pISSN 2073-8005
eISSN 2311-9438

Теории финансов /
Financial Theory

CONTROVERSIES OF ISLAMIC FINANCE*

Mikhail L. DOROFEEV [a,•],
Mikhail K. GRIBAN' [b]

[a] Financial University under Government of Russian Federation,
Moscow, Russian Federation
dorofeevml@yandex.ru
https://orcid.org/0000-0002-2829-9900

[b] Financial University under Government of Russian Federation,
Moscow, Russian Federation
griban17@yandex.ru
https://orcid.org/0000-0003-4162-6248

• Corresponding author

Article history:
Article No. 533/2020
Received 17 Sept 2020
Received in revised form
1 October 2020
Accepted 15 October 2020
Available online
30 March 2021

JEL classification: G10, G20, G21, G23, G32

Keywords: Islamic finance, discrepancy, Islamic economic model, financial institution, financial instruments

Abstract

Subject. The article focuses on discrepancies in Islamic finance, the construct of Islamic finance, its profit-generation mechanism, economic effects, unique nature and competition with traditional financial institutions.

Objectives. We analyze the Islamic economic model and perform the comparative analysis of Islamic and traditional financial instruments. We also investigate conflicting issues of Islamic finance.

Methods. The study involves methods of comparison, deduction, economic analysis and graphic interpretation.

Results. We analyze the Islamic economic model to point out some fundamental principles of the Islamic economy, and its strengths. The article overviews types of Islamic financial instruments, compares them with traditional finance. The practical part of the study compares annual financial statements of the Abu Dhabi Islamic Bank and Russia's Sberbank. We unfold the profit-generating mechanism of Islamic financial institutions and discover discrepancies in Islamic finance.

Conclusions and Relevance. Having compared Islamic and traditional finance, we revealed some similar and different aspects. We discovered discrepancies in Islamic finance that translate into the overall nature of the Islamic economy and the performance of the Islamic financial institution above. The findings can be used for further studies into Islamic finance and outlining Islamic banking development strategies at the governmental level. Furthermore, the findings may come in handy to professional and non-professional market actors for making investment decisions.

Please cite this article as: Dorofeev M.L., Griban' M.K. Controversies of Islamic Finance. *Digest Finance*, 2021, vol. 26, iss. 1, pp. 67–82.
https://doi.org/10.24891/df.26.1.67

Introduction

As the world economy is undergoing the COVID-19 crisis, many countries need alternative financial institutions, i.e. special financial organizations that do not charge interests on loans. The 2008 global crisis proves their reliability and resilience to external shocks. While traditional commercial banks' assets grew by 6.8 percent, alternative banks outperformed them and reached a 28.6 percent growth [1]. The majority of alternative financial institutions pertains to the Islamic type.

The Islamic economic model originated in the Middle Ages and improved over time. The model stems from the religious and ethical principles of the Muslims, with the denial of interests[1] being the primary reason, since they are forbidden by the Quran. So, the Islamic economy began engendering unique financial instruments that conform with the Sharia law.

R.I. Bekkin, the Russian scientist[2], made a great contribution to the Islamic finance studies. He devoted his fundamental research to theoretical and practical aspects of the Islamic economic model. The scientist conducted a thorough analysis of the Islamic economy and some of its institution, concluding that the Islamic business model of financial corporations might be a viable alternative.

L.R. Syukiyainen, the renown expert in the Islamic law, studied the Sharia, which underlies principles of the Islamic economy[3]. He holds that the Sharia principles permeate all aspects of the social life and socio-economic one in particular. G.M. Kerimov dedicated his proceedings to the Islamic law too [2]. He analyzed fundamental aspects of the Sharia, which regulate trade, finance, and the fiscal system.

The Russian expert in the Islamic banking A.Yu. Zhuravlev [3] examined distinctions of the Islamic banks and pointed out their difference from conventional financial institutions. His proceedings formulate conceptual principles of the Islamic economy as the cornerstone of the Islamic banking, unveil how the Islamic banks raises resources and invest monetary funds in assets.

In his paper on the Sharia business Sh.A. Shovkhalov [4] reviews theoretical principles of business and real-life cases of the Sharia deals. He pays much attention to the contractual framework of the Islamic business and describes distinctions of each contract, concluding that theoretical and practical business operations are not always congruent under the Sharia. However, the Islamic financial institutions can offer new opportunities to their customers.

The Islamic researcher I. Desai [5] unfolds what distinguishes the Islamic finance today and gives practical examples of the Islamic bank's operations, rules and distinctions of

[*] For source article please refer to: *Дорофеев М.Л., Грибань М.К.* Противоречия исламских финансов // Финансы и кредит. 2020. Т. 26. № 11. С. 2633–2654. URL: https://doi.org/10.24891/fc.26.11.2633

[1] *Koran* [Quran]. Moscow, Dilya Publ., 2016, 576 p.

[2] Bekkin R.I. *Islamskoe strakhovanie (Takaful). Osobennosti pravovogo regulirovaniya* [Islamic insurance (Takaful). The specifics of the legislative regulation]. Moscow, Sadra Publ., 2015, 170 p.

[3] Syukiyainen L.R. *Shariat i musul'mansko-pravovaya kul'tura* [The Shariah and Muslim legislative culture]. URL: http://www.worldislamlaw.ru/?p=343 (In Russ.)

financial instruments that are compliant with the Islamic law. His monograph focuses on new aspects, such as risk management, liquidity management in the Islamic banks, corporate governance under the Sharia, Islamic private mutual funds. As he opines, actively evolving today, Islamic financial institutions will spreas globally and account for a greater percentage of global finance.

According to R.I. Bekkin [6], the Islamic financial system is a set of methods and mechanisms for finance, which sustain the economic activity without violating basic principles of the Sharia. What distinguishes the Islamic banking from other types of financial intermediaries is that Islamic banks do not charge interests, being subject not only to market conditions, but also religious and ethical principals of the Islam. Islamic banks make profit without charging interests and use Islamic bank contracts (*Fig. 1*).

Islamic finance are not only of religious and ethic nature, but also pertain to the green economy [7]. In addition to the finance of green projects, the Islamic finance does not prioritize profit-making, but rather strives to ensure the wellbeing of the society and economy through some specific aspects of Islamic financial organizations' performance.

Many countries and Russia in particular contemplate the integration and development of the Islamic banking practices via autonomous organizations or Islamic windows so as to reinforce the national economy [8]. In 2015, the Russian law-making attempted to legitimize the Islamic banking, make respective legislative amendments and allow Islamic financial institutions work smoothly and legally, adhering to the Islamic finance principles[4]. The Islamic banking development bill was rejected by the Central Bank of Russia, since market agents and infrastructure are not prepared to such a novelty. There might be *bubbles* and risks of investors' expectations[5]. Consequently, regulators suggested market agents should offer specific products, which are unusual for the traditional financial systems and banking, in compliance with the effective laws. Obviously, the decision is an utmost contradiction to the development of the Islamic banking in the Russian Federation, inhibiting the evolution of the financial ecosystem. In the mean time, the national goal-setting process under the UN principles can make regulators revise their decisions on the Islamic banking. Unlike the classical banking system where market agents tend to increase their value and profit as much as possible, finance under religious and ethical principles is more socially responsible business. It may win the public and governmental support.

Until this happens, we observe Islamic financial institutions trying to diversify and improve their operations, and survive the uncomfortable legislative environment. They set to replicate financial instruments of traditional commercial banks, departing from their own principles gradually. On the one hand, Islamic banks need innovation, new financial production and technology in order to compete with traditional financial institutions. On the other hand, Islamic financial institutions gradually lose their idiosyncrasy and get more alike traditional banks working on slightly amended terms.

[4] *Islamskii banking v Rossii: khalyal'nye den'gi po zakonam shariata* [Islamic banking in Russia: Halal money under the Shariah laws]. URL: https://islamicbanks.ru/islamskiy-banking-v-rossii-halyalnye-dengi-po-zakonam-shariata/ (In Russ.)

[5] *V TsB otkazalis' forsirovat' islamskii banking* [The Central Bank refused to force Islamic banking]. URL: https://www.banki.ru/news/bankpress/?id=9749787 (In Russ.)

Hence, Islamic banking faces a contradiction, since there coexist unique and borrowed components, which jointly merge into an interest-free profit-making mechanism. Although Islamic entities can be financed by the Islamic Development Bank, Islamic banks usually receive most of its funds from their own operations.

Therefore, the modern substance of Islamic banking becomes the current agents. Is Islamic banking identical to traditional banking or unique? How does Islamic banks derive profit, if they do not charge interest? How do Islamic institutions influence the economy? Can they compete with traditional financial institutions? To answer the questions, we need to review the Islamic economic model and financial instruments of Islamic banks.

The Specifics of the Islamic Economic Model

The Islamic economic model adheres to the Sharia laws and includes some Islamic principles and economic metrics. It also analyzes how economic reforms are implemented in accordance with the principles and metrics. Market regulation principles and functions of money are fundamental indicators of any economic model. Islamic finance is subject not only to market economic patterns, but also religious norms enshrined in the Muslim sacred books [9]. This is embodied through the prohibition of usury, speculative practices, high uncertainty, market monopolization. The taboos protect the Islamic economy from financial bubbles [10], speculative games and contribute to the fair competitions and better social wellbeing.

As envisaged by traditional finance concepts, money is an item of goods with the utility and value. Profit is generated when interest is used in financial transactions. The Islamic economic model emphasizes money serves for exchange. Money has no inner utility and value, just being exchanged. Profit is generated when goods are exchanged for money. Therefore, the Islamic economic model views money not so significant as the traditional one does.

The Islamic economic model rests on some fundamental principles, which underlie the creation of the Islamic banking products[6].

- The *riba*, or the prohibition of usury, is a crucial principle holding that interests shall not be charged on loans. Due to the riba, the Islamic economic model does not provide for debt deals. Debt is viewed as financial aid, which should be returned, or as investment. Debt deals are replaced with similar interest-free ones. For example, as per the Islamic finance principles, car loan is treated as the purchase of a car, which is paid by installments and slightly overpaid.

- The principle of clarity and *gharar*, i.e. the prohibition of excess uncertainty, complement one another. Virtually, they mean that a contract engendering any disputes in the future does not meet the Islamic finance principles. Therefore, financial derivatives cannot be used, because they are unacceptable in the Islamic economy.

[6] Nuriev B.D. *Pravovye osnovy islamskoi modeli ekonomiki i bankovskogo dela* [Legal principles of the Islamic model of the economy and banking]. Moscow, YURAIT-Vostok Publ., 2020, 112 p.

- Profit and loss sharing emphasizes that any Islamic financial institutions acts as a partner and investor. As per the Islamic finance principles, a person may derive income only if he/she assumes any risks and responsibility for losses. So, Islamic financial institutions, *inter alia*, derive profit from their interests in the capital of the other individual or legal entity.

- *Zakat* is also an interesting principle[7]. It is a voluntary tax charged on the capital and paid for the poor. The Quran obliges to pay *Zakat*. Many Muslims do pay it and make contributions to Islamic financial institutions. Hence, *Zakat* may be considered as another source of their finance.

- Ethical principles, such as good faith, on the one hand, impose additional restrictions by prohibiting to sell alcohol and pork, but, on the other hand, encourage the performance of arrangements, transparency, integrity in trade relations, fairness. The principles underline that Islamic financial institutions should be viewed as reliable and trustworthy partners.

So, we conclude that the Islamic economic model emerged both as a result of multiple restrictions imposed on the traditional economic model, and a focus on ethics, clarity and partnership. As they cannot derive profit from interests and financial derivatives, Islamic financial institutions cooperate with the real economy (*Fig. 2*), acting as investors or partners, traders. However, they keep their reliability, quality and good reputations by adhering to the above principles. What distinguishes Islamic finance is that they prioritize a good choice of profit-making methods, rather than deriving higher profit.

However, the Islamic economic model should not be considered as a brand new and unique phenomenon. Traditional financial institutions can work with the real economy and act as investors, have interests in the capital too. Nevertheless, they handle a much greater variety of financial instruments. As Islamic banking spreads worldwide and Islamic windows are *opened* [11], the Islamic economic model comes across other models, borrowing some elements in order to become more competitive. Currently, trying to retain their customers and comply with the Sharia laws, Islamic banks tend to create banking and insurance products, which would be identical to traditional ones. To understand the current situation in Islamic finance, we need to analyze financial instruments of an Islamic bank.

Financial Instruments of Islamic Banks

Making financial transactions, Islamic banks act as investors, traders or lessors. Islamic banks' dealings relate to trade (*Murabaha*, *Salam*, *Istisna*), equity (*Musharaka*, *Mudaraba*) and lease (*Ijarah*) [12]. Islamic bonds (*Sukuk*) and Islamic insurance (*Takaful*) deserve a special mention. Most transactions rely on mechanisms of similar traditional transactions (*Table 1*).

All Islamic financial deals have some contractual aspects, the item to be sold, price and the possession. The Islamic economic model is ingrained in each element.

[7] Shovkhalov Sh.A. [Islamic tax (Zakat) for commercial organizations of the market of confessional services: The method of calculation]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, no. 1, pp. 33–51. (In Russ.) URL: https://doi.org/10.24891/fc.24.1.33

- The contract should be firm, unconditional, reasonable and immediate. The contract should not depend on any uncertain events in the future and unforeseen circumstances. However, the contract may contain such provisions that do not contradict inseparable elements of any contract. Forwards, futures or options are not allowed.

- The item concerned in the contract should be already existent. *Istisna* is an exception, since the item in question is to be prepared on demand. The item in question should have value, comply with the Sharia and be firm and definite Its properties and qualities should be clearly specified in the contract.

- The price should be certain, expressed in a currency underlying the benchmark value. The price shall not be flexible.

- The seller should own the item to be sold factually or indirectly. *Istisna* and *Salam* are exceptions. As per the Islamic law, the physical possession shall mean control over the item held, while the indirect possession shall mean control, risk and premises for rights and obligations relating to the item to be sold.

Let us study a group of contracts where Islamic banks act as investors. *Musharaka* is one of the most widely spread [13]. Islamic banks can conclude *Musharaka* with individuals and legal entities. *Musharaka* is meant to replenish finance, however, its fundamental principles is not about lending, but rather investing (*Fig. 3*). In the case of legal entities, *Musharaka* resembles partnership and bank investment in companies. The bank put up its funds into the corporate portfolio and derives the agreed-upon percentage of profit, but partially covers losses, if any. The bank subsequently sells its share to the company and receives additional profit. The bank thoroughly analyzes customers, their assets and credit score before it decides to enter into a contract. The bank will definitely try to conclude a *Musharaka* with financially promising entities and evade unreliable companies. *Musharaka* is like real investment traditional banks made in corporate stocks, since in both cases the bank is entitled to manage profit sharing and participate in it.

Musharaka-based relations with individuals are more like credit relations. The banks and the individual can jointly acquire an asset, such as real estate. Each partner will own a certain share as of the acquisition date. The customer will subsequently redeem the bank's share. The bank earns profit by selling its percentage of the asset at a higher price that it acquired it. Although the Islamic economic model condemns the speculative practices, its signs are seen in the above transaction. The professor S.V. Dokholyan tells bout signs of the speculative behavior of Islamic financial institutions in his paper [14]. However, the profit-making method is not considered to generate speculative profit, but rather a reward for the risk. Nevertheless, the customer still considers the amount he/she is going to pay to the bank. However, it is not important for the customer whether he/she will receive money from a traditional bank and spend it to acquire an asset and repay it subsequently, or he/she receives an asset from the Islamic bank and has to redeem a share of the asset. *Musharaka* should be more lucrative than traditional loans in order to compete with them. It will be beneficial for the customer if the overpayment of the Islamic bank's services is less than the repayment of the loan. Generally, a *Musharaka* can be used alternatively instead of loans and attract customers of traditional banks, who seek for new propositions.

Mudarabah [15] also sets up partnership relations, but changes their rights and obligations. *Mudarabah* provides fro two aspects, i.e. contributing the capital and using skills to manage the capital in order to form a profitable investment portfolio. The party that contributes the capital will be responsible for losses as well, unless the other party is proved guilty of the negligence and consequent losses. *Mudarabah* is almost identical to trust finance and mutual investment fund, since they all have funds, the investor and the managing party and a similar profit sharing mechanism (*Fig. 4, 5*). The Islamic bank acts as a broker. Its share in the investment portfolio profit is stipulated beforehand in the contract and cannot be altered. *Mudarabah* is used in Islamic finance to substitute traditional deposit accounts. *Mudarabah* is obvious to generate nothing new in terms of financial dealings and hardly attracts customers of traditional banks, since it resembles trust financial management.

Ijarah [16] is a contract that is similar to traditional lease. What distinguishes *Ijarah* is that the bank does not initially own the asset the lessee is interested in. The Islamic bank appoints a third party or the customer as an agent to acquire the asset on their behalf. The agent orders the supply of the asset after the intermediary arrangement. The bank pays to the agent which makes all settlements with the supplier for the asset leased. The agent hands over the asset to the Islamic bank, while the bank transfers it to the lessee. The Islamic bank derives profit from lease payments. *Ijarah* is a borrowed mechanism, not being interesting for customers of traditional banks.

Islamic finance does not provide for classical insurance plans, since such plans are based on usury and uncertainty. *Takaful* is a unique Islamic mechanism for insurance, combining *Musharaka*, *Mudarabah* and the agency contract [17]. Parties set up a common pool of funds, contributing their funds in order to share risks and get an opportunity to cover each other's losses. The Islamic bank is appointed as the managing party by insurance policy holders. It contributes some funds to investment portfolios. The Islamic bank derives profit from *Musharaka* and *Mudarabah* that together constitute the *Takaful* mechanism. *Takaful* seems to be an interesting alternative to traditional insurance.

Sukuk, or Islamic bonds, constitute another unique financial instrument of the Islamic economic model [18]. *Sukuk* is an item of securities that give its holder the title for an asset and some profit the asset generates. The instrument is not 100% monetary, since it concerns a tangible asset. Profit the *Sukuk* holder receives depends in the amount of profit generated by the asset. What mainly distinguishes *Sukuk* from common stocks is that the holder will bear losses, rather than receive a zero income in case of an unprofitable asset. Therefore, *Sukuk-related* risks are higher than those associated with stocks and bonds. The Islamic bank can invest in the acquisition of *Sukuk* and derive profit from it, or earn from the translation of a discount that arises if *Sukuk* is sold at a lower value than its par value, with its subsequent repayment being made at the par value. The fact that the Islamic bank earns from discounting is another example of contradictions in the Islamic economic systems, because the discount is not allowed in the Islamic law, but it is virtually one of the profit generation methods.

The following group of deals relate to trade, i.e. *Murabaha*, *Salam*, *Istisna*. We point out this group because financial institutions are not allowed to engage in trade in many countries [19]. Trade transactions of Islamic banks are one of the main sources of their profit [20]. Any financial institution is not viable without such transactions. *Murabaha* is the most frequent trade transaction.

Murabaha is a method for selling goods when the seller discloses the acquisition cost of the asset and respective profit to the buyer. *Murabaha* is a mechanism for purchasing real assets only. *Murabaha* deals are not exposed to high risk and short-term. The bank is profiteering. The deal may be interesting for the customer because he/she does not need to search for a seller of the asset directly. They will need to approach an Islamic bank only. *Murabaha* and its derivative options – *Salam* and *Istisna* – are very much alike to factoring, which is a traditional financial instrument (*Fig. 6* and *7*). However, factoring has much more subtypes, being a more advanced financial instrument than *Murabaha*.

Salam is slightly different from *Murabaha*. The asset is paid for beforehand and supplied at an agreed date. As of the transaction date, the asset cannot be directly or indirectly owned by the seller. The Islamic bank can enter into a shorter *Salam* contract concurrently and earn from the price difference of the two contracts.

Istisna stipulates the acquisition of the asset produced on demand. The contract is an exception of several rules. For example, the impossibility to buy a non-existent item. Islamic banks use *Istisna* to finance non-working assets. The Islamic bank will derive profit like it does under *Salam*, earning from the difference of the present and concurrent contracts.

The practical part of this article presents our study (*Table 2*) into the 2019 financial statement of Abu Dhabi Islamic Bank (ADIB), an Islamic bank, and PAO Sberbank, a traditional bank. We examined financial statements by the comparison method and made the following conclusions. The most of ADIB's income constitutes the income from Islamic financial transactions, while Sberbank mostly derive profit from interests. The amounts are approximately the same, like fee income. The remaining items are different, without being very significant. Hence the income-generating of the banks differs because the one earns from the Islamic financial instrument, while the other one receives interest income. Considering that Islamic financial instruments are often identical to interest-based transactions and fee income, which is the second considerable item of income for both banks, is approximate, we conclude that the comprehensive income of both bank institutions are similar.

Conclusions and Recommendations

Theoretical and applied studies into Islamic finance allow us to infer some conclusions.

1. We reviewed key proceedings on Islamic finance and defined it. Islamic finance is classified as religious, ethic and green finance. The article formulates the controversy of Islamic finance, that is, the Islamic economic model combines idiosyncratic and borrowed elements, which together constitute a financial institution implying earnings without charging interests and pursuing the interaction with the real economy.

2. Having conducted the theoretical study into the Islamic economic model, we pointed out some fundamental principles of the Islamic economy. The Islamic economic model stems from religious principles of Islam by applying multiple restrictions to the

traditional model. The Islamic bank is determined to act as an investor, financial intermediary, partner. The article enlists strengths of the Islamic economic model, such as the resilience to economic challenges and shocks. What seems controversial in Islamic finance is that the Islamic economic model results from restricted traditional model.

3. Currently, the Russian regulators curb the development of Islamic finance, thus making respective financial institutions adapt to the Russian market under the current legislation on traditional financial and bank institutions. The legislative environment affects business processes of Islamic financial institutions and make fundamental principles of Islamic finance drift to the traditional one.

4. Having analyzed Islamic financial instruments, we pointed out four key elements of financial operations, such as the contract, item to be sold, price and holding. We reviewed types of Islamic finance and compared them with similar traditional ones. The contradictory fact is that Islamic operations combine idiosyncratic and borrowed elements, with other mechanisms serving as interests, which are not formally charged.

5. The practical part of research compares final financial statements of Abu Dhabi Islamic Bank and Russia's PAO Sberbank, revealing that both banks have an approximately identical structure of their income, assuming the absolutely different nature of the institutions. We unfold the interest-free income generation mechanism. About two thirds of comprehensive income accounts for financial instruments, with less than one quarter being for fee income and the remaining portion proceeding from Sukuk and other income.

We suggest developing the Islamic financial sector in the countries that intend to diversify their current economic model and strengthen it, and establish friendly relations with Muslim countries. Working with an Islamic financial institution, legal entities may secure funding, partial reimbursement of their loss, Islamic insurance, contributions to investment portfolios, trust finance management, while individuals may place deposits in investment portfolios, acquire assets by interest-free Islamic contracts and invest in Islamic bonds. The Islamic finance advancement may lure investors from Muslim countries[8].

Conclusion

Islamic finance is controversial and paradoxical. Although ethical principles dominate in theory, in practice banks more often than not make transactions that seem speculative. The Islamic economic model is mainly derived by restricting the traditional one. Islamic financial institutions had to overcome the interest prohibition requirement by introducing various markups, risk premiums and other value creation methods in order to derive profit, which is vital for every financial institution, with Islamic banks being no exception. Partnership investment appeared to be another development strategy for Islamic financial Institutions. It yields earnings for a share in the capital of other entities.

[8] *Islamskii banking stanet istochnikom investitsii v Rossiyu* [Islamic banking will stream investment into Russia]. URL: http://islam.ru/content/economica/49451 (In Russ.)

However, the denial of the most risky deals, multiple restrictions, thorough client analysis and transaction control made Islamic finance much more reliable and open that traditional finance. The Islamic economic model borrowed some financial instruments, like lease or trust management, almost in their original form. Islamic financial institutions invented substitutes to insurance, loans and other economically important financial instruments. The substitutes include some idiosyncratic products and identical ones. Islamic banking cannot be considered as an absolutely new and unique phenomenon. However, we should not view it as a trivial copy of traditional banks as well. The Islamic economic model combines unique and borrowed elements by restricting some rules and setting new ones. It emphasizes not only the generation of profit, but also methods of getting it, which made Islamic finance a reliable and transparent form of funding that pursues the development of the real economy.

Table 1
Islamic financial instruments

Islamic Financial Instrument	Similar Traditional Instruments	The Bank's Role in Transaction	Profit Generation Mechanism Used by Islamic Bank
Musharaka	Partnership, investment, venture investment	Investor	Profit from the share in the capital, profit from sale of its share in a business
Mudarabah	Trust finance, mutual fund	Investor	Profit from a share in the investment portfolio
Ijarah	Rent, lease	Lessor, investor	Profit from rentals and lease payments
Murabaha	Sale-purchase of the asset, factoring	Trader	Profit from the S-P difference
Salam	Sale-purchase of the asset with the deferred supply, factoring	Trader	Profit from S-P difference
Istisna	Orders for the asset production to acquire it, factoring	Trader	Profit from S-P difference
Sukuk	Bonds, stocks	Investor	Profit is generated with the Sukuk asset
Takaful	Insurance, partnership, trust finance	Investor	The bank concludes Musharaka and Mudarabah contracts and derives profit from them

Source: Authoring

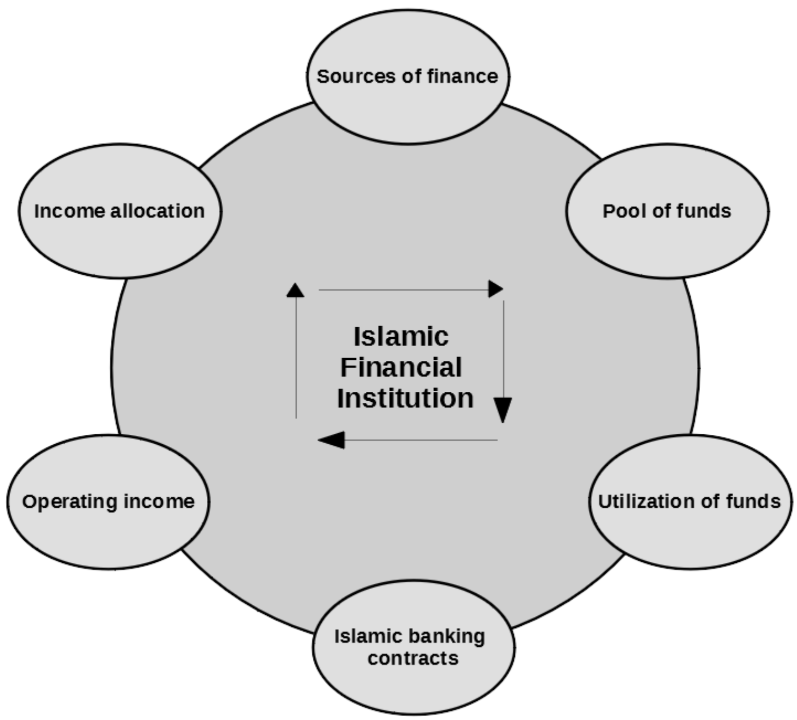
Table 2
The comparison of financial statements prepared by Islamic ADIB and traditional Sberbank for 2019

Rank by share	Sources of ADIB's Profit	Percentage of total comprehen-sive income	Sources of Sberbank's income	Percentage of total comprehen-sive income
1	Income from Murabaha, Mudarabah, Ijarah and other Islamic finance from clients	0.6582	Interest income at effective interest rate	0.6617
2	Fee income	0.1584	Fee income	0.2014
3	Income from Sukuk measured at amortized cost	0.0732	Net premiums from insurance and operations of the pension fund	0.0638
4	Income from foreign currency transactions	0.0464	Other interest income	0.0387

5	Income from Murabaha, Mudarabah and Wakalah with financial institutions	0.0192	Income from transactions with financial derivatives and foreign currency, restatement of accounts in the foreign currency and precious metals	0.0172
6	Инвестиционный доход	0.0191	–	–

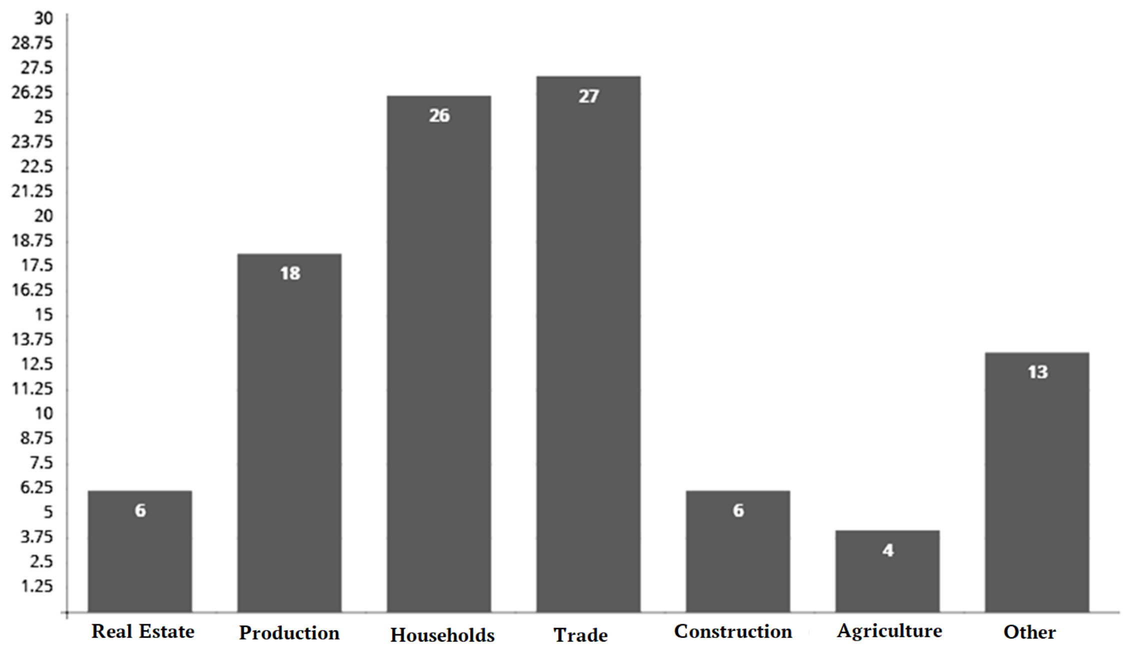
Source: Authoring, based on annual reports of ADIB
(URL: https://www.adib.ae/en/Pages/Personal_Investors_Relations_Financial_Result.aspx) and Sberbank
(URL: https://www.sberbank.com/ru/investor-relations/reports-and-publications/ifrs)

Figure 1
The operational scheme of an Islamic bank



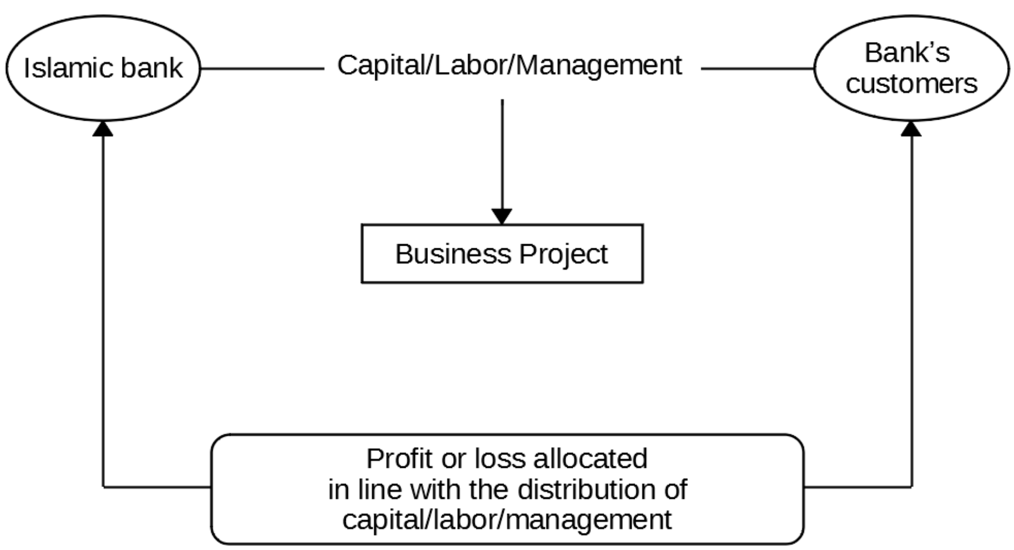
Source: Authoring, based on Islamic Bankers Resource Centre data.
URL: https://islamicbankers.me/tag/islamic-banking-structure/

Figure 2
Weighted average concentration of investment made by Islamic financial institutions in some sectors, percentage



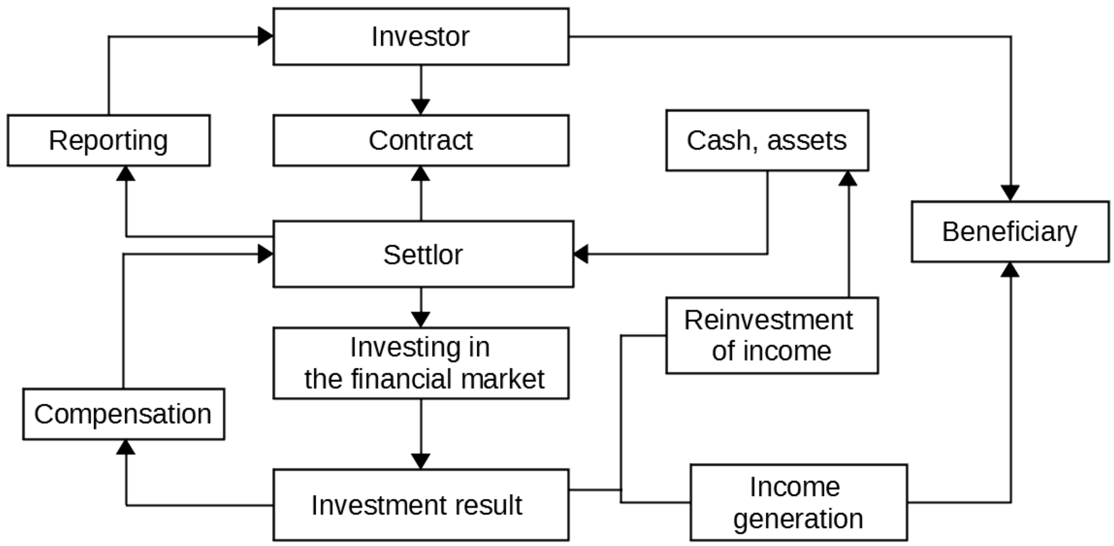
Source: Islamic Finance Service Board. URL: https://www.ifsb.org/

Figure 3
Musharaka



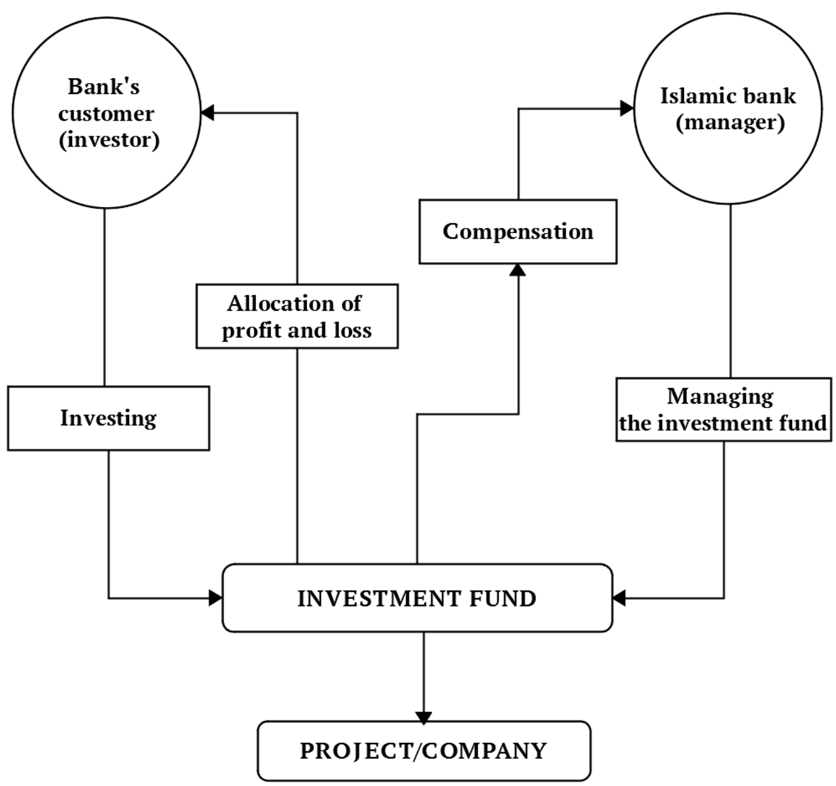
Source: Authoring

Figure 4
Trust management



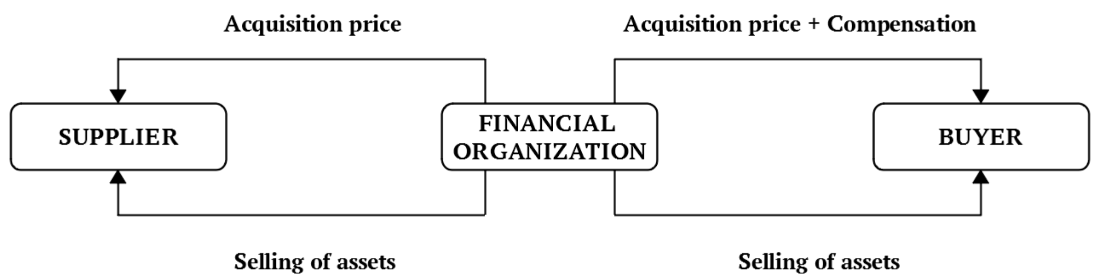
Source: Authoring

Figure 5
Mudaraba



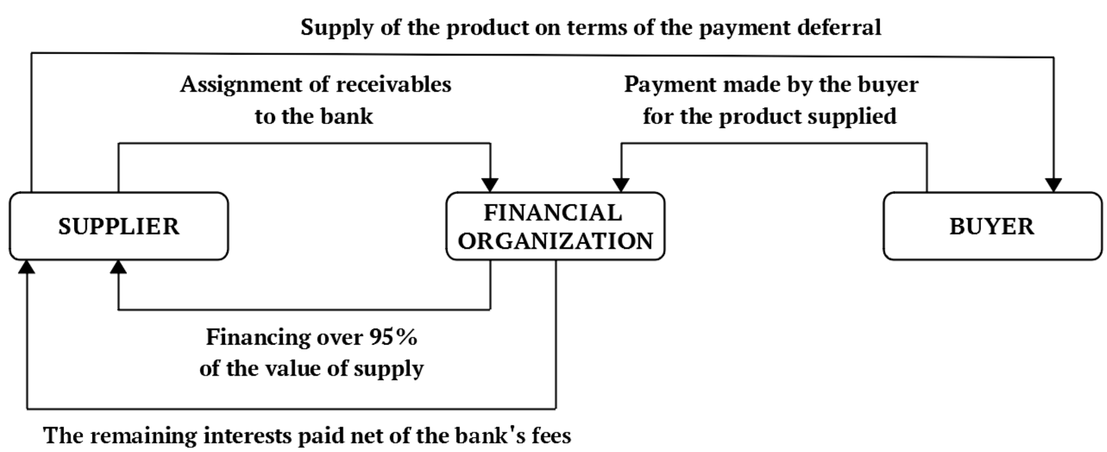
Source: Authoring

Figure 6
Murabaha



Source: Authoring

Figure 7
Factoring



Source: Authoring

References

1. Mensi W., Hammoudeh S., Tiwari A.K., Al-Yahyaee K.H. Impact of Islamic Banking Development and Major Macroeconomic Variables on Economic Growth for Islamic Countries: Evidence from Panel Smooth Transition Models. *Economic Systems*, 2020, vol. 44, iss. 1. URL: https://doi.org/10.1016/j.ecosys.2019.100739

2. Kerimov G.M. *Shariat: zakon zhizni musul'man. Otvety Shariata na problemy sovremennosti* [The Sharia. The law of Muslim life. The Sharia answering to contemporary questions]. Moscow, Dilya Publ., 2007.

3. Zhuravlev A.Yu. *Islamskii banking: monografiya* [Islamic banking: a monograph]. Moscow, Sadra Publ., 2017, 232 p.

4. Shovkhalov Sh.A. *Teoriya i praktika vedeniya biznesa po Shariatu: monografiya* [Theory and practice of business according to Sharia: a monograph]. Krasnoyarsk, Siberian Federal University Publ., 2019, 128 p.

5. Desai I. *Kratkoe rukovodstvo po islamskim finansam: monografiya* [Brief Guide to Islamic Finance: a monograph]. URL: https://rifc.su/uploads/ckeditor/attachments/190/Краткое_руководство_по_исламским_финансам.pdf

6. Bekkin R.I. *Islamskaya ekonomicheskaya model' i sovremennost'* [Islamic economic model nowadays]. Moscow, Mardjani Publ., 2010, 348 p.

7. Dorofeev M.L. [Systematization of green finance concepts and the mechanism for financing green investments in modern conditions]. *Bankovskoe delo = Banking*, 2020, no. 4, pp. 23–28. (In Russ.)

8. Petrova A.T., Shovkhalov S.A. Growth Prospects for Market of Muslim Goods in Russia. *Indian Journal of Science and Technology*, 2016, vol. 9, iss. 46, pp. 1–7. URL: https://doi.org/10.17485/ijst/2016/v9i46/107512

9. Usmani M. *Vvedenie. Islamskie finansy* [An Introduction to Islamic Finance]. Moscow, Islamskaya kniga Publ., 2016, 160 p.

10. Borlakova T.M., Kubanova L.A.-Z. [Islamic economic model: Features, current state and prospects for further development]. *Vestnik Akademii znanii = Bulletin of the Academy of Knowledge*, 2020, no. 1, pp. 35–40. (In Russ.)

11. Griban' M.K. [Islamic banking as alternative financial institution of the financial market: Opportunities for the Russian economy]. *Mirovaya ekonomika: problemy bezopasnosti = World Economy: Security Problems*, 2019, no. 4, pp. 56–63. (In Russ.)

12. Narynbek kyzy Zh. [Ijara: The main differences from leasing and accounting treatment peculiarities]. *Ekonomika i predprinimatel'stvo = Journal of Economy and Entrepreneurship*, 2016, no. 8, pp. 469–471. (In Russ.)

13. Kalimullina M.E. [Standardization of Islamic financial transactions]. *Aktual'nye problemy rossiiskogo prava = Actual Problems of the Russian Law*, 2017, no. 3, pp. 122–126. URL: https://cyberleninka.ru/article/n/standartizatsiya-islamskih-finansovyh-sdelok/viewer (In Russ.)

14. Dokholyan S.V. [Alternative financial institutions: The possibilities of forming and features of functioning in the market environment of the Russian economic space]. *Regional'nye problemy preobrazovaniya ekonomiki = Regional Problems*

of Transforming the Economy, 2019, no. 2, pp. 144–153. URL: https://cyberleninka.ru/article/n/alternativnye-finansovye-instituty-vozmozhnosti-formirovaniya-i-osobennosti-funktsionirovaniya-v-rynochnoy-srede-rossiyskogo/viewer (In Russ.)

15. Mikheeva I.E. [Legal peculiarities of the Mudarabah contract under Islamic law]. *Aktual'nye problemy rossiiskogo prava = Actual Problems of the Russian Law*, 2017, no. 3, pp. 116–121. URL: https://cyberleninka.ru/article/n/pravovye-osobennosti-dogovora-mudaraba-po-islamskomu-pravu/viewer (In Russ.)

16. Antropov V.V. [Islamic Finance in the global economy: Current trends and prospects. Reasons for the emergence of Islamic Finance]. *Ekonomicheskii zhurnal = Economic Journal*, 2017, no. 4, pp. 57–77. URL: https://cyberleninka.ru/article/n/islamskie-finansy-v-globalnoy-ekonomike-sovremennye-tendentsii-i-perspektivy-prichiny-poyavleniya-islamskih-finansov/viewer (In Russ.)

17. Sholoiko A.S. [Features of Takaful insurance]. *Ekonomika i banki = Economy and Banks*, 2016, no. 1, pp. 33–39. (In Russ.)

18. Syeda Fahmida Habib. Fundamentals of Islamic Finance and Banking. United Kingdom, John Wiley & Sons Ltd, 2018, 312 p.

19. Rafay A. Handbook of Research on Theory and Practice of Global Islamic Finance. USA, IGI Global, 2019, 888 p.

20. Khazzar M.E., Mikheeva I.E., Alekseeva D.G. [Legal aspects of ethical (Islamic) banking: Case study of a Murabaha contract]. *Vestnik Permskogo universiteta. Yuridicheskie nauki = Perm University Herald. Judicial Science*, 2018, no. 39, pp. 134–145. URL: https://cyberleninka.ru/article/n/pravovye-osobennosti-eticheskogo-islamskogo-bankinga-na-primere-dogovora-murabaha/viewer (In Russ.)

Conflict-of-interest notification

We, the authors of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.