand the customer target of Islamic Banks are not only restricted to Muslims alone, but it attempts to target a Buddhist customers too. Resulted, Buddhist customers are increasing in numbers every year. Initially, Thailand has no Islamic Bank, reasonably a few Muslim were working in Conventional banks. Due to religious restrictions, as well as lack of experience in Islamic banking system among Muslims, most of the officials (60-70 %) in Islamic Banks in Thailand are Buddhists. Though, they are expert in banking operations but having lack of knowledge in Islamic law (Shari’ah).

6.15 Financial Instrument Practiced

The Islamic Bank of Saudi Arabia and Thailand are deeply rooted in Islamic Banking principle in accordance with Shari’ah. There is Shari’ah Advisory Board to control and advise the operation in financial Instrument practiced. Therefore, almost every financial Instruments of Islamic Bank of Saudi Arabia and Thailand are in similarly to each other with occasional difference in some products due to the differences in school of thought (Islamic Law’s jurisprudence).

6.16 The similarly in Islamic financial instruments of Islamic Bank of Saudi Arabia and Thailand can be summarized as following.

- **Wadiah Yad Amanah (Safekeeping or Trustee)**

  The basic concept of *wadiah yad al-Amanah* is that the trustee will only be responsible for damages to the assets or property entrusted in case of negligence and the trustee cannot mix the assets or property with his or other people's properties. In Islamic banking perspective, the saving account facility is offered to account holders who seek safe custody of their funds and wish to save money, whilst current account facility entitles the depositor to receive his funds on demand and depositors may pay a fee to bank for safekeeping and service.

- **Wadiah Yad Damanah (Guaranteed Safe-Custody).**

  The *wadiah yad damanah* is a combination of *wadiah* with *daman* (Guarantee contract) principle. Under this rule, the bank can use the funds or deposits as it wishes and be liable to refund back when demanded by clients. Any profit generated will be solely for the bank. However, the bank may grant *hibah* (gifts) to the clients if the bank wants to share it but it is not an obligation. 33

- **Musharakah (Partnership)**

  Musharakah is another central pillar of the Islamic Bank model. The term is derived from the Arabic word “Sharikah”, which means “sharing” or “partnership”. The bank becomes a partner in business with the entrepreneur. Both entrepreneur and bank share in the investment and run the business. The paid representatives and experts of the bank work alongside the entrepreneur. The profit or loss, however, must be borne proportionately to the investment of capital. And the profit or loss will be determined after completing the records

of business and then shared out according to the above-mentioned principle. The net capital will be returned to the partners along with profit after deducting any loss.\(^{34}\)

- **Mudharabah (Profit sharing)**

  The Bank accepts deposits from its customers who look for investment opportunities. The Bank acts as the entrepreneur. Both parties agree with the profit distribution / sharing ratio. The customer does not participate in the management of the funds. In the event of a loss, the customer bears all the losses. Profits generated from the use of the customers' funds will be distributed according to the predetermined ratio.\(^{35}\)

- **Murabahah (Mark up Financing)**

  The Murabahah as the financial operation of Islamic banking, it works in this way, the client approaches the Islamic Bank to finance the purchase of a specified commodity. The bank will purchase the specified commodity from a seller of its choice, paying the price of the commodity in cash. Once the ownership of the commodity is transferred to the bank, it sells the commodity to the client on a deferred payment basis against an agreed price. The new price at which the bank sells the commodity to the client is the original price (which is the cost to the bank) plus the mark-up the bank is charging (which is its profit margin).\(^{36}\)

- **Bai Bithaman Ajil (Deferred Payment)**

  *Bay'\(\text{al-mu}'\text{ajjal}*) refers to a sale against deferred payment (either in lump sum or installments). Very rarely is Murabahah used by Islamic Banks with the price paid immediately by the customer. When a customer approaches an Islamic Bank to finance a purchase through Murabahah the payment of the price is usually deferred, and most commonly paid in installments.\(^{37}\)


• **Ijara (Leasing)**

Ijarah waqtina (Hire-purchase) is a combination of leasing movable or immovable property with granting the lessee an option of eventually acquiring the object of the lease. The lessor who is usually the Mudarib invests these installments in Mudharabah venture for the client's account. As, when the amount of deposits and accrued income on such deposits, equal the aggregate amount of the then outstanding lease payments, the lease is terminated and the lessee becomes the owner of the asset. Thus, Ijarah waqtina is a lease agreement combined with an obligation to the lessee to purchase the asset during the lease or at the termination of the lease.\(^{38}\)

• **Qard al Hasan (Interest Free Loan)**

Benevolent loan (Qard Hasan) or a loan without interest: Islamic banks also play a socially useful role. Hence, they make provision to provide Qard Hasan besides engaging in income generating activities. The bank recovers only service charges from all types of borrowers to meet its operating costs. As a result, the bank pays no return to its shareholders and depositors.

• **Salam (Forward Sale)**

Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. Here the price is cash, but the supply of the purchased goods is deferred. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family up to the time of harvest. After the prohibition of Riba they could not take usurious loans. Therefore, it was allowed for them to sell the agricultural product in advance.

• **Bai-Istisna (Commission to Manufacture Sale)**

Istisna is the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. Islamic Banks and Financial Institution use Istisna as a mode of financing. They finance the construction of houses factories on a piece of land belonging to client. The house or factory is constructed either by the financiers himself or by a construction company.39

• **Al-kafalah (Guarantee)**

It is a contractual guarantee given by the guarantor to assume the responsibilities and obligations of the party being guaranteed on any claims arising thereof. This principle is also applied in loan guarantees whereby the guarantor assumes the liability of the debtor when the debtor fails to discharge his obligation. This is also known as dhunan. A bank can call for the following types of guarantee to secure its loans:

Letters of guarantee, Use of cheques (post-dated), Promissory notes, freezing cash deposits, Third party guarantees, Hamish Jiddiyah (earnest money taken from a prospective client to ensure the performance of any assignment or liability by him before execution of the formal contract), Arbon (down payment taken as part of the settled payment taken after execution of the formal contract).41

• **Al-Rahnu (Mortgage or Pledge)**

To keep something to ensure one’s right is called Rahn (mortgage). There are different types of guaranties used nowadays by the banks to secure the recovery of their loans, and mortgage is one of them. The distinctive of the contract of Rahn (mortgage) is that

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39 ibid p.206.
it has a characteristic of a voluntary gift and resembles to the contract of sale simultaneous. As there is no compensation in lieu of thing-mortgaged and the debtor can get his thing back as soon as he pays the debt, it is just like a contract of gift and as the mortgagor is entitled, in case the mortgagee does not turn up to pay the loan, to recover his loan by selling the thing-mortgaged.  

- **Al-Wakah (Agency)**

  Wakalah is to substitute an agent for the principal to perform on behalf of that principal an act, which admits of representation. A Wakalah contract is used by Islamic financial institutions in respect of almost all modes like Murabahah, Salam, Istisna, Ijarah, Diminishing Musharakah and activities like L/C, payment and collection of bills, fund management and securitization. Wakalah may be both commutative and non-commutative. Islamic banks mostly do not pay a fee to their clients who purchase/sell goods on their behalf or perform other functions. However, banks normally charge fees for agency services rendered by them on behalf of their clients.

- **Al-Sarf (Currency of Exchange)**

  The Islamic law of contracts explicitly deals with exchange of currencies. There is a general consensus among Islamic jurists on the view that currencies of different countries can be exchanged on a spot basis at a rate different from unity. There also seems to be a general agreement among a majority of scholars on the view that currency exchange on a forward basis is not permissible, that is, when the rights and obligations both parties relate to a future date.

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44 Muhammad Ayub, No.41, pp.348-349.
45 Mohammed Obaidullah, *Teaching Corporate Finance From an Islamic Perspective* (Jeddah: King Abdulaziz University, 2006), pp.58-59.
• **Al-Ujr (Mode of Fee)**

The modern commercial banking involves a wide array of services to the customers, many of which are fee-based. These are distinct from products and services that are fund-based. Islamic Banks, like their conventional counterparts, provide fee-based services, such as:

a) safe-keeping of negotiable instruments including shares and bonds and collection of payments (based on an agreement of *Wakalah* under which the Islamic Bank acts as the *wakil* or agent of its client);

b) internal (domestic) and external transfer operations; (based on an agreement of *Wakalah* under which the Islamic Bank acts as the *wakil* or agent of its client);

c) hiring strong boxes (coffers) (based on an agreement of *Amana* or *Ijara*);

d) administration of property, estates and wills etc. (based on an agreement of *Wakalah* under which the Islamic Bank acts as the *wakil* or agent of its client)\(^45\)

• **Zakat**

Islamic Banking has a Zakat Account to serve for client. Zakat is recognized as one of the five pillars. The Nisab of Zakat refers the minimum amount of zakatable asset which is subject to paying Zakat. If an asset reaches the Nisab, it becomes zakatable. The zakat is calculated on the total amount of the asset including the Nisab amount. Zakah is due on certain items after the passage of *hawl* (lunar year), while for some other items this condition does not apply. Islamic Bank as Zakat collectors and distributer which deducted from account and distributed for eight categories to whom Zakat can be paid at the time of maturity (annual lunar year).

\(^45\) Muhammad Tahir Mansuri, No.38, p.205.
The differences in Islamic financial instruments of Saudi Arabia and Thailand

The instruments of Islamic Bank of Saudi Arabia and Thailand are rather similar with aforesaid, just a little difference in production due to the difference of Fiqh schools (Mazhub) in Islamic laws. Each school is considered to be a full “Mujahid” and is supposed to have its own system of theory and application of laws. The diversity of views as presented by the different Fiqh schools provide us with a system of built-in flexibility in interpretations and application of Fiqh, which is the body of legal prescriptions concerning human affairs derived from Shari’ah.\(^6\)

Thailand and many countries in South East Asia almost follow a Shafi’s School founded by Imam Muhammad ibn Idris ash-Shafi‘i. However, The Hambali School derives from the work of Imam Ahmad bin Hambal. It is largely followed by Muslims in Saudi Arabia and parts of the western world. Therefore, the Islamic Bank’s instruments of both countries were distinguished in practice due to difference in school of thought which will be described as in table6.1.\(^7\)

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<tr>
<th>Item</th>
<th>Saudi Arabia</th>
<th>Thailand</th>
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<tr>
<td>Personal (cash) finance</td>
<td>Tawarruq</td>
<td>Bai-inah</td>
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<td>Car finance</td>
<td>Ijarah Waigtina</td>
<td>Ijarah Waigtina</td>
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<td>House finance</td>
<td>Murabahah</td>
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<tr>
<td>Credit Card</td>
<td>Tawarruq+Wadiyah</td>
<td>Bai-inah+Wadiyah</td>
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Apart from car finance where Ijarah Waigtina mode of finance is used by both countries, there is no similarity in practice by Islamic Banks for personal, house and credit card finance in both countries. Where Tawarruq and Wadiyah mode of finance is used in Personal as well as credit card financing by Saudi Arabia, Thailand Islamic Bank adopted


Bai-Inah and Wadiyah. Likewise Thailand’s Islamic Bank uses Murabahah and Bai-inah for housing finance instead Saudi Islamic Bank practices Murabahah and Ijarah for the same.

**Tawarruq (Tripartite Sale)**

Tawarruq is a sale of an asset to a purchaser with deferred payment. The purchaser then sells the asset to the third party on cash with a price lesser than the deferred price, for the purpose of getting cash. This transaction is called Tawarruq, because when the purchaser bought the asset with deferred payment, he has no intention of using or getting benefit from it, but merely to facilitate him to obtain cash (Waraqah maliyyah).

Tawarruq is another financing product that is cited as a classic case of Hiyal, or legal stratagem, but has been permitted by mainstream scholars under certain conditions. Tawarruq becomes a source of funds by combining two separate sale and purchase transactions. An individual in need of funds purchases a commodity on a deferred payment basis from a seller and then sells the same in the market in order to realize cash.

**Controversy**

Most of the Muslim scholars have cited the same authorities on the legality or permissibility of Tawarruq and bai’inah, looking into the similarities of both transactions. Only the Hambali scholars have stated the terminology of Tawarruq and deliberate it separately.

**Those Who Reject Tawarruq**

There is a view from Imam Ahmad ibn Hambal which states that Tawarruq is prohibited (Haram). Another view from Imam Muhammad bin Hasan al-Shaibani a Hanafi

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scholar held that Tawarruq is discouraged (Makruh).\textsuperscript{51} Imam Ibn Taimiyah has considered Tawarruq as an exceptional dealings which is permitted in the case of necessity (Dharurat), where the person is really in need of cash. The authorities used by those who reject Tawarruq are as follows:

Hadith of the Prophet PBUH:

“Meaning: “Ali has stated: Ibn Musa has said that this is what we have been told by Hushaim. The Prophet PBUH has said: A time is certainly coming to mankind when people will bite each other and a rich man will hold fast what he has in his possession (his property), though he was not commanded for that. Allah the Almighty said: (and do not forget liberality between yourselves), and then those who are forced will contract sale while the Prophet PBUH forbids forced contract, one which involves some uncertainty and the sale of fruit before it is ripe.”\textsuperscript{52}

Imam Ahmad ibn Hambal has envisaged that bai‘inah is allowed in the case of necessity when people are really in need of cash and the rich are reluctant to lend it to them. As such, the needy people who are in need of money will perform bai‘inah and Tawarruq. With the transactions, they will be getting cash by putting higher price on the deferred payment against the lower price in cash.\textsuperscript{53}

\textbf{Those Who Accept Tawarruq}

The majority of Muslim scholars including the Hambali school of thought, who have approved Tawarruq viewed that it is a permissible mode of transaction.\textsuperscript{54} Their view is supported by the following authorities:

i. Al-Quran

Meaning: “Allah has permitted sale and prohibited Riba”\textsuperscript{55}

\textsuperscript{51} Ibn al-Hummam, Fathal Qadir, vol.7, p.212.
\textsuperscript{52} Hadith narrated by Abu Daud
\textsuperscript{53}12 Shariahirulings, p.61.
\textsuperscript{54} The deduction that the majority of jurists have allowed tawarruq is affirmed by the Mawsu’ah al-Fighiyah, vol.14, p.147.
Based on the general understanding of the above verse, Tawarruq is also permitted as it is considered a sale transaction, which is allowed in the Shari'ah. Such a transaction may be exercised with the intention of getting cash with the knowledge of all the parties concerned or without the knowledge of the parties who have sold the object with deferred payment. This transaction may also be employed because of need and necessity or because it is an accepted mechanism of commercial dealing, which is normally, practiced in the society or institution.56

Ruling of Tawarruq

Scholars have permitted Tawarruq since it fulfills a genuine need - the need for funds. It is permitted as long as it does not violate the norms of Shari'ah. Hence, all care should be taken to ensure that it does not involve Riba. The first and foremost requirement is the involvement of a third party in the transactions. The client must sell the commodity in the market place to a third party. Otherwise, it would be a case of bai-al-einah. More important than this however, is the requirement that there must be a time gap between activities 3 and 4, i.e. between the sale by the bank to client and sale by the client in the market. This is in addition to the time gap between activities 2 and 3, i.e. between the purchase by the bank and its sale to client as in case of all permissible Murabaha. This time gap is essential to expose the parties to price risk and ensure that the gains from the transaction(s) are a reward for risk borne and hence, free from Riba. Another condition of a valid and permissible Tawarruq is the absence of any pre-arrangement between the three parties. You may recall here that under bai-al-einah, the market price of the commodity need not bear any relationship with the amount effectively borrowed. In Tawarruq too, the three parties involved.57

55 Surah Al-Baqarah:275
56 "12 Shari'ah rulings", p.61.
57 Mohammed Obaidullah, No.49, p.110.
The Recent Fatwa

Dr. Rafik Yunus al-Misri has stated that some of the Muslim scholars have approved the Tawarruq without any justification in details on its permissibility. In his view, the ruling of Tawarruq may vary depending on the following circumstances:

i. If all of the three parties involved have known that the main objective of the customer for entering the Tawarruq transaction is to obtain the cash money, then all of them are sinful.

ii. If two of the parties have known that the seller has used the transaction for getting the cash, both of them are sinful. However, if they do not know the real intention of the seller, then they are not sinful.

iii. A person is allowed to do Tawarruq in the case of necessity.

Tawarruq Model in Saudi Arabia’s bank

Tayseer Al-Ahli is a new Islamic financial instrument introduced by The National Commercial Bank for its customers that are in need for cash. The product involves buying a commodity from the International Market that is known for its non-fluctuated price and selling it to the customer (on a deferred payment basis and) then reselling it back to the International Market. This product is to cover the need of cash for a segment of The National Commercial Bank customers through an Islamic mechanism based on Al-Tawarruq (approved by the Convention of Islamic Fiqh in its fifth meeting at Makkah Al Mukarramah.) The terms of Tayseer Al-Ahli are the same credit terms of the different segments of the personal finance programs at The National Commercial Bank.

58 Dr. Rafik Yunus al-Misri, *Bai’ al-TaqsiTahli/ Fiqh iwalqisadi*, p.120.
59 www.alahli.com.sa
Bai Al I-nah (Same Item Same Repurchase)

_Bai inah_ refers to trading whereby the seller sells his assets to the buyer at an agreed selling price to be paid by the buyer at a later date. After that, the buyer immediately sells back the assets to the seller at a cash price, lower than the agreed selling price. According to the Muslim scholars, bai‘inah may be defined as follows:

I. Imam Shafii: “It is a credit purchase of an asset which is later sold to the original owner or a third party, whether at a deferred or spot, higher or lower price than the first contract, or for an exchange of goods.”

II. Al-Haskafi: “It is a deferred sale of an asset with a motive to generate profit. The debtor, then, resells the asset to the original seller at a lower price in order to settle his debt.”

III. Al-Rafi‘i: “It is a sale of an asset to someone with deferred price. The asset is delivered to the purchaser, but before the seller receives the first payment of price, he repurchases the asset at a lower cash price.”

Islamic banks in South East Asia have liberally used the mechanism of bai-al-einah for their financing activities. The mechanism allows banks to extend a loan without any kind of constraints. Interestingly, such financing is possible even when the client does not own any asset.

**Legal Status of Bai‘ Inah**

Generally, the Muslim scholars have different views on the legality of inah sale. The majority view that such a sale is forbidden. However, a group of the scholars are of the opinion that this sale is not contradictory to Shari‘ah principles.

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60 Imam Syafii, al-Um, v.3, Dar al-fikr, Beirut, p.79.
63 Mohammed Obaidullah, No.49, p.105.
Those Who Reject Bai’ ‘Inah

The first groups of scholars who reject bai’-inah are scholars of Imam Abu Hanifah’s school, Imam Malik and Imam Ahmad and some Shafi’i’s. They view that this kind of sale is forbidden. On the other hand, the second group of scholars, among others Imam Shafi, Abu Yusuf and some Shafiites are of the opinion that this sale is legal and permissible.

There are a few hadith that indicate the prohibition of bai’-inah:

First hadith

Meaning:
“If you sell and purchase based on ‘inah, and you cultivate, and you are satisfied with the cultivation, and you ignore the duty to do jihad, Allah SW T will curse you and He will not remove the spell until you return to your religion”.

Second hadith

Meaning:
Narrated from Ibn Umar (as reported by al-A’masy bin Abi Rabah) as he was saying: “If the people count every single dinar and dirham, and sell and purchase based on ‘inah, and cultivate the land, and abandon the duty of jihad for the sake of Allah SWT, Allah SWT will befall misfortune on them, and will not remove it from them until they return to their religion.”

Those Who Accept Bai’ ‘Inah

The second group of Muslim scholars, which consists of Imam Shafi, Abu Yusuf, Abu Daud, and Abu Thur, including a report from Ibn Umar are of the view that this contract of sale is not contrary to Shari’ah principles, thus, it is allowed. They argument, among others, is that the Hadith relied on by the first group, as narrated from Saidatina Aisha above is weak in terms of its sanad (transmission). This is because of one of the narrators of the Hadith named al-‘Ali abintiAnfa’ is unknown (Majhulah). Al-Dar Qutni regards her as an unknown figure, thus, the Hadith cannot be a proof.

\[64\] Al-Syawkani, NaillAwitar, v5, p.294, al-ribawa al-Qard, p.60.
\[65\] Reported by Abu Daud
\[66\] Reported by Imam Ahmad
\[67\] 12 Shariah rulings, p.66.
Imam Shafi’i says, in his book al-Umm, as following:

“If we are going to assume that someone’s sale and purchase contract is forbidden whereas he believes that the contract is permissible, we are not allowed to judge his past good deeds as have been wiped off by Allah SWT.”

Some of the Muslim scholars indicate that there are 24 kinds of bai ‘inah. Among the permissible bai ‘inah are:

i. A sale which is followed by a subsequent sale but without any intention to have ‘inah arrangement.

ii. ‘Inah that involves two contracts of sale in which the price of each contract (either cash or deferred) is similar to the other.

iii. ‘Inah which is concluded on an asset with a gap of time between the two contracts, the purchase and sale contracts.

iv. ‘Inah which is concluded on an asset which has changed in certain aspect.

Islamic Bank of Thailand used bond property for asset to sell and purchase in Bai inah system with almost all of financing of Islamic Bank of Thailand are used Bai inah model, it is distinguished from Islamic Bank of Saudi Arabia which almost used Tawarruq for their financing. Otherwise, it depends on a Fiqh school (Mazhab) which both countries are following.

Credit Card System

Credit card refers to a card that facilitates the cardholder to purchase goods and services as well as to withdraw cash based on the agreed terms and conditions specified in the contracts between the cardholder and card issuer. The card holders allowed to pay the purchase transaction based on credit as an alternative method of payment apart from payment by cash or by cheque. In order to ensure that Islamic credit card is used according to

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68 Imam Syafi’i, al-Umm, v.3, pp.68-69.
69 Islamic Bank of Thailand, p.67.
Shari'ah requirements, various guidelines on the usage of Islamic credit card need to be established.  

Similarly, in the case differences of instrument between Tawarruq and Bai' inah, therefore Saudi Arabia uses Tawarruq whereas Thailand uses Bai' inah for Credit Card system. But in Thailand its procedures are still under process, and there is no Islamic Credit Card as such. There is only ATM Cards available.  

A Tawarruq-Based Credit Card (Saudi Arabia)

The mechanism begins with the bank advancing a certain amount of funds to the customer under Tawarruq. The bank then creates under Wadiyah principle a guaranteed deposit account for the customer of the safe custody of the amount. Now the customer can use his card for retail purchases and cash withdrawals just like a conventional credit card except that the cash held in his Wadiyah account now backs each transaction. At the end of every month, the value of total transactions by the customer is computed. A fresh Tawarruq for this value is undertaken to replenish the deposit account. Needless to say, this card is essentially similar to the Bank Islam Card with the replacement of Bai' inah by Tawarruq.  

A Credit Card Based on Bai' al-Einah (Thailand)

There was a proposal from an Islamic financial institution to offer Islamic credit card based on two Shari'ah concepts, namely Bai' inah (to raise fund for the purpose of providing credit facility to customers) and Wadiyah (to provide custody services for the fund raised under the Bai' inah contract). Under this credit card product mechanism, the Islamic financial institution will sell an asset at a nominal value plus profit to the customer with deferred
payment terms of three years. Subsequently, the customer will sell back the same asset to the Islamic financial institution at a nominal value and payable on cash basis. The sale proceeds will be credited into Wadiyah account in the Islamic financial institution to facilitate the purchases of goods or services by the customer. Both sale and purchase transactions will be consecutively executed in two separate and independent contracts.\textsuperscript{72}

**Areas of Application**

A survey of the above controversial mechanisms in use at various Islamic Banks across the globe reveals the following major areas of application.

1. Bai-al-einah is being used to provide short-term working capital financing and short-term personal finance.

2. Bai-al-einah is being used in structuring credit cards.

3. Bai-al-dayn is being used for discounting bills of exchange as a means of working capital finance, for factoring and financing of imports and exports.

4. Tawarruq is being used to provide short-term finance to meet working capital and other short-term requirements.

5. Tawarruq is being used in structuring credit cards.\textsuperscript{73}

**Differences between a conventional credit card and Bank Islam Card:**

**Profit Calculation:** For BIC, the profit is calculated on monthly basis based on outstanding due or total transaction made for that particular month. This profit is not compounded as compared to conventional card where the interest is compounded. The total monthly profit could not be more than the total profit earned by the end of the contract, as it

\textsuperscript{72}Securities Commission, No.69, p.148.

\textsuperscript{73}Mohammed Obaidullah, No.49, p.112.
was determined upfront during the “Akkad”. The cardholder will be able to know the maximum profits which will be imposed within the contract period while the conventional credit card interest charged is undetermined.74

**Bai Dyn (Debt Trade)**

This is the main subject on which Islamic Bank of Saudi Arabia and Thailand Islamic Banks are differing. They are not unanimous in the permissible of bai dyn. Saudi Arabia is not allowing bai dyn in Islamic Bank because when the debt sells to third party with difference in price, the gain is not profit but interest. However, Islamic Bank of Thailand allows bai dyn because it is based on the document of debt as any physical asset then it can be traded. The *bai’d an* principle has always been a point of contention among past and present Islamic jurists. However, they differs opinion to allow debt sale or to prohibit it.

**Sale of Bill of Exchange**

At Present, this is the form of Bai dyn (Debt Trade). A bill of exchange originates with a sale or purchase. The seller draws a bill of exchange asking the buyer to pay a certain amount (value of purchase plus interest) after a certain time period called maturity. When the buyer “accepts” the bill of exchange, it becomes a valid financial instrument that can be traded in the market. The seller now has two options. One, he may wait till maturity and realize the full maturity value – value of his sale plus interest for the maturity period. In this case the seller finances the working capital requirement of the buyer. Two, he may go to the market - a commercial bank and sell the instrument at a discount to the maturity value.75

**Opinions of Islamic Jurists**

The Hanafi Mazhab looked at *bai’d an* from the aspects of potential risks to the buyer, debtor, and the nature of the debt itself. They were unanimous in not permitting this

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74 www.bankislam.com.my
75 Mohammed Obaidullah, No.49, p.107.
instrument because the risks cannot be overcome in the context of debt selling. The debt is in the form of *mal hukmi* (intangible assets) and the debt buyer takes on a great risk because he cannot own the item bought and the seller cannot deliver the item sold.\(^{76}\)

The Shafi'i *Madhab* was of the opinion that selling the debt to a third party was allowed if the *dayn* was *musta'ajir* (guaranteed)\(^ {77}\) and was sold in exchange for *'ayn* (goods) that must be delivered immediately. When the debt was sold, it should be paid in cash or tangible assets as agreed. They essentially treat debt as any other physical asset that can be traded at a negotiated price (discount price) with no interest and there is no issue of non-delivery of object of the contract as the sold debt is already in the possession of the creditor (document holder).\(^ {78}\)

**6.18 Distinguishing Products of Saudi Arabia**

Islamic bank of Saudi Arabia has special products to offer and provide services to their customer which Islamic Bank of Thailand not ready to provide due to many factors, such as the rule is not comprehensive, lack of experience, shortage of government support and existence in the future planning. Therefore, these productions are available only in Saudi Arabian Islamic Bank as follow:

1) Ladies Account or Ladies Bank
2) Takaful (Insurance)
3) Stock Market Exchange Services
4) IBAN
5) Credit Card

- **Ladies Account or Ladies Bank**

Bank is pleased to welcome Ladies to its special branches that are equipped specifically to serve and provide with the best banking services. When ladies customer come


\(^{77}\) Al-Syirazi, *Al-Muhazzab*, (Beirut: Dar a-Fikr), vol.1, p.262.

\(^{78}\) Mohammed Obaidullah, No.49, p.107.
to Ladies Branches, will be welcomed and served by fully trained, professional female banking staff eager to assist with all customer banking needs. Whatever banking transactions require, the highly qualified female staff will take care of them quickly and efficiently and in complete privacy and confidentiality. If customer wishes to open an account with us, you can do so easily. It is not requiring the guarantee of a sponsor, nor does bank demand that maintain a minimum balance limit. As a special token of esteem, that makes it possible for customer to receive all of customer bank mail through customer account so customer will be able to read and review it in complete privacy. Ladies Branches are the most modern banking facilities. highly qualified women professionals and the best service standards possible. It look forward to welcoming ladies customer as honored customer.79

- Takaful

Takaful concept refers to cooperation among a group of individuals to mutually guarantee and aid each other in order to meet certain needs as agreed amongst them, such as, providing compensation for a particular loss or any other kind of financial needs. Such cooperation involves contribution of money based on tabarru’ concept (voluntary contribution) by all Takaful participants. A specific fund will be established as the source of monetary assistance to any participant in accordance with the terms and conditions as agreed amongst them. In line with the concept of mutual assistance (ta’awun) and the need of the Muslims to have a Shari’ah compliant alternative to the conventional insurance, the Takaful industry has developed rapidly into a viable industry that is integrated into the main stream of the national financial system. This is the one special production to prefer the Saudi’s customer, the bank is not service only the Islamic bank activities but even Insurance also.80 It can be divided as follows:

79 www.Riyadbank.com
80 Securities Commission, No.69, p.62.
- Family Takaful Plan
- Auto Takaful Plan
- Auto Takaful Comprehensive Plan
- Personal Accident Takaful

The essence of Takaful focuses on the Islamic principle of cooperation between members of the community who participate in bearing the financial repercussions resulting from the risks and dangers that await us in life. And this is done according to a solidarity program that is compliant with Shari’ah laws and approved by the Al Rajhi Takaful Shari’ah Committee. Takaful Plans offer you a full range of services, products and solutions, addressing your needs and providing you with efficient support from our dedicated team of experts and insurers. These Plans will fulfill your requirements according to Takaful principles and will enable you to take care of your loved ones in case of any unexpected and unforeseen accidents (God forbid).\(^1\)

- **Stock Market Exchange Services**

Tadawul (Saudi Stock Exchange). Stock trading represents one of the most popular investment opportunities in the Kingdom of Saudi Arabia. Bank has a brokerage division, which is equipped with state-of-the-art IT systems and well-trained staff. Through Brokerage’s numerous access channels, Bank welcomes all customers to trade in Saudi and major international stock exchanges. The Bank Brokerage’s Investment Centers’ network is one of the widest in the Kingdom. Inside the well-equipped and comfortable lounges, customers can enjoy the trading sessions, placing their orders and having a full range of personalized brokerage services.\(^2\)

\(^1\) www.airajhibank.com  
\(^2\) www.airajhibank.com
Trading Channels offer you a number of modern, flexible, and user-friendly share trading channels. Designed to meet various trading needs, these channels include:

**Internet Trading:** It provides customer with access to local share prices, and allows you to initiate buy/sell transactions, adjust or cancel orders, from anywhere inside or outside Saudi Arabia without having to visit the trading floor.

**Over the Phone Trading:** Bank offers customer to share trading service over the phone. Simply, you can directly call our Local Share Central Trading Unit where one of professional team of dealers will promptly process client orders and update client on the latest market developments.

**Dedicated Trading Rooms:** Bank offers you another practical trading solution through dedicated trading rooms in all branches. You can access real time stock market information through large screens connected to the Saudi Share Trading System, Tadawul, and initiate transactions. Each of Bank branches has special fully equipped luxurious rooms for up-scale customers making trading a uniquely enjoyable experience. The branches also include women dedicated rooms with all banking services.\(^8\)

For customers who wish to diversify their investment risks internationally and to gain maximum returns through direct trading in major financial markets of the world, Bank offers the GCC and International Shares service. This service allows customers to buy and sell stocks in all major global stock exchanges, including the GCC through Phone and Internet Trading. It provides a customer distinct brokerage services in multiple markets locally, regionally and internationally, covering the following markets:

- Saudi Stock Exchange
- Dubai Financial Market
- Abu Dhabi Securities Market

\(^8\) [www.bankalbilad.com](http://www.bankalbilad.com).
• Doha Financial Market
• Egypt Market
• Kuwait Stock Exchange
• Muscat Securities Market

• **IBAN (The International Bank Account Number)**

The International Bank Account Number (IBAN) provides a mechanism for introducing a common account numbering standard in the Kingdom of Saudi Arabia and internationally. It involves the inclusion of additional characters before the basic account number enabling the validation of customer account numbers by other banks and customers with benefits accruing for both domestic and cross-border payments. The IBAN helps the Straight-Through-Processing (STP) of payments between banks by enabling the correct identification of a Beneficiary's bank account. The IBAN provides the facility for the sending bank and/or the remitter to perform a validity check of the Beneficiary's account number at another bank.

• **Credit Card**

Islamic bank of Saudi Arabia offers Credit Card for customers who used Tawarruq and Wadiyah concept it is different from Thailand. Islamic bank of Thailand used Bai inah and Wadiyah for credit card. However, it not ready to provide a credit card for customer they are still in preparation of procedure, but it has only ATM card.

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84 www.baj.com (Al-izrah bank website)
85 www.airajhibank.com
### 6.19 Network Branches

**Table 6.2: Bank Branches Operation in Saudi Arabia**

<table>
<thead>
<tr>
<th>Bank</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Al-Rajhi</td>
<td>403</td>
<td>425</td>
<td>442</td>
<td>451</td>
<td>455</td>
</tr>
<tr>
<td>2. Samba financial group</td>
<td>65</td>
<td>65</td>
<td>67</td>
<td>68</td>
<td>69</td>
</tr>
<tr>
<td>3. Al-Bilad</td>
<td>60</td>
<td>61</td>
<td>67</td>
<td>75</td>
<td>82</td>
</tr>
<tr>
<td>4. The National Commercial bank</td>
<td>266</td>
<td>275</td>
<td>284</td>
<td>287</td>
<td>295</td>
</tr>
<tr>
<td>5. Riyadh bank</td>
<td>200</td>
<td>201</td>
<td>216</td>
<td>241</td>
<td>248</td>
</tr>
<tr>
<td>6. Banque Saudi Fransi</td>
<td>74</td>
<td>75</td>
<td>77</td>
<td>81</td>
<td>83</td>
</tr>
<tr>
<td>7. The Arab National Bank</td>
<td>123</td>
<td>131</td>
<td>139</td>
<td>139</td>
<td>142</td>
</tr>
<tr>
<td>8. Saudi British Bank</td>
<td>63</td>
<td>68</td>
<td>72</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>9. Bank Al-Jazira</td>
<td>24</td>
<td>24</td>
<td>48</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>10. Saudi Hollandi bank</td>
<td>42</td>
<td>43</td>
<td>42</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>11. Saudi Investment Bank</td>
<td>26</td>
<td>33</td>
<td>43</td>
<td>45</td>
<td>48</td>
</tr>
<tr>
<td>12. Alinma Bank</td>
<td>-</td>
<td>-</td>
<td>13</td>
<td>20</td>
<td>37</td>
</tr>
</tbody>
</table>


**Table 6.3: Bank Branches of Islamic Bank of Thailand**

<table>
<thead>
<tr>
<th>Islamic bank of Thailand</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<td></td>
<td>9</td>
<td>25</td>
<td>28</td>
<td>27</td>
<td>27</td>
<td>29</td>
<td>39</td>
<td>101</td>
</tr>
</tbody>
</table>

Sources: Annual Report 2004-2011

### 6.20 Financial Performance

**Table 6.4: Saudi Bank’s Net profit**

<table>
<thead>
<tr>
<th>Bank</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al-Rajhi</td>
<td>6525</td>
<td>6767</td>
<td>6771</td>
<td>7832</td>
</tr>
<tr>
<td>Samba Bank</td>
<td>4454</td>
<td>4560</td>
<td>4435</td>
<td>4662</td>
</tr>
<tr>
<td>Riyadh Bank</td>
<td>2639</td>
<td>3050</td>
<td>2825</td>
<td>3100</td>
</tr>
<tr>
<td>Banque Saudi Fransi</td>
<td>2804</td>
<td>2468</td>
<td>2801</td>
<td>3097</td>
</tr>
</tbody>
</table>
### Table 6.5: Islamic Bank of Thailand’s Net Profit

<table>
<thead>
<tr>
<th>Bank</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Bank of Thailand</td>
<td>2</td>
<td>355</td>
<td>1145</td>
<td>340</td>
</tr>
</tbody>
</table>

Sources: Annual Report 2008-2011

**Currencies Rate:** 1 Saudi Riyal = 7.84 Thai Baht (8/05/2013)

### 6.21 Financial Statement Analysis

Financial statement analysis can be referred as a process of understanding the risk and profitability of a company by analyzing reported financial info, especially annual and quarterly reports. Putting another way, financial statement analysis is a study about accounting ratios among various items included in the balance sheet. These ratios include asset utilization ratios, profitability ratios, leverage ratios, liquidity ratios, and valuation ratios. Moreover, financial statement analysis is a quantifying method for determining the past, current, and prospective performance of a company.  

There are various methods or techniques that are used in analyzing finance statements, such as

1. comparative statements
2. schedule of changes in working capital
3. common size percentages
4. fund analysis

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5. trend analysis
6. Ratio analysis

**Tools and Techniques of Financial Statement Analysis**

Following are the most important tools and techniques of financial statement analysis:

1. Horizontal and vertical analysis
2. Ratio analysis

1. **Horizontal Analysis or Trend Analysis:**

Comparison of two or more years financial data in known as horizontal analysis or trend analysis. Horizontal analysis is facilitated by showing changes between years in both dollar and percentage form.

**Trend Percentage:** Horizontal analysis of financial statements can also be carried out by computing trend percentages. Trend percentage states several year’s financial data in term of base year. The base year equal 100%, with all other years stated in some percentage of this base.

**Formula for calculating percentage Increase or Decrease is as follow:**

\[
\text{Increase or Decrease over 2009-2010} \times 100 = \%
\]

\[
\text{Absolute Figure of 2009}
\]

2. **Ratio Analyses**

Ratio analysis is a tool brought into play by individuals to carry out an evaluative analysis of information in the financial statements of a company. These ratios are calculated

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from current year figures and then compared to past years, other companies, the industry, and also the company to assess the performance of the company. Besides, ratio analysis is used predominantly by proponents of financial analysis.88

2.1 Return on Average Assets (ROAA): Return on Average Assets (ROAA) can be defined as an indicator used to evaluate the profitability of the assets of a firm. Putting it simple, this return on average assets indicates what a company can do with what it possesses. Generally, it is used by companies, banks and other financial institutions as an appraisal for determining their performance. Being calculated at period ends, i.e. quarters, years etc., the return on average assets does not reveal all the highs and lows. It is, rather, just an average of the period.89

Formula for calculating ROAA

\[
\text{ROAA} = \frac{\text{Net Income}}{\text{Total Average Assets}}
\]

2.2 The Return on Average Equity (ROAE): The return on average equity (ROAE) refers to the performance of a company over a financial year. This ratio is an adjusted version of the return of equity that measures the profitability of a company. The return on average equity, therefore, involves the denominator being computed as the summation of the equity value at the beginning and the closing of a year, divided by two.90

Formula for computing ROAE

\[
\text{ROAE} = \frac{\text{Net Income}}{\text{Avg Stockholders' Equity}}
\]

Table 6.6: Financial Statement Analysis

Between Al-Rajhi Bank, Saudi Arabia

And

Islamic Bank of Thailand, Thailand

2009-2010-2011

<table>
<thead>
<tr>
<th>Item</th>
<th>Al-Rajhi bank (Saudi Arabia) Million Saudi Riyal</th>
<th>Islamic bank of Thailand Million Baht</th>
<th>Comparative Study (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>170,729</td>
<td>184,840</td>
<td>220,813</td>
</tr>
<tr>
<td>Total liability</td>
<td>141,988</td>
<td>154,523</td>
<td>187,992</td>
</tr>
<tr>
<td>Total equity</td>
<td>28,740</td>
<td>30,317</td>
<td>32,821</td>
</tr>
<tr>
<td>Deposits</td>
<td>122,861</td>
<td>143,064</td>
<td>173,429</td>
</tr>
<tr>
<td>Net profit</td>
<td>6,767</td>
<td>6,770</td>
<td>7,378</td>
</tr>
<tr>
<td>Share profit</td>
<td>4.51</td>
<td>4.51</td>
<td>4.92</td>
</tr>
</tbody>
</table>

**Financial Ratio%**

| Rate of return on average total asset | 4.1  | 3.8  | 3.6  | 1.02 | 1.99  | 0.29  |
| Rate of return on average shareholder's equity | 27.1 | 25.3 | 23.4 | 10.7 | 16.2  | 3.17  |

Currencies Rate: 1 Saudi Riyal = 7.84 Thai Baht (8/05/2013)
It can be noted that Islamic bank of Thailand is growing up in any items in 2009-2010 due to the bank is in the developing stage and just established in 2003 it is rather new, every items is growing more than 100% for this year such as total asset, total liability and total equity etc. while the share profit of Islamic bank of Thailand is less even the net profit is largely increasing in 2009-2010, this is due to the fact that the Islamic financing is relatively new to the Thailand market and its business operation is in preliminary stage. When the profit of operation increase then the liability is increasing too due to the expense is increasing for the cost of distribution for many branches which spread to the whole region. However, the changes in 2010-2011 decrease less than 100% and some item as net profit and share profit is decreased (-70%) and (-58%) when we compare with year 2009-2010 because of the economic problem in Thailand.

When we compare with the largest Islamic banks in the world as Al-Rajhi Bank, this is definitely the stability of Islamic bank of Thailand is less than Al-Rajhi bank in any aspects because of the higher of experiences and a large of paid capitals and Total Asset (220,813 SR millions), it means that absolutely stronger of the financial stability which the bank emerged since 1988 more than 25 years. In the Table it has shown that though the changes in 2009-2010 and 2010-2011 of Al-Rajhi is increasing around 8-15% it less than Islamic bank of Thailand but actually the Al-Rajhi’s share profit is very high more than Islamic bank of Thailand in 2011 (4.92: 0.062).

However, the Islamic bank of Thailand has an opportunity to develop its progress due to in Thailand there is only one Islamic bank and the Thai’s Muslims are ready to fulfill with their production but the important thing Islamic bank of Thailand must be solve these primary problems such as misunderstand and ambiguous of client’s thought for Islamic
principle, to improve the officer's acknowledgement in Islamic principle even Thai Buddhist officer, to distribute acknowledgement over the people in Thailand and the good policy of Thai government to manage Islamic bank in Thailand which the bank is state enterprise of Thailand.

This thrust of this chapter was has to make a comparison between Islamic banking in Saudi Arabia and Thailand in its various aspects. The analysis has revealed that there are similarities as well as differences in various ways. Due to differences of School of thought (Mazhab) in each country, the financial instruments have differences too. For example Islamic banks in Saudi Arabia apply Tawarruq's principle to provide financing for entrepreneur while Islamic banks in Thailand employ Bai-Inah's principle. Although, there are many differences in banking due to controversy in Mazhab but the important point for the all Islamic bank systems in the world must be in accordance with Islamic law (Shair'ah) which is directly from Al-Quran and Sunnah.

Further Islamic banking in Saudi Arabia has special products to offer services while Islamic bank in Thailand is not ready to provide their customer due to many factors such as Ladies Account or Ladies Bank, Takaful (Insurance), Stock Market Exchange Services, IBAN and Credit Card. However, this is the target plan of Islamic bank in Thailand to develop their products and find out new products to offer their customer as soon by exploring the possibility for Islamic bank of Thailand to grow its volume of activities and services.