

Islamic Finance
Lessons Learned & The Future
World Islamic Banking Conference
7 – 8 December 2009
Manama

Khalid Hamad
Executive Director – Banking Supervision
Central Bank of Bahrain

Why Islamic Banks were Affected the least

1. Existence of Shari'a Supervisory Boards and Shari'a compliance function
2. No direct financing but asset based/ backed
3. No trading of debt allowed
4. Islamic banks were not exposed to toxic assets (sub-prime, CDOs, etc..)
5. Several investments, including real estate, were funded by RIA or sukuk (risk borne by investors)
6. Large investments were made in their local markets
7. Constant profit margins during contract time except in Ijarah leading to less debt burden on borrowers
8. In case of default, no compounding of profit as in the case of conventional finance leading to less debt burden on borrowers

Lessons Learned on Financial Crisis

1. Better liquidity management
2. Reconsideration of investment banking business models (risk concentration, originate to sell, SPVs, non-core business etc..)
3. Necessity to organise business units that can generate stable income
4. Sustainable Growth: Growth based on prolonged development and profit making rather than profit making alone

Factors that will Affect Growth

1. Availability of more Shari'a resources
2. Flexibility in Shari'a interpretations without losing site of the Shari'a objectives
3. Standardization in contract documentation
4. Necessity of focusing on SMEs & venture capital projects (prolonged & social development)
5. The need for more regular sovereign sukuk
6. Adoption of AAOIFI, IFSB & IIFM standards
7. Availability of market liquidity
8. Improvements in the global economy

Thank You