

ABSTRACT

The establishment of the Mit Ghamr Local Savings Bank of Egypt in 1963 marked a new milestone in the development of Islamic banking system. The interest-free banking concepts introduced by Mit Ghamr signalled to the Muslim community that Islamic principles were applicable to modern day banking business.

The government of Malaysia has been actively promoting Islamic banking with the view to have Islamic financial system operating side-by-side with the conventional interest-based system. Both are geared towards the nation's socio-economic development goals. The establishment of Bank Islam Malaysia Berhad in 1983 was the first step towards this vision. Ten years later, in March 1993, Bank Negara Malaysia gave approval to three conventional banks to start Islamic banking facilities. Several other financial institutions have since followed suit, and many have shown interest to do so. Indeed, Malaysia is the first country to have a dual system of banking and financing when the Islamic financial system was fully implemented.