

GUIDELINES FOR CONDUCTING ISLAMIC BANKING

Section I

Introduction to Islamic Banking

Islamic Banking has experienced a phenomenal growth and expansion in Bangladesh in the backdrop of strong public demand and support for the system along with its gradually increasing popularity across the world. As a result, a number of full-fledged Islamic Banks has been established, while a good number of conventional banks have come forward to offer services compliant with Islamic Shariah through opening of Islamic branches along with conventional ones. There is also a trend of conversion of conventional banks into Islamic bank.

It has, therefore, become necessary to ensure that activities of the fast growing Islamic Banks are carried out properly and uniformly according to the principles of Islamic Shariah. With this end in view, Bangladesh Bank constituted a Focus group comprising representatives of the central Bank, a number of Islamic Banks and the Central Shariah Board for Islamic Banks of Bangladesh to formulate an integrated guideline for conducting banking business of the Islamic Bank/Islamic bank branches of conventional banks. Based on the recommendations of the Focus group this guideline embodying different terminologies used in Islamic Banking operations, definitions of the terminologies, the principles and modes of deposits and investments has been prepared. It also dwelt upon the issues of liquidity, maintenance of books of accounts and preparation of financial statements and other related issues. This guideline has been prepared mainly on the basis of Banking Companies Act 1991, Companies Act 1994 and Prudential Regulations of Bangladesh Bank. However, this guideline should be treated as supplementary, not a substitute, to the existing banking laws, rules and regulations. In case of any point not covered under this Guideline as also in case of any contradiction, the instructions issued under the Banking Companies Act and Companies Act will prevail.

Definitions of Terms used in Islamic Banking Operations

The following terms as used in this guideline, if not repugnant to the subject or affairs, shall have the following meaning:

- a. "Shariah" means such rules and regulations as have their origin in the holy Qur'an and Sunnah to govern all aspects of human life.
- b. "Islamic bank" means such a banking company or an Islamic banking branch(es) of a banking company licensed by Bangladesh Bank, which follows the Islamic Shariah in all its principles and modes of operations and avoids receiving and paying of interest at all levels.
- c. "Islamic Banking Business" means such banking business, the goals, objectives and activities of which is to conduct banking business/activities according to the principles of Islamic Shariah and no part of the business either in form and substance has any elements not approved by Islamic Shariah.
- d. "Branch or Branch Office" means any branch or Branch Office of Islamic Bank Company or office or Branch of such interest based conventional Banks which run Islamic banking business.
- e. "Depositor" means some one who holds with any Islamic Banking Company any account namely Current account based on Al-Wadiah principles, Savings or long and short term deposit accounts under Mudaraba principles.
- f. "Investment" means any such modes of financing which Islamic Bank Company does in accordance with principles of Shariah or as per the Shariah approved modes like Mudaraba, Musharaka, Bai-Murabaha, Bai-Muajjal, Istisna, Lease, Hire-purchase under Shirkatul Melk, etc.
- g. "Client" means such a person or institution who/which has any business relationship with Islamic Banking Company.
- h. "Compensation" means such financial penalty as is imposed by a Islamic Banking Company over and above the amount of installment when a client fails to repay Bank's investment on due dates as per the agreement executed by him.