

# The Contribution of Amana Bank in the Islamic Financial Industry in Sri Lanka

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**DOI: 10.47760/cognizance.2023.v03i06.014**

## **Abstract:**

Banks and financial institutions are playing spacious role in the financial sector, everywhere in contemporary world. There are many conventional banks and financial institutions as well in Sri Lanka and rest of the world to provide different kinds of financial services and products amongst people. Nevertheless, the financial services of them are for the most part with the base of Interest On the contrary, in accordance with Islamic Shariah, any kind of interest system in financial transactions has been completely prohibited. Consequently, it was very noteworthy to set up Islamic Financial Institution in the place of conventional banks and financial institutions for Muslims, on account of the financial system that they have which is based on the principles of Islamic Law and guided by Islamic Economics. In this manner, in the vital history of Sri Lankan financial sector, the establishment of Islamic financial institution initially occurred in 1997. At that moment, Amana Investments Limited, which is the pioneer Islamic financial Institution of the country, entered with the vision that, "World class Islamic financial solutions" in the market. Since the establishment of Amana, the attitudes of Sri Lankan Muslims on financial affairs have been step by step changing. Therefore, this study clears up the importance and effects of the establishment, the development, and Shariah basis financial services of Amana amongst Muslims in Sri Lanka. The especial gaze has been given to deeply discuss the Shariah - compliant products which are provided by Amana such as Mudaraba, Murabaha, Musharaka, Ijara vehicle leasing, Ijara equipment & machinery leasing, Home Musharaka, Property Musharaka, Musawwama, and Imaad minors investment. The following facts can be plainly pointed out by means of this study as below; Realization of the Importance and necessity of Islamic financial services has well increased among Muslims in Sri Lanka. Establishment of Amana is considered as a great replacement to the conventional Banks and financial institution for Sri Lankan Muslims. Financial services of Amana have been unceasingly expanded day by day amongst Muslims in Sri Lanka, Especially in Muslim dominated Areas, Amana offers diverse kinds of Shariah - compliant products instead of conventional financial service Moreover, this study is based on primary and secondary research methods. So, direct interviews, discussion with specific groups, observations and the system of resource references are to be followed. The Books on Islamic Banking and finance, together with Magazines, Journals, leaflets, Newspapers, related WebPages, and other related Documents are used to obtain secondary data to carry out this research properly.

**Keywords:** Establishment, Amana, Importance, Shariah – Compliant, Mudharabah.

## Introduction

Only conventional banks and financial institutions were seen in Sri Lanka under its banking and financial sector before the introduction of Islamic banking system in year 1997. However, Amana Bank, the leading Islamic financial institution in the country, was established with the name of Amana Investment Limited (AIL) in particular year with the principle of offering Shariah compliant financial products and services in financial market. Since that initiation, the bank is widely offering a range of Shariah compliant products and services to the clients with many branches all over the country.

The consequence of the establishment of this institution in the behaviours of Muslims' financial transactions which have strong associates with conventional banks and financial institutions for a very long period in Sri Lanka is considered in general as a real turning point in the history based on its lustrous vision to "Be a world class Islamic financial solutions provider." Many Muslims, who were in need of the bank for a long time to offer Shariah compliant products and services in a proper manner, got genuine opportunity by way of its establishment. As a result, they exposed their serious concern in opening and maintaining diverse investment accounts under Mudharabah system as well as in making use of other Shariah compliant products and services of Amana Investment Limited in due course on account of the awareness which they have in their minds in accordance with their strong Islamic belief to involve in interest free financial transactions and economic system.

In addition, there are some notable core values, which Amana investments limited have and promise in conjunction with their visions, can be stated below,

- To be a law abiding corporate citizens
- To be the provider of just and equitable financial solutions
- To be the leader in continuously building trust and credibility with all people
- To be the assistant to our customers and work more than their expectations
- To be the venue of resource to succeed through innovative products and services
- To be the supporters to our employees in their growth and well being

In this context, the realization of Muslims expectations for long in the direction of Shariah basis financial system in Sri Lanka, commenced to appear step by step in practical, with the foundation of Amana Investments limited in year 1997. It is notable to state at this stage that

the Influence of financial services of Amana, in the midst of Sri Lankan Muslims and their financial transactions in every part of the island, is gradually increasing at present situation.

### **Research Questions**

In order to achieve the objectives of the study, the following 02 research questions are developed by the researcher;

- What kinds of products and services offered by Amana Bank PLC in Sri Lanka for Muslims and non Muslim customers and how do they substantiate the Shariah compliant in those products and services?
- How does the Amana Bank PLC contribute to the development of Islamic Banking sector in Sri Lanka?

### **Objectives of the Study**

The main objectives of the study are as follows;

- To find out what are the products and services offered by Amana Bank PLC in Sri Lanka to Muslims and non Muslim customers and how do they substantiate the Shariah compliant in those products and services.
- To clarify the contribution of Amana Bank PLC in the development of Islamic Banking sector in Sri Lanka.

### **Methodology of the Study**

#### **Data collection**

This research is designed as qualitative method, and the contribution of Amana Bank in Islamic financial industry in Sri Lanka is taken for the study. Compliant with the selected topic, Primary and secondary data collection methods are very essential to carry out the research healthy and efficiently to survey the Amana bank and its role in the sector. Therefore, direct interviews with semi-structured questionnaire and the system of resource references are to be followed.

In this way, the direct interview and discussions held with the suitable personalities such as senior bank personalities of Amana bank, Shariah scholars, lawyers, Quazi Judges,

businessmen, other educated intellectual people and effective ordinary people, specially, who have the financial transactions with Islamic financial institutions as well as the conventional banks and non Islamic financial institutions in Sri Lanka, to gather valuable information related with research topic from them for the better productivity.

Based on the secondary data collection method, the necessary data were analyzed from the following resources;

- Annual Report of the Central Bank of Sri Lanka
- Annual Reports of Amana Bank Ltd
- Books and Manuscripts
- Magazines and Journals
- Appropriate Websites
- Audios, Videos and Broadcasts
- Shariah Standards

### **Data Analyzing**

For data analysis, descriptive analytical techniques such as column chart, pie chart, bar chart were used and for the data analysis the researcher applied Microsoft excel software package to analyze the primary essential data obtained from direct interview to accomplish the main objectives of the study.

### **Findings and Discussion**

#### **Shariah Compliant Businesses Operations of Amana**

Amana investment limited is the fore runner and the trend setter in the history of Islamic financial sector of Sri Lanka. Its establishment in the island came into the view, when Islamic financial sector in various parts of the world was swiftly becoming larger in the late 20<sup>th</sup> Century. At that time, the necessity of Islamic financial institutions, in the place of interest based financial transactions of conventional banks and financial institutions, was also plainly realized in Sri Lanka among the Muslims to obtain Shariah compliant financial services.

Accordingly, the commencement of these financial services in the market of Amana amidst Sri Lankan people was the memorable occasion in 1997. In the meantime, it is also the high expectation of the customers and scholars in the country that there is a main responsibility to

accomplish for Amana investments limited which cannot be ignored for the reason of the fact that they are the pioneer Islamic financial institution in Sri Lanka. So, they have to ensure Shariah compliance in their financial services and products, as well as, should provide their most excellent services to the customers in suitable manners.

In this way, in order to fulfil the above requirements, Amana investments limited have some particular council such as Shariah Supervisory Council, Regional Shariah councils, which include Eastern Province and Central Province, as well as an in-house full time Internal Shariah supervisor in their structure to make sure Shariah compliance in finance businesses and transactions which are in the market.

Accordingly, the above mentioned councils are working to assure as well as to convince its products and financial services offered in the market based on Islamic Shariah. Additionally, the announcement of this institution conveys that its financial services have been extended to the Muslims throughout the country as 100% Shariah-compliant, 100% interest free, 100% independent from interest based financial institutions, 100% socially responsible, 100% commitment to provide Islamic financial solutions, frequent Shariah compliance audits (done by qualified and independent Shariah scholars), monitoring of transactions for Shariah compliance by in-house Shariah supervisor, located in main cities of Sri Lanka, open and available to all members of the public, and expertise to understand and cater to your requests in a Shariah-compliant manner.

Meanwhile, the another firm assurance is also given by Amana investments limited to their customers, and the public those interested in making the financial involvements with their institution that “they do not finance businesses or transactions that have in the following matters which are pointed out here one after another as below;

- Alcohol or alcoholic products
- Pork and pork products
- Meats or meat products that are not Halal
- Tobacco and tobacco products
- Arms and armaments
- Gambling services and lotteries
- Activities that are harmful to human beings

- Activities that damage the environment
- Child labour”

### **Financial Products and Services**

Amana investment limited offers many kinds of Shariah - Compliant products and services to its clients since its establishment in the Sri Lankan Islamic financial industry. These products are offered through its branches, predominantly where Muslims are living densely in the island at present.

The followings can be unambiguously pointed out as the products of Amana,

- Mudharabah investment account
- Murabaha (cost – plus financing)
- Musharaka (partnership financing)
- Ijara vehicle leasing for unregistered and registered vehicles
- Ijara equipment & machinery leasing, Home Musharaka
- Property Musharaka, Musawwama (lump sum financing)
- Imaad Minors investment account

#### **I. Mudharabah Investment Account**

Amana investments limited offer Shariah-compliant Mudharabah investments accounts with the aspiration of assisting and directing the customers’ investment on Shariah basis. Mudharabah is an equity-based instrument where one party (Rabul Maal / Sahibul Maal) is the investor and the other (Mudharib) is the fund manager. The ratio of profit sharing is determined at the time of making the investment. In the context of this partnership, there is a proper business mechanism for both parties who play the roles as the investor as well as capital manager in this business.

Hence, the funds are invested by the customers who are these account holders, at the same time the needy management dexterities are provided by the capital manager. The profits generated out of the pools of investments, are divided into shares between the two parties in a manner, where the investor is rewarded for the risk that he or she bears, and the capital manager is compensated for his management skills.

Mean while, the context of in an unexpected incident of a loss, falling upon an investment, the profits distributed among the investors are to take place after the absorption of the whole amount of that loss by the pool of the capital investors of this institution.

As a Mudharabah, Amana investment limited plays an obligatory role as a trustee as well as an agent for the financial affairs of the investors, having investments accounts in this pioneer financial institution. Amana utilizes its infrastructure, contacts, competence, know-how and goodwill in a sagacious manner to gain the best yields by the privilege to make use of its investments. Furthermore, Amana will make use of the fund in order to finance only Syariah compliant and ethical business activities including local trading, imports, exports, leasing, housing and etc.

In the system of Mudharabah joint-venture profit sharing contract, there are two types of fund investment such as unrestricted and restricted investment systems. Under the unrestricted fund investment system, Mudharabah Muthlaqah is the applicable concept. In this concept, the rights and permissions are given to the entrepreneur or bank by the account holders to invest their funds in any manner the bank considers appropriate. In this context, there would not be any restrictions as to where, how and for what purpose the funds should be invested. Hence, the institution can commingle the funds with other source of funds and thus, is not violating the rule of two-tier Mudharabah directly.

Under the restricted fund investment system, Mudharabah Muqaiyadah is specified as the applicable concept. In this investment context, the investors impose restrictions as to where, how and for what purpose the funds are to be invested.

Examples of the restrictions are as follows:

- The funds from this account cannot be commingled with other funds.
- Investments in installment sales cannot be made without collateral.
- Investments cannot be made through a third party.

Meanwhile, there are six tenets of Mudharabah as follows;

- The owner of the capital (Sahibul Maal or Rabul Maal)
- Entrepreneur (Mudharib)
- Capital
- Project



- Pre - agreed profit sharing ratio
- The agreement ( Akad or Sighah or Ijab)

Being one of the tenets of Mudharabah, the Pre – agreed profit sharing ratio can be applied as a varying factor in discriminating the rates of returns from investments. The only condition is that, it has to be pre – agreed to avoid any dispute in the Mudharabah contract. In this regard, the investors shall be well informed of the basis of the proposed Pre – agreed sharing ratio which is based on the financial performance of the bank.

Besides, under this trustee – profit sharing partnership system in Amana investment limited, the institution has the facilities to open and maintain the types of Mudharabah accounts such as, 12 Month Mudharabah with Profit at Maturity, 12 Month Mudharabah with monthly Profit, 06 Month Mudharabah with Profit at Maturity, and Flexible Mudharabah with Bi-annual Profits<sup>1</sup> for the benefits of their customers .These accounts, which are practically in use, can now be properly handled in accordance with the capabilities of clients as below;

- a. **12 Month Mudharabah with Profits at Maturity:** The minimum amount of money that needs to open this investment account must be one hundred thousand (Rs 100,000) in Sri Lankan Rupees. In accordance with the profit sharing ratio, eighty percent of the profit will be granted by Amana to the investors as well as twenty percent will be retained by Amana. The profits are payable on maturity basis. Meanwhile, there is a specific condition for this Mudharabah account that no withdrawals of capital will be allowed for an interval of 12 months.
- b. **12 Month Mudharabah with monthly Profits:** The minimum investment amount should be one hundred thousand (Rs 100,000) in Sri Lankan Rupees to open this account. Appropriate to the profit sharing ratio seventy five percent of the profit will be granted by Amana to the investors, meanwhile twenty five percent will be preserved by Amana. The profits are payable at the end of each month on a specific condition that no withdrawals of capital will be permitted for a 12 month withheld period.
- c. **06 Month Mudharabah with Profits at Maturity:** The minimum investment amount that needs to start this investment account must be one hundred thousand (Rs 100,000) in Sri



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Lankan Rupees. In keeping with the profit sharing ratio, seventy five percent of the profit will be granted by Amana to the investors as well as twenty five percent will be preserved by Amana. The Profits are payable on maturity basis. Meanwhile, there is a specific condition for this Mudharabah account that no withdrawals of capital will be allowed for a length of 12 months time.

- d. **Flexible Mudharabah with Bi-annual Profits:** The minimum investment amount that needs to begin this account should be Five Thousand (Rs 5,000) in Sri Lankan Rupees. According to this Mudharabah account, forty five percent of the profit will be granted by Amana to the investors and fifty five percent will be retained by Amana in the profit sharing ratio. The profits are payable bi-annually (June & December in each year) on the specific condition that only 4 withdrawals will be permitted for the 12 months period.

## II. Murabaha (Cost-plus Financing)

Murabaha is being offered by Amana investments limited as one of the Shariah compliant products to provide its benefits to the customers who are attempting to keep their involvements with this investment limited. Murabahah is defined as either cash or deferred payment sale at cost plus mark-up. It then will create an asset either in cash or Murabahah receivable. Apart from the creation of an asset as a result of this transaction, it generates revenue and gain as well as incurs expenses and losses that are attributable to the asset.<sup>2</sup> The basic principle of Murabaha is that the seller must disclose the actual cost he has incurred in acquiring the commodity and his profit mark – up thereon. The profit may be a specified amount or be based on percentage.

Meanwhile, a contract of Murabahah must have all the following essentials;

- Seller Party
- Buyer Party
- Merchandise or Commodity
- Price
- Offer and acceptance

In addition to these essentials, a contract of Murabaha has to meet the following terms and conditions.

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- Both the seller and buyer parties must have the capacities to establish a contract.
  - The merchandise or commodity must be permissible or Halal in nature.
  - The cost of the merchandise or commodity must be revealed as a basis to determine on price to be agreed by the parties to the contract.
  - The seller party must obtain rightful ownership of the merchandise or commodity prior to its sale.
  - Appointment of an agency or Wakala to transact the trade transaction is allowable.
  - The contract can be revoked if the price is not in accordance with what is duly agreed in the transaction.
  - The large numbers of Islamic banks and financial institutions in the world have Murabaha to handle as a convenient mode of Islamic finance. This Murabaha system can be utilized as a way of finance for almost any pattern of asset– backed financing that includes trade finance, import and export, as well as vehicle financing etc. Besides, Murabaha financing also consents for the payments on deferred tenors. In such case, the profit mark up may differ in accordance with the nature of the transaction.

Further still, there is a very key point to keep in view that Murabaha is not a loan given on interest but it is the sale of a commodity; therefore it has to fulfill all conditions necessary for a valid Islamic sale. Although there are many rules regarding the contract of sale, the following 3 rules are most important to make a sale valid.

1. The goods must exist at the time of sale
2. The goods must be in the ownership of the seller at the time of the sale.
3. The goods must be in physical or constructive possession of the seller at the time of sale.

Besides, it is very noteworthy to bring out the observation that financing by way of Murabaha is only acceptable; if there is no “Buy Back” arrangement as such arrangement is commonly used as a contrivance to acquire interest. On the contrary, Interest is not allowed by Islamic Syariah in any kind of business and financial transactions.

Allah, the Almighty, Reveals in the Holy Qur’an

“Allah will deprive usury of all blessing, but will give increase for deeds of charity; For He loveth not any ungrateful and wicked”

On that account, Amana firstly purchases the goods, has constructive ownership and afterwards sells to its customer in accordance with Syariah compliant basis.

Another notable matter is also to consider in this Murabaha financing system. Here, the most important principle of the transaction is which the commodity must continue to be at Amana's risk after buying from the supplier and ahead of the second sale to the customer. At the same time, the customer is asked to hand over sufficient security/collateral to cover Amana's exposure on the customer.

The following matters also make clear with regard to the salient features of Murabaha (cost - plus financing);

- Asset – based financing
- Transparent fixed pricing
- Amana takes full ownership risk between buying & selling goods
- Shariah compliant
- No hidden costs
- No processing fees
- No interest rate fluctuation risk

### **III. Musharaka (Partnership Financing)**

Musharaka (partnership financing) is another Syariah compliant product offered by Amana investments limited in their business operations. The word “Musharaka” literally means sharing. In the context of business it means a joint venture in which all partners share the profit and loss of the joint venture. Musharaka is an ideal alternative to interest based financing with positive and far reaching effects on production and distribution.”

There is the common presumption concerning Musharaka that, “it is a contract for initiating a joint venture right from its inception and to continue right up to the end of the business venture, but in fact, it is a versatile instrument which can be and is being applied in a wide variety of forms of all over the world. Musharaka is used today to finance “going concern” where partners may join and leave without adversely affecting the continuity of the business. The concept of Musharaka is based on some principles and so far as these principles are not violated, the form and procedure of Musharaka can take any shape.”

Compliant with the management system applicable to Musharaka financing, the following matters can here be clearly pointed out that in the normal principle of Musharaka, each one of the partners possesses a right to have a share in the case of management as well as to work for it. In any way, the management of the Musharaka project may be administered by all of the partners or by just one partner. At the same time, in the structure of a Musharaka financing, Amana investments limited have 60% of the ownership while 40% of the ownership will be to the customer or partner.

Likewise, finance using the structure of the Musharaka is available to exporters who require pre – shipment finance (packing credit) and post – shipment finance (export bill negotiation) under export letters of credit. Musharaka financing is also available for imports, local trading, working capital financing, real estate, etc., on a selective basis. Meanwhile the security can be taken in a Musharaka transaction but shall be only enforced in circumstances involved fraud, negligence or mismanagement by the managing partner.

The principles set by Shariah for a Musharaka transaction are as follows:

1. All rules for a valid mutual contract should be observed. E.g. the parties should be capable of entering into a contract; the contract should take place with the free consent of the parties without any duress etc....
2. The proportion of profit to be distributed between the partners must be agreed upon at the time of entering the contract.
3. The ratio of profit must be determined in proportion to the actual profit earned and not in relation to the capital invested by a partner.
4. It is not allowed to pay a fixed lump sum profit amount to any of the partners or any rate of profit linked to the amount of the investment made by a partner.
5. The ratio of profit may differ from the ratio of capital contribution provided the partner who has put an express condition that he will not work does not receive more than his ratio of capital contribution. This is the view of Imam Abu Haniffa (R.A) and is in accordance with the AAOIFI Syariah standards.
6. Losses shall be shared in the exact proportion of the capital contribution of each partner.

#### IV. Ijara Leasing System in Amana Investment Limited

Ijara is a leasing system offered by Islamic financial institutions and Islamic banking windows has two types of product as follows;

1. Operating Ijara: This type of leasing system does not finish up with the transfer of ownership of the leased asset to the leaseholder.
2. Ijara Munthahia Bithamleek: This type of leasing arrangement ends up with the transfer of ownership of leased property to the leaseholder. The officially permitted or legal title of ownership to the property passes automatically to the leaseholder on the base of a new agreement at the end of the let out term.

Meanwhile, in the context of Ijarah leasing contract there are some elements which are very important features of this product as follows;

- Lesser
- Lessee or leaseholder
- The service transferred
- Rental amount
- Offer and acceptance

At the same time the questions that may arise in the use of Ijarah contract are:

Is an Ijarah concept contingent on a future event? And how could we view its permissibility?

There are two views on this issue:

- The majority of Faquha ruled that it is not contingent on future event.
- Imam Ibnu Taimiyyah and Ibnu AI - Jawzeiyah ruled that it is permissible

In Amana investment limited, Ijara vehicle leasing is offered as one of their Syariah base products and it conveys a fresh meaning to vehicle leasing. In this leasing system, the following activities are mainly accomplished as below;

- The vehicle purchasing for the customer's choice will here be performed by Amana.
- Amana will comprehensively insure for vehicle.
- Amana will let the vehicle to the usage of the customer over the lease period.
- The expenditure of any major repairs, leaving out the routine maintenance, will be properly picked up by Amana.

- The vehicle will be given as a gift to the customer at the end of the lease period, if the customer has paid all the lease rentals on the due date.

In this manner, more risk is taken up by Amana investments limited than by the customer does, whilst the customer make use of the advantages of Amana's lease.

The key features and benefits of the vehicle leasing system of Amana are along these lines;

- New and unregistered reconditioned vehicles.
- Up to hundred percentage (100%) financing.
- Competitive and fixed lease rentals.
- Absolutely interest – free and Syariah compliant.
- Maximum five years repayment.
- No security deposits or down – payments.
- Comprehensive Takaful insurance.
- All major repairs on the account of Amana.
- Vehicle gifted to the customer at the end of lease without any extra cost.

The following documents, which are required by Amana to start an Ijara vehicle leasing account, must be submitted as given below;

- Photo copy of the customer's Identity card.
- Latest salary slip and employer's confirmation letter or audited financial statement of the customer's business.
- Bank statements for the past six months.
- Income tax returns for the past three years.

## **V. Ijara Equipment & Machinery Leasing**

Ijara equipment & machinery leasing offered by Amana investments limited convey a fresh meaning to this type of leasing system. The actions stated below are essentially completed in this leasing system;

- The equipment & machinery purchasing for the customer's choice will here be performed by Amana.
- Amana will comprehensively insure for equipment & machinery.

- Amana will let the equipment & machinery to the usage of the customer over the lease period.
- The expenditure of any major repairs, leaving out the routine maintenance, will be properly picked up by Amana.
- The equipment & machinery will be given as a gift to the customer at the end of the lease period, if the customer has paid all the lease rentals on the due date.

In this manner, more risk is taken up by Amana investments limited in system this equipment & machinery leasing by the customer does, whilst the customer make use of the advantages of Amana's lease.

The Key features and benefits of this Equipment & Machinery leasing of Amana are as follows;

- Up to hundred percentage (100%) financing.
- Competitive and fixed lease rentals.
- Absolutely interest – free and Syariah compliant.
- Maximum five years repayment.
- No security deposits or down – payments.
- Comprehensive Takaful insurance.
- All major repairs to the account of Amana.
- Equipment & machinery gifted to the customer at the end of lease without any extra cost.

The following documents, which are required to start an Ijara equipment & machinery leasing account, must be submitted as given below;

- Photo copy of the customer's Identity card.
- Latest salary slip and employer's confirmation letter or audited financial statement of the customer's business.
- Bank statements for past six months.
- Income tax returns for past three years.



## VI. Home Musharaka

In accordance with the home Musharaka financing of Amana, the customers do not pay an interest - bearing loan; on the contrary, in the system of this kind loan, the customer and Amana should agree here to become the co owners of the house. Consequently, the customer gets into a co - ownership agreement that sets up joint possession of the customer on the side of Amana. Besides, this agreement speaks out the rights as well as obligations of each party. Further, as part of the contract, the agreement is accepted by the customer to buy the portion of Amana in the house through the monthly payments which are affordable. These payments system will continuously be for an agreed period of time considered by both parties. In this context, the incremental acquisition of the customer in Amana's portion will finally be the way to him or her to obtain full ownership.

At the same time, the monthly payments which the customer settles will also contain a rental for the exclusive use as well as enjoyment of the customer entirely from the house. In total, these payments will make up a fixed monthly amount for the settlement that is competitive with, what the customer would pay under a conventional mortgage. "Amana's product, based on the principle of Diminishing Musharaka, is designed for house purchases as well as for the replacement of an existing conventional mortgage. In the case of a new house purchase, the customer's initial share of the ownership in the house is determined by the initial investment of the customer. For the eligible customers, the down payment may be just twenty percentages (20%) of the cost price of the house. The customer will start by owing twenty percentages (20%) and Amana will own eighty percentages (80%)."

In replacing an existing mortgage, a portion of the house will be purchased by Amana as well it will become a co – owner with the customer in this home Musharaka financing. For eligible customers, it can be provided by Amana that a replacement contract financing up to ninety five percentages (95%) of the estimated cost of the house. 'This would allow the customer to cash out some of the customer's equity and use it to improve the home of the customer, education of a child or other worthwhile purposes, whilst redeeming customer's self from Riba.

With a view to mitigating the unforeseen risk of willingly default, Amana may seek comfort by asking the customer to furnish suitable collateral for cover its Diminishing Musharaka exposure. Such collateral cover would normally include the house financed.

Meanwhile, the following documents required by Amana to set up a Home Musharaka financing account must be submitted by the beneficiary;

- Photo copy of the customer's Identity card.
- Latest salary slip and employer's confirmation letter or audited financial statement of the customer's business.
- Bank statements for past six months. Income tax returns for past three years.
- Title Deeds.
- Survey plans.
- Extracts.
- Letter from seller of the home.
- Ownership Certificate.
- Street line Certificate.
- Non Vesting Certificate.
- Assessment Notice.
- Tax payment receipt.

In the mean time, the following benefits are especially indicated in the house financing with Amana under its home Musharaka system;

- Up to ninety five percentages (95%) financing.
- Comprehensive Takaful Insurance coverage to protect the customer's house from a wide range of disasters throughout the financing period.
- Takaful mortgage plan to guarantee payment of any outstanding dues in the event of death and permanent total disability.
- Fixed and competitive mark – up on the facility putting the budget within the customer's reach.
- Hundred percentage (100%) rebate on rentals on prepayments.
- No penalty for premature settlement.
- No interest rate fluctuation risk.

- No processing fees.
- No security deposits.
- Fully transparent pricing, no hidden charges.
- Fully Shariah – compliant.

## VII. Property Musharaka

In the property Musharaka financing scheme, made available as one of Shariah compliant products of Amana, the customers do not pay an interest - bearing loan; on the contrary, in the place of that loan system, the customer and Amana should agree here to become the co owners of the property. Consequently, the customer gets into a co – ownership agreement that sets up joint possession of the customer on the side of Amana. Besides, this agreement speaks out the rights as well as obligations of each party.

Besides, as part of the contract, the agreement is accepted by the customer to buy the portion of Amana in the property through the monthly payments which are affordable. These payments system will continuously be in practice for an agreed period of time considered by both parties. In this context, the incremental acquisition of the customer in Amana’s portion will finally be the way to him or her to obtain full ownership.

At the same time, the monthly payments which the customer settles will also contain a rental for the exclusive use as well as enjoyment of the customer entirely with the property. In total, these payments will make up a fixed monthly amount for the settlement that is competitive with, what the customer would pay under a conventional mortgage. “Amana’s product, based on the principle of Diminishing Musharaka, is designed for property purchases as well as for the replacement of an existing conventional mortgage. In the case of a new property purchase, the customer’s initial share of the ownership in the property is determined by the initial investment of the customer. For the eligible customers, the down payment may be just twenty five percent (25%) of the cost price of the property. The customer will start by owing twenty five percent (25%) and Amana will own seventy five percent (75%).”

In replacing an existing mortgage, a portion of the property will be purchased by Amana as well it will become a co – owner with the customer in this property Musharaka financing. For eligible customers, it can be provided by Amana that a replacement contract financing up to

ninety percentages (90%) of the estimated cost of the property. ‘This would allow the customer to cash out some of the customer’s equity and use it for improvement the property of the customer, education of a child or other worthwhile purposes, whilst redeeming customer’s self from Riba.

With a view to mitigating the unforeseen risk of willing default, Amana may seek comfort by asking the customer to furnish suitable collateral for cover its Diminishing Musharaka exposure. Such collateral cover would normally include the property financed, and / or other property collateral.

Meanwhile, the following documents required by Amana to commence a Property Musharaka financing account, must be presented by the customer;

- Photo copy of the customer’s Identity card.
- Latest salary slip and employer’s confirmation letter or audited financial statement of the customer’s business.
- Bank statements for past six months. Income tax returns for past three years.
- Title Deeds.
- Survey plans.
- Extracts.
- Letter from seller of the home.
- Ownership Certificate.
- Street line Certificate.
- Non Vesting Certificate.
- Assessment Notice.
- Tax payment receipt.

The followings are especially indicated as the benefits of above system;

- Up to ninety percentages (90%) financing.
- Comprehensive Takaful Insurance coverage to protect the customer’s property from a wide range of disasters throughout the financing period.
- Takaful mortgage plan to guarantee payment of any outstanding dues in the event of death and permanent total disability.

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- Fixed and competitive mark – up on the facility that puts the budget within the customer’s reach.
  - Hundred percentage (100%) rebate on rentals on prepayments.
  - No penalty for premature settlement.
  - No interest rate fluctuation risk.
  - No processing fees.
  - No security deposits.
  - Fully transparent pricing, no hidden charges.
  - Fully Syariah – compliant.

### **VIII. Musawwama (lump sum financing)**

One more Shariah - compliant product being offered by Amana to its customer is the Musawwama lump sum financing. It is notably conducted as a simple sale transaction, where the articles of merchandise of the seller are disposed by him, without disclosing his costs. Besides, it is observable that, as a mode of financing, Musawwama is almost identical with Murabaha financing.

This product is offered by Amana in the situations, where the shipment has arrived, before the receipt of the shipping documents and a shipping guarantee has to be issued to clear the goods from the port. At that stage, there is hardness in condition to anticipate, in computing the precise cost of the articles of trade. Carrying out the Murabaha financing cannot here be possible. In this context, the Musawwama is the financing technique which concedes for disposing of the goods at a lump-sum price rate, making easy for the clearance of the goods from the port to the warehouse of customers.

Meanwhile, the adequate security / collateral must be normally provided by the customer to make up the exposure of Amana on the customer with respect to Musawwama financing.

The following prominent points make clear with respect to the salient features in Musawwama (lump sum financing);

- Asset based financing.
- Fixed pricing.
- Amana takes full ownership risk between buying and selling goods.

- No hidden costs.
- Shariah – compliant.
- No interest rate fluctuation and risk.
- No processing fees.

### **IX Imaad Minors Investments Account**

Amana has investment accounts called Imaad for minors. “It is a unique and flexible investment plan for children. These investment accounts are specially designed for customers’ children, nephews and nieces. At the same time, Imaad minors investments accounts are fully Syariah compliant. They are totally interest – free and can be opened in children’s names. It is very important that these children who have Imaad accounts must be below the age of maturity.”

Profit distribution system appropriate to this account is bi – annually in character. As it is, this will be shared in January and July of each year. Hence, the accumulated profit together with the capital invested may become larger up to the time of particular occurrence. On that stage, the child will be competent to operate the account on reaching adulthood.

The following fulfilments must be undertaken to commence this account properly;

- A copy of the birth certificate of the child.
- The signature of one parent / guardian.
- In Sri Lankan Rupees five thousand (Rs. 5,000) must be deposited as a minimum investment.

Thereafter, investments can be periodically made by the customer to credit into the account according to the own convenience and ability of the customers.

Consistent with Imaad investment account, while the eighty percent (80%) of the profit is granted by Amana to the investors, the balance twenty percent (20%) of profit will be retained by this respective investment limited. The profits are payable bi-annually and it will be shared in June and December of each year. Moreover, this investment account is based on the specific condition that no withdrawals will be permitted until the child reaches its sixteen years of age.

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## Conclusion

In conclusion, it is the duty of the researcher to bring up very important facts, which are very crucial to summarize, in the understanding of this research topic. As a result of Sri Lanka has comprised only around 09% Muslims under its total population and many of those Muslims have little knowledge and understanding regarding Islamic banking and finance, including the educated people, it would be a big task to develop the particular banking and finance industry in the country. Generally there are Muslim people in the country who are very favour to having the relationship with interest free banking and finance system in accordance with their religious faith. At the same time, there are still Muslim people in some areas where no any single branch of Islamic banks and financial institution to launch Shariah compliant financial dealings. Many Muslims who are living for many decades in these areas are having the financial links with only conventional banks and financial institutions for their financial needs.

In the case of Sri Lankan non Muslims, majority of them are not very familiar yet with Islamic banking and finance for their financial transactions. They are still maintaining their sturdy and long term relationship with experienced and prominent conventional banks and financial institutions. They have high opportunities to easily access and maintain their links with these conventional financial institutions for various financial transactions and services. At the same time, the numbers of them who reach Islamic financial institutions to meet their financial needs are gradually increasing. In this context, the research analyze the contribution of Amana bank limited and, its role in the Islamic banking and financial sector which rapidly growing day by day in the country.

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