ISLAMIC BANKING BULLETIN

Islamic Banking Department
State Bank of Pakistan

Table of Contents

Progress & Market Share of Islamic Banking Industry

Overview

During the quarter under review (April-June 2020), the **asset base** of Islamic banking industry (IBI) grew by 8.1 percent to reach to Rs 3,633 billion while **deposits** of IBI stood at Rs 2,946 billion depicting quarterly growth of 9.5 percent; YoY growth was recorded 21.4 percent and 22 percent for assets and deposits, respectively. Similarly, 'financing & investments (net)' recorded a quarterly growth of 15.5 percent and reached Rs 2,597 billion, whereas, the YoY growth was 20.8 percent.

In terms of market share, Islamic banking industry now stands at 15.3 percent and 16.9 percent, respectively in **assets** and **deposits** of overall banking industry **(see Table 1)**. Moreover, at the end of reporting period, profit before tax of IBIs stood at Rs 49 billion.

Table 1: Performance and Market Share of IBIs

Particulars	Industry Progress			YoY Growth (in percent)	Share in Overall Banking Industry (in percent)		
	Jun-19	**Mar-20**	**Jun-20**	**Jun-20**	**Jun-19**	**Mar-20**	**Jun-20**
Assets (Rs in billion)	2,992	3,360	3,633	21.4	14.4	15.2	15.3
Deposits (Rs in billion)	2,415	2,692	2,946	22.0	15.9	16.91	16.93
Net Financing & Investment	2,151	2,249	2,597	20.8	-	-	-
Total Islamic Banking Institutions	22	22	22	-	-	-	-
Number of Islamic banking branches*	2,913	3,226	3,274	12.4	-	-	-

Source: SBP

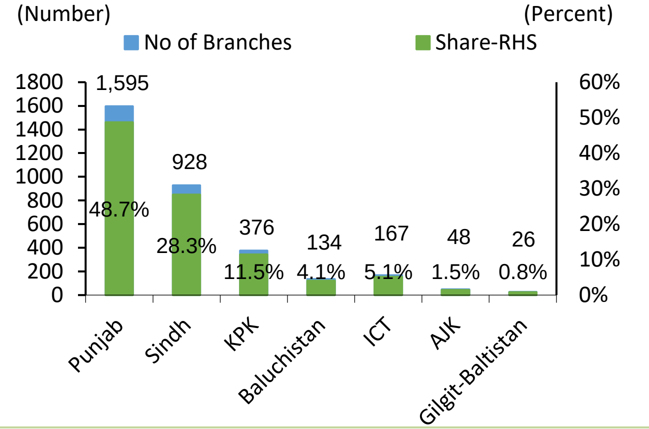
*Including sub-branches

Branch Network of IBIs

At the end of June 2020, infrastructure of Islamic banking industry remained same with 22 Islamic banking institutions (IBIs); 5 full-fledged Islamic banks (IBs) and 17 conventional banks having standalone Islamic banking branches (IBBs). However, the branch network of IBIs increased from 2,913 branches to 3,274 branches during FY 20. As evident from **Figure-1**, major share of branches is concentrated in Punjab, followed by Sindh and Khyber-Pakhtunkhwa (KPK). The number of Islamic banking windows (dedicated counters at conventional branches) operated by conventional banks having Islamic banking branches (IBBs) stood at 1,394 (see **Annexure I** for bank-wise details of branches and windows).

Asset and Liability Structure

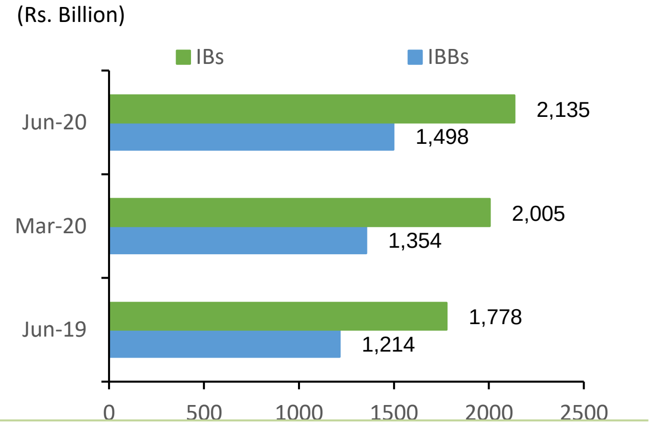
Figure 1: Region Wise Branch Network



Source:SBP

Assets: Assets of Islamic banking industry increased from Rs 3,360 billion to Rs 3,633 billion at the end of June 2020. It was a significant increase of Rs 273 billion (8.1 percent) compared to the corresponding increase of Rs 202 billion (7.2 percent) during 2019. At the end of June 2020, the market share of Islamic banking industry's assets in overall banking industry's assets increased from 15.2 percent to 15.3 percent.

Figure 2: Breakup of Assets (IBs, IBBs)



Source:SBP

Net Financing & Investments: Following the usual trend, Net Financing & Investments constituted the lion's share (71.5 percent) in total assets of the Islamic banking industry (by end of June 2020), though lower when compared with the overall banking industry's share (80.3 percent) during the period under review. The respective share of financing and investments (net) in total assets of IBIs was 46.7 percent and 24.7 percent (see section below on **Investments, Financing & Related Assets** for further details). Both financing and investments increased by 3.9 percent and 46.3 percent respectively, as opposed to a deceleration of 1.8 percent in investment and a growth of 1.3 percent in financing during the corresponding period of 2019.

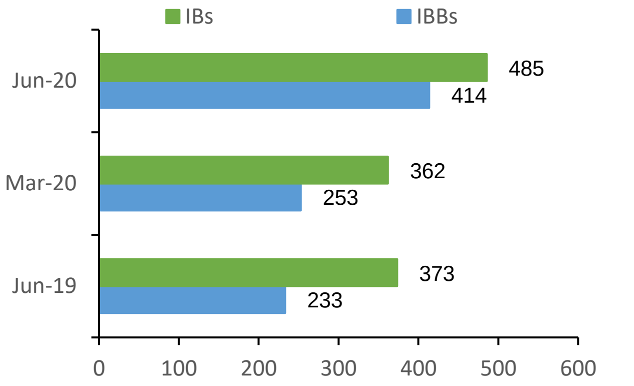
Break-up of Assets of IBs and IBBs: Assets of full-fledged Islamic banks (IBs) saw a quarterly growth of 6.5 percent (Rs 130 billion) to Rs 2,135 billion (see **Figure 2**) from Rs 2,005 billion at the end of March 2020 (YoY: 20.1 percent). Moreover, at the end of the period under review, assets of IBBs witnessed a rise of 10.6 percent (Rs 143 billion) to Rs 1,498 billion (YoY: 23.3 percent). Further, the share of IB and IBBs in overall assets of Islamic banking industry were recorded at 58.8 percent and 41.2 percent, respectively.

Investments

At the end of June 2020, investments (net) of IBI increased considerably to the tune of 46.3 percent (Rs 284.6 billion) and were recorded at Rs 899.2 billion compared to a deceleration of 1.8 percent in corresponding period of 2019. This increase in investments is mainly owing to issuance of GoP Sukuk of Rs 198.2 billion during the period under review. An analysis of investments made by IBs & IBBs revealed that investments (net) made by IBBs witnessed a growth of 63.7 percent (Rs 161 billion), which was greater than the growth of 34.2 percent (Rs 123.6 billion) observed (See **Figure 3**) by IBs.

Figure 3: Breakup of Investments

(Rs Billion)



Source: SBP

Financing and Related Assets

At the end of June 2020, financing & related assets (net) of IBIs increased by 3.9 percent (Rs 63.6 billion) to Rs 1,698 billion (YoY: 9.9 percent), higher when compared with the growth of 1.8 percent during the corresponding period of 2019.

Breakup of the data between **IBs and IBBs** revealed that financing & related assets (net) of IBs saw a quarterly rise of 4.4 percent (Rs 40.4 billion) to Rs 963.7 billion, whereas, financing and related assets (net) of IBBs experienced a growth of 3.3 percent (Rs 23.2 billion) to Rs 734 billion.

In terms of **mode wise financing**, the share of Diminishing Musharakah remained the highest in overall financing of Islamic banking industry with a share of 31.2 percent, followed by Musharakah (21.3 percent) and Murabaha (13.4 percent) (see **Table 2**).

Table-2: Mode Wise Financing (Share in Percent)

Mode	Jun-19	Mar-20	Jun-20
Murabaha	13.5	14.2	13.4
Ijarah	6.1	5.6	5.1
Musharaka	20.0	19.4	21.2
Diminishing Musharaka	33.6	31.8	31.0
Salam	2.6	2.7	1.8
Istisna	8.9	10.8	10.5
Others	15.3	15.5	17.0
Total	**100.0**	**100.0**	**100.0**

In terms of **sector wise financing**, ‘production & transmission of energy’ retained its leading position with a share of 14.7 percent in overall financing of Islamic banking industry, followed by ‘textile’ (14.2 percent) and ‘individuals’ (9.5 percent) at the end of June 2020 (see **Table 3**). This trend was similar in the corresponding period of 2019. Furthermore, this trend of sector wise financing made by IBIs is in line with the overall banking industry.

Review of **client wise financing** reveals that corporate sector had the substantial share and accounted for 71.9 percent in overall financing of Islamic banking industry, followed by commodity financing and consumer financing with share of 14.3 percent and 9.2 percent, respectively.

Table 3: Financing Concentration – (share in percent)				
Sector	**Jun-19**	**Mar-20**	**Jun-20**	**Industry**
Chemical and Pharmaceuticals	3.7	3.6	3.6	3.3
Agribusiness	7.8	6.0	8.2	7.5
Textile	11.6	14.9	14.2	14.0
Cement	3.5	3.9	3.8	2.4
Sugar	3.9	4.6	3.8	3.3
Shoes and leather garments	0.5	0.5	0.5	0.4
Automobile and transportation equipment	1.3	1.4	1.2	1.8
Financial	0.5	0.3	0.3	2.4
Insurance	0.0	0.0	0.0	0.1
Electronics and electrical appliances	1.2	1.0	0.9	1.3
Production and transmission of energy	17.9	15.7	14.7	16.0
Individuals	11.6	10.8	9.5	8.4
Others	36.6	37.2	39.2	39.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Further, the share of SMEs and agriculture financing in overall financing extended by IBIs were recorded at 3.1 percent and 0.3 percent, respectively (see **Table 4 for client wise segments**).

Table 4: Client Wise Financing Portfolio (share in percent)				
Segment	**Jun-19**	**Mar-20**	**Jun-20**	**Industry**
Corporate Sector	73.5	76.3	71.9	73.3
SMEs	3.7	3.0	3.1	5.0
Agriculture	0.5	0.4	0.3	3.9
Consumer Finance	10.4	9.9	9.2	6.8
Commodity Financing	10.6	9.2	14.3	9.0
Staff Financing	1.0	1.2	1.1	1.9
Others	0.3	0.1	0.1	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Asset quality indicators of IBIs including ‘non-performing financing (NPFs) to financing (gross)’ and ‘net NPFs to net financing’ decreased from 5 percent and 2.6 percent at the end of March 2020 to 3.3 and 0.7 percent, respectively at the end of June 2020 (see **Table 5**), owing to decrease in NPFs depicting a positive trend in asset quality

Table-5: Assets Quality Ratio (share in percent)				
Ratio	**Jun-19**	**Mar-20**	**Jun-20**	**Industry**
NPFs to Financing (gross)	2.4	5.0	3.3	9.7
Net NPFs to Net Financing	0.3	2.6	0.7	1.9
Provisions to NPFs	87.2	50.5	78.1	81.7
Net NPAs to Total Capital	4.8	20.1	6.9	9.0

Liabilities

Deposit base of IBIs increased by 9.5 percent (Rs 254 billion) to Rs 2,946 billion at the end of June 2020 (YoY: 22 percent), slightly higher than the growth in deposit base of overall banking industry, which saw an increase of 9.3 percent (YoY: 14.3 percent) during the period under review. The growth in deposits largely came from customer deposits of varied kinds, in particular, non-remunerative current accounts and saving deposits. Further, this growth in deposits of IBIs is also in line with overall banking industry trends

The **category wise breakup of deposits** showed that all categories of deposits witnessed growth on quarterly basis. Fixed deposits increased by 1.1 percent (Rs 6.8 billion) while 'current (non-remunerative)' and 'saving deposits' increased by 20.3 percent (Rs 164.7 billion) and 6.1 percent (Rs 62.6 billion), respectively (see **Table 6**).

Table 6: Break up of Deposits (Rs in Billion, growth in percent)

Category	Jun-19	Mar-20	Jun-20	YoY	QoQ
A. Deposits (1+2)	**2,414.8**	**2,691.6**	**2,946.0**	**22.0**	**9.5**
1. Customers	**2,231.9**	**2,482.1**	**2,729.8**	**22.3**	**10.0**
Fixed Deposits	488.5	609.9	616.7	26.2	1.1
Saving Deposits	906.2	1,019.7	1,082.3	19.4	6.1
Current accounts*	817.7	828.1	989.6	11.6	(0.8)
Others	19.5	24.5	41.2	111.4	68.4
2. Financial Institutions	**182.9**	**209.5**	**216.2**	**18.2**	**3.2**
Remunerative Deposits	177.2	206.1	210.2	18.6	2.0
Non-remunerative Deposits	5.7	3.4	6.0	6.0	75.6
B. Currency Wise - Breakup of Deposits					
Local Currency Deposits	2,255.0	2,533.1	2,785.1	23.5	9.9
Foreign Currency Deposits	159.8	158.5	160.9	0.7	1.5
*** include both remunerative & non-remunerative**					

Breakup of deposits between IBs & IBBs revealed that deposits of IBs increased by 8.4 percent (Rs 136.1 billion) to Rs 1,761.9 billion at the end of June 2020 (YoY: 21.1 percent). Likewise, deposits of IBBs also experienced a growth of 11.1 percent (Rs 118.3 billion) to Rs 1,184.1 billion (YoY: 23.4 percent). Consequently, the share of IBs in overall deposits of Islamic banking industry saw a minor decline from 60.4 percent to 59.8 percent, whereas share of IBBs increased scantily from 39.6 percent to 40.2.

Liquidity

At the end of June 2020 IBI's liquid assets to total assets and liquid assets to total deposits experienced a significant growth on quarter on quarter basis to 22.2 percent and 27.3 percent, respectively (see Table 7). Further, financing to deposits ratio (FDR) of IBIs recorded at 57.6 percent, much higher than the FDR of the overall banking industry, which stood at 46.3 percent.

Table-7: Liquidity Ratios (share in percent)				
Ratios	Jun-19	Mar-20	Jun-20	Industry
Liquid Asset to **t**otal Assets	23.2	20.0	22.2	53.3
Liquid Assets to Deposits	28.7	24.9	27.3	72.6
Financing to Deposits (Net)	63.9	60.7	57.6	46.3

Capital

The ratios of 'capital to total assets' and 'capital minus net NPAs to total assets' of IBI were recorded at 6.8 percent and 6.3 percent, respectively by end June 2020 (see **Table 8**), lower than the respective ratios of the overall banking industry, which were recorded at 7.3 percent and 6.9 percent, respectively.

Table-8: Capital Ratios (share in percent)				
Ratios	**Jun-19**	**Mar-20**	**Jun-20**	**Industry**
Capital to Total Assets	6.3	6.8	6.8	7.3
(Capital - Net NPAs) to Total Assets	6.0	5.4	6.3	6.9

Profitability Indicators

Profit before tax of IBI increased from Rs 20.6 billion at the end of March 2020 to Rs 49 billion at the end of June 2020 (increase by Rs 28.4 billion).

Profitability ratios or earnings ratios like return on assets (ROA) and return on equity (ROE) (before tax) stood at 2.9 percent and 42.2 percent respectively at the end of June 2020, comparatively higher than ROA and ROE (before tax) of 2.3 percent and 35.3 percent during the same period in last year. Moreover, the earnings ratios of IBIs remained quite higher than those of overall banking industry's ratios of 1.9 and 25.2 percent respectively by the end of June 2020.

During the period under review, operating expense to gross income of IBIs was recorded at 44.9 percent, which was an improvement from 47.4 percent recorded in the preceding quarter (see **Table 9**); whereas, operating expense to gross income of overall banking industry was recorded at 48.9 percent.

Table-9: Profitability Ratios (in percent)				
	Jun-19	**Mar-20**	**Jun-20**	**Industry**
Profit before tax (Rs Billion)	31.7	20.6	49.0	216.7
ROA before tax	2.3	2.5	2.9	1.9
ROE before tax	35.3	36.7	42.2	25.2
Operating Expense to Gross Income	52.6	47.4	44.9	48.9

Country Model: Kingdom of Bahrain

i. Introduction

The Kingdom of Bahrain's economy is dominated by oil and natural gas; oil comprises 85 percent of the Bahrain's budget revenues (CIA, 2020). The near term economic outlook is negative, mainly due to low oil prices and the unfavorable global conditions posed by COVID-19 disruption (World Bank, 2020).

The Kingdom of Bahrain has long been recognized as one of the global leaders in Islamic finance, because the country is home to a number of global standard setting organizations and it hosts the largest concentration of Islamic financial institutions in the Middle East. The Islamic banking sector of the Kingdom has shown tremendous growth since its inception in 1979 and presently it represents 15.7 percent of the total banking sector's assets (December 2019).

i. Islamic Banking and Finance

The financial sector is currently the largest non-oil contributor to GDP representing 16.6 percent (as of December 2019) of real GDP showing a slight decrease of 0.3 percent since 2018. Islamic banking sector (0.8 percent of GDP) grew steadily from USD 24.9 billion in 2014 to USD 32.1 billion in December 2019 (FSR-CBB, 2020). As of December 2019, the banking sector of Bahrain comprised of 94 banks, categorized as under:

- 31 **retail banks** (including 6 Islamic retail banks); 8 conventional locally incorporated and 17 conventional branches of foreign banks
- 63 **wholesale banks** (including 14 Islamic wholesale banks); 13 conventional locally incorporated and 36 conventional branches of foreign banks

The Kingdom first introduced Islamic banking in 1979, when the first Islamic commercial bank was established, since then the Kingdom became home to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM), and Islamic International Rating Agency (IIRA), and the Bahrain Institute of Banking and Finance (BIBF). Currently, Bahrain has dual banking system; both Islamic and conventional banking are running parallel in the Kingdom. As of second quarter of 2018, Bahrain accounted for 0.7 percent of the total global Islamic banking assets.

ii. Regulatory Framework

Bahrain is considered as one of the most developed Islamic Finance jurisdictions in terms of issuing regulations and rules. Bahrain is considered to be having one of the most comprehensive regulatory regimes for regulating Shariah compliant activities in the world; Oman and Pakistan are close competitors to Bahrain, while Malaysia is generally regarded as having the most comprehensive regulations for Shariah compliant activities (including banking and finance). According to Islamic Finance Development Indicator Report 2018, Bahrain was the second most developed Islamic finance market in the world. In 2001, the Kingdom become the first country in the world that issued regulations specific to Islamic banks, since then the Central Bank of Bahrain (CBB) Rulebook has been regarded as the basis for Shariah compliant governance. The Kingdom was the first nation in the Middle East and Northern African region to issue Rule book addressing the Shariah compliant banking and insurance sector.

In 2015, the Kingdom established the centralized Shariah Supervisory Board, and the proposal of an additional Shariah audit for Islamic banks in 2016. The central Bank of Bahrain (CBB) followed up with launch of the Shariah governance framework in 2017, which became effective in June 2018. The new regulations will make Islamic banks subject to an Independent External Shariah Compliance Audit, to ensure that all Islamic banks activities are Shariah compliant. To support the Islamic banking, in 2017 the central bank introduced a new wakala (agency) investment tool based on a standardized model developed by the International Islamic Financial Market (IIFM) that allows local retail Shariah-compliant banks to invest excess liquidity with the central bank on a weekly basis. The Central bank of Bahrain CBB in turn invests the funds in a portfolio comprising international Sukuk (Islamic bonds) and cash.

iii. Sukuk

The Kingdom is a frequent issuer of monthly short-term Sukuk. In 2016, the Kingdom for the first time issued a global Sukuk instrument using a hybrid structure (Ijarah and Murabaha). The CBB acting through Ministry of Finance established a global medium term note programme "GMTN programme" and "Sukuk programme" for the purpose of issuing international bond and Sukuk. In September 2019, the Kingdom raised $1bn in a 7.5 year Sukuk, under the Sukuk programme.

iv. Fintech

In recent years, the CBB has started taking initiatives towards financial digital transformation and developments in digital financial services. In 2017, the CBB introduced a FinTech sandbox, released a consultation paper on Islamic crowdfunding. The CBB introduced a Regulatory Sandbox that allow startups, FinTech firms to provide innovative banking and financial solutions, in addition to issuance of Crowdfunding regulations for both conventional and Shariah compliant services. In 2018, the regulations on cryptocurrency and robo-advisors were issued. Shariah compliant crypto exchange RAIN[1] became the first crypto exchange that was established by virtue of the sandbox and received Shariah compliance certification from Shariah Review Bureau.

v. Conclusion

Notwithstanding the progress of Islamic finance in Bahrain, there is still much that can be done, especially in area related to Islamic fund management. Being home to most comprehensive and sophisticated legal infrastructures for Islamic finance and banking, the Kingdom has great opportunity to play an instrumental role in the development of domestic and global Islamic financial industry.

Sources of Information

[1] Rain was founded in 2016 by four entrepreneurs to create a fully Shariah compliant exchange to provide trust for local cryptocurrency traders. It is backed by Bitcoin Core (BTC) developer Jimmy Song.

- Islamic Finance News {https://www.islamicfinancenews.com/brunei} Accessed on July 07, 2020
- Website Central Bank of Bahrain { https://www.cbb.gov.bh/} Accessed on July 05, 2020
- The World Bank {https://www.worldbank.org/} Accessed on July 03, 2020
- International Monetary Fund {https://www.imf.org/external/index.htm} Accessed on July 7, 2020
- Global Islamic Finance Report{ http://www.gifr.net/gifr}
- Central Intelligence Agency the Fact Book {https://www.cia.gov/the-world-factook/} Accessed on July 03, 2020
- Central Bank of Bahrain annual Publication {https://www.cbb.gov.bh/publications/}.
- Oxford Business Group { https://oxfordbusinessgroup.com/overview/forefront-country-remains-leading-global-centre-islamic-finance} Assessed on August 7, 2020
- Financial Stability Review 2019, Central Bank of Bahrain

AAOIFI Shariah Standard No. 38 on 'Online Financial Dealings'

State Bank of Pakistan, vide IBD Circular No. 01 of 2019, has adopted following six AAOIFI Shariah Standards:

- ✓ (i) No. 2 (Debit Card, Charge Card and Credit Card)
- ✓ (ii) No. 5 (Guarantees)
- ✓ (iii) No. 14 (Documentary Credit)
- ✓ (iv) No. 18 (Possession (Qabd)
- ✓ (v) No. 24 (Syndicated Financing)
- ✓ (vi) No. 38 (Online Financial Dealings)

These standards have been discussed in detail, one by one, in former issues of quarterly bulletin since January 2019. So far five standards have been covered in previous issues, while in the current issue, the remaining Standard No. 38 (Online Financial Dealings) is being discussed below along with the amendments recommended by the Shariah Advisory Committee of State Bank of Pakistan.

1. Scope of the Standard

This standard covers the Shariah rulings relating to conclusion of financial contracts online, either by launching commercial websites, or by provision of online access services. The standard aims to indicate various aspects pertaining to the subject such as the Shariah status of the contracts concluded in this manner, determination of the time of contract inception, permissible procedures of possession after signing the contract, and Shariah rulings relating to protection of online financial dealings.

2. Launching Commercial Websites for Contractual Dealings

- ✓ **2/1** It is permissible in Shariah to launch commercial websites, provided that such sites do not involve any impermissible act, such as promotion of impermissible goods and services, or using impermissible means to promote permissible goods and services.

- ✓ **2/2** It is permissible in Shariah to conclude online contracts, provided that the contracts thus concluded between the institution and its clients observe the general rules of financial transactions as prescribed by the Shariah, regarding for instance, opening of the accounts, performing remittances and signing commercial contracts.

3. Provision of Online Access Services

- ✓ **3/1** Shariah permits institutions to provide online access services to users on the basis of subscription contracts or any other similar arrangement, and against a specific fee.
- ✓ **3/2** The contract for provision of online access service by the institution is a shared-hiring contract "Ijarah Mushtarakah" signed between the institution and the beneficiary. Therefore, it should become subject to the conditions and rulings of the contract for hiring of persons in general, and those of the contract for hiring of a shared employee in particular. [see Shariah Standard No. (34) on Hiring of Persons and Shariah Standard No. (9) on Ijarah and Ijarah Muntahia Bittamleek]
- ✓ **3/3** The institution which provides such service should take all necessary precautions and measures to prevent impermissible use of the internet by the beneficiaries to whom the Institution provides the access service.

4. Contract Signing Session (Majlis al-'Aqd) for Concluding Online Financial Contracts

- ✓ **4/1** When the contract is concluded through audio or audiovisual communication between the two parties, it should become subject to the same Shariah rulings on contracts signed in the presence of the two parties. Consequently, it should satisfy the rulings relating to this type of contracts which include, for instance: simultaneous presence of the two parties (Itihad al-Majlis), non-existence of any indication of disinterest from any of the two parties, succession of offer and acceptance (as per normal practice), and all the other rulings.
  - ➢ **4/1/1** The contract signing session in this case is the time of communication between the two parties if the conversation relates to the contract. If the conversation is over or disconnected, or the two parties shifted to another subject, the contract signing session is considered to have stopped (unless disconnection of the conversation is for a reasonably short while).
- ✓ **4/2** When the contract is concluded through written communication, by e-mail, or through access to site, it shall become subject to the rulings applicable to contracts signed in the absence of the two parties, because such deal is similar to message contracting.
  - ➢ **4/2/1** The contract signing session in the case indicated in item 4/2 above starts from the moment of communicating the offer to the concerned party up to issuance of acceptance. The contract signing session may also be discontinued when the offering party retreats from his offer before an acceptance decision is made by the other party.
  - ➢ **4/2/2** When the offering party specifies a certain period for validity of his offer, the time allowed for acceptance should cover the whole period. The offering party has no right to withdraw from his offer during that period.
- ✓ **4/3** When the contract is concluded through online bidding the highest bidder should not retreat from his bid until the bidding process is over. The highest bidder should also not retreat

from his offer after finalization of the bidding process if the seller had made a condition that the offer should remain binding for a certain period, or if the normal practice necessitates validity of the offer for such period.

5. Expressing Offer and Acceptance in Online Financial Contracts

- ✓ **5/1** Expression of offer and acceptance in online contracts can be in any form that indicates the consent of the two parties to conclude the contract.
- ✓ **5/2** When the offering party sends through website or e-mail a message containing all the rights and commitments pertaining to the contract in question without retaining the right of withdrawal if the message is accepted, that message is considered as an offer.
- ✓ **5/**3 When the offering party sends the electronic message through website or e-mail without indicating all the rights and commitments relating to the contract in question, or when he stipulates a condition that he should have the right of withdrawal even if the message is accepted, the message is considered to be an announcement or an invitation for contracting rather than an offer. In this case a process of offer and acceptance has to be done.
- ✓ **5/4** When the contract is concluded through website, clicking on the acceptance icon is considered as acceptance in the strict Shariah sense if the system in the website does not require confirmation of acceptance. If the system in the website requires confirmation of acceptance in any way, acceptance does not take place without making such confirmation.
  - ➢ **5/4/1** The Institution which provides its services on website should include in the system a step for acceptance confirmation as a precautionary measure against dealers' mistakes.

6. Time of Commencement of an Online Contract

Irrespective of the method of contracting, an online contract is considered to be valid since the time when the other party accepts the offer and whether the offering party has come to know that or not.

7. **Possession (Qabd) in Online Financial Contracts**

- ✓ **7/1** Regarding online contracts, possession in the strict Shariah sense takes place through all accepted methods of actual and constructive possession. [See Shariah Standard No. (18) on Possession (Qabd), items 3 and 5]
- ✓ **7/2** If the sold commodity is computer software or the like, possession in the strict Shariah sense takes place when the purchaser, after signing the contract, downloads the software or the data or any good of this type from the website to his personal computer.
- ✓ **7/3** When the sold commodity is a currency, gold, silver or any other commodity in which instant exchange (Taqabud) is required, instant exchange of the two objects of the contract should be ascertained during the contract's signing session.

8. Protection of Online Financial Dealings

8/1 Protection of commercial sites and dealers' data against being trespassed

- ✓ **8/1/1** Commercial websites are considered as private properties of their owners, and therefore their trespassing could necessitate compensation.
- ✓ **8/1/2** The institution should use all possible measures of website protection, so as to safeguard its own rights as well as the rights of its clients.
- ✓ **8/1/3** Trespassing of dealers' online data is impermissible. It is strictly prohibited to sell such data or transmit it to others without the permission of its owners.
- ✓ **8/1/4** Verification of trespassing of commercial sites and data stealing should be done by referring to the prevailing traditions and regulating rules which do not encounter the rules and principles of Shariah.
- ✓ **8/1/5** The compensation due in case of trespassing should comprise direct financial loss as well as actual loss of earnings. Expert advice for assessment of compensation can also be sought when need arises.
- ✓ **8/1/6** Compensation shall become due only when it is claimed, whereas claiming compensation does not have a specific time limit after the incident of trespassing is known. In this regard relevant rules and regulations should be observed provided that they do not contradict with the rules and principles of Shariah.
- ✓ **8/1/7** In case of stealing money or confidential data from a protected website the responsibility should rest with the person who committed the theft directly. If it is not possible, for a permissible reason, to charge the person who committed the act of theft directly, the responsibility should rest with the one who facilitated the act. The owner of the site is by no means chargeable for such act, if he has taken all possible measures to protect his site, and unless he has pledged to shoulder such responsibility under all circumstances.

8/2 Verification of dealers' identities

- ✓ **8/2/1** In order to safeguard its own interests, the Institution should take all possible precautions and measures to verify the identities of its website dealers, and make sure that they are legally competent for concluding valid contracts.
- ✓ **8/2/2** It is acceptable in Shariah to adopt the electronic signature as a means of verifying the identities of dealers, provided that such means is adoptable by virtue of the prevailing rules and regulations.
- ✓ **8/2/3** When forgery or an error is committed with regard to the personality or characteristics of one of the two parties, the other party has the right to terminate the contract.
- ✓ **8/2/4** For verification of forgery or error recourse should be to the general rules of evidence.

8/3 Protection of dealers from adhesion contracts ('Uqud al-Iz'an)

- ✓ **8/3/1** It can be noticed that in a big part of the online contracts the offer is addressed to the public in general and the contract has uniform details. In such contracts also the offering party alone has the right of stipulating the terms and conditions of the contract, while the other party does not have the right to change such terms and conditions. A contract of this type is considered as an "adhesion contract" when it relates to a commodity or usufruct that nobody can do without, and the offering party assumes actual and legal monopoly or face only meager degree of competition in its supplying.

- ✓ **8/3/2** According to Shariah, online adhesion contracts should be subject to state control so as to protect dealers by endorsement of what is equitable and elimination of what is inequitable in these contracts, before launching them to dealers.
- ✓ **8/3/3** If the price in the online adhesion contract is fair, and the terms and conditions of the contract do not entail any injustice for the adhering party, the contract is considered to be permissible and binding to its two parties.
- ✓ **8/3/4** If the price in the online adhesion contract is unfair (comprises excessive injustice), or the contract includes an unjust condition for the adhering party, the latter has the right to resort to law for nullification of the contract or amending its conditions for the sake of relieving him from the consequent injustice.
- ✓ **8/4** If the online contract is concluded on the basis of describing the sold object, or depending on the fact that the buyer has previously seen the object, or on presentation of a model resembling the object, whereas at the time of delivery the sold object is found to be different, the buyer should have the choice between concluding the contract, terminating it, or negotiating with the seller appropriate means of settlement.

Adoption of the Standard in Pakistan

For adoption of the standard in the country, following amendments have been made on the advice of the Shariah Advisory Committee, State Bank of Pakistan.

Clause No.	Original clause	Clarifications/amendments
3/3	The institution which provides such service should take all necessary precautions and measures to prevent impermissible use of the internet by the beneficiaries to whom the Institution provides the access service.	The word 'necessary' shall be read as 'possible' in the clause.
4/1/1	The contract signing session in this case is the time of communication between the two parties if the conversation relates to the contract. If the conversation is over or disconnected, or the two parties shifted to another subject, the contract signing session is considered to have stopped (unless disconnection of the conversation is for a reasonably short while).	The word 'disconnected' shall be read as 'unrelated' in the clause.
7/3	When the sold commodity is a currency, gold, silver or any other commodity in which instant exchange (Taqabud) is required, instant exchange of the two objects of the contract should be ascertained during the contract's signing session.	This is not applicable for transactions where currency is involved.

As per practice, these amendments are issued by SBP as footnotes of the standard.

Source:

1. AAOIFI website: http://aaoifi.com/
2. IBD Circular No. 01 2019, March 01, 2019 {http://www.sbp.org.pk/ibd/2019/C1.htm}

Events and Developments at Islamic Banking Department (IBD)-SBP

A. Events

The Impact of Covid-19 on Islamic Finance: Selected Shariah Issues
NIBAF in collaboration with International Center for Education in Islamic Finance (INCEIF) Malaysia, hosted a special virtual-live session titled *"The Impact of Covid-19 on Islamic Finance: Selected Shariah Issues"* on June 18, 2020. The two hour's informative session was successfully conducted by world renowned Shariah Scholar Dr. Prof. Mohamad Akram Laldin. He is the Member of Bank Negara Malaysia Shariah Advisory Council (SAC) and Executive Director at International Shariah Research Academy for Islamic Finance (ISRA) (Malaysia), as well as Professor at International Center for Education in Islamic Finance (INCEIF). This special virtual live session was actively participated by around 100 participants including members from SBP Shariah Advisory Committee and Shariah Boards of Islamic banking institutions, Islamic bankers and SBP officials.

B. Developments

SBP issued Circular on Islamic Refinance Scheme for payment of wages and salaries
In the wake of Covid-19 outbreak, to help the businesses in payment of wages and salaries to their workers and employees and thereby support continued employment in this challenging environment, SBP introduced Islamic Refinance Scheme for payment of wages and salaries to the workers and employee of business concerns.

Islamic Banking News and Views

I. Local Industry News

Cykube Partners with IBA CEIF
UK-based Blockchain advisory and development firm Cykube has signed an MoU with Pakistan-based educational institution IBA Center of Excellence in Islamic Finance (IBA CEIF) to explore, research and implement the Blockchain infrastructure at a national level in Pakistan.
https://www.islamicfinancenews.com

SBP expands ITERF scope
The State Bank of Pakistan is allowing existing projects and businesses to avail financing under the Islamic Temporary Economic Refinance Facility (ITERF), according to a statement. Previously, the ITERF was only available for new projects and businesses.
https://www.islamicfinancenews.com

SBP widens scope of Islamic refinance for salaries
The State Bank of Pakistan (SBP) has widened the scope of the Islamic Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns by including non-deposit-taking financial institutions to help them avoid layoffs, confirmed a statement. The central bank has also raised the maximum financing limits for the two categories under the refinance scheme.
https://www.islamicfinancenews.com

K-Electric to issue retail Sukuk
K-Electric, which has issued PKR 23.71 billion (US$146.79 million) out of its planned PKR 25 billion (US$154.77million) Sukuk Musharakah offering to pre-IPO investors, has submitted a draft prospectus

for the remaining value of the Sukuk to be offered to the general public by way of an IPO, according to a statement. The issuer is accepting feedback on the draft prospectus until the 21st May 2020. In December 2019, the power company announced its plan to issue the largest retail-listed Sukuk worth PKR25 billion, which includes a PKR5 billion (US$30.95 million) green shoe option.
https://www.islamicfinancenews.com

Shariah pension funds maintain sector dominance in Pakistan
The share of Islamic mutual funds in Pakistan may have been shrinking over the last three years but Islamic pension funds continue to dominate the silver investment space in the nation of over 212 million as the Shariah pension assets size grows to a record high. Shariah compliant pension funds accounted for 63% of the total pension fund sector at the end of March 2020, according to latest official data examined by IFN.
https://www.islamicfinancenews.com

II. International Industry News

Hong Kong's potential and the supervisory framework for Islamic banking
Islamic finance has been growing rapidly worldwide in recent years, and Islamic banking and Sukuk are the two leading forces. Apart from a proven Sukuk listing platform, Hong Kong has great potential in Islamic banking development given its international financial center status as well as its300,000 Muslim population. In fact, the Hong Kong Monetary Authority (HKMA) has produced its supervisory approach to Islamic finance in Hong Kong, covering primarily the approval criteria for setting up an Islamic banking window (IBW) as part of an existing authorized institution (AI)'s operation and the supervisory treatment for AIs' exposures to Sukuk.
https://www.islamicfinancenews.com

Regulation of Islamic Financial institutions in the UAE
The Islamic banking and finance industry has demonstrated exponential growth over the last two decades and is now considered the fastest-growing segment within the global financial industry. Total assets are now about US$2.3 trillion with the UAE being a key jurisdiction. Strengthened by the vision of the UAE's leadership to position the UAE as a leading Islamic finance jurisdiction and reinforce Dubai's position as the capital of the Islamic economy, various key initiatives were undertaken. Among the key changes was the establishment of the Higher Sharia Authority (HSA) by the Central Bank of the UAE (CBUAE).
https://www.islamicfinancenews.com

Saudi Arabia's SGF for Islamic financial institutions
According to the SGF, the role of the Shariah committee is to provide sound advice to the Islamic financial institution and ensure that all operations, dealings and activities carried out by the Islamic financial institution are in compliance with Shariah principles. More specifically, the role of the Shariah committee includes the following: i) To issue Fatwas and related decisions governing the work of the financial institution, ii) To verify the Shariah review and internal Shariah audit tasks, iii) This is to ensure that the transactions conducted by the Islamic financial institution comply with the provisions and principles of Shariah, and iv) To inform the board and recommend appropriate measures in the event that certain Islamic financial transactions appear to not be in compliance with the provisions and principles of Shariah.

https://www.islamicfinancenews.com

Malaysia well placed to lead Islamic digital financial inclusion agenda; industry calls for national Islamic fintech coordination

In a closed-door dialogue with policy makers, the Islamic banking and finance industry, the fintech community and the non-governmental sector recently where participants deliberated and exchanged insights on the current state of play and the future of Islamic digital financial inclusion, a series of recommendations were made. This included the urgent need to craft a national comprehensive Islamic fintech agenda, which would be executed by a government-backed platform comprising regulators and industry participants. Many believe that the Special Islamic Finance Committee established by the Malaysian government last August is well placed to take on the role.
https://www.islamicfinancenews.com

IsDB's dollar Sukuk oversubscribed

The IsDB has issued a five-year US$1.5 billion green Sukuk, according to a statement. Proceeds from the issuance will be used to finance projects in member countries in response to the coronavirus crisis. The paper was priced at a spread of 55 bps over five-year US dollar mid swaps for a final coupon of 0.908% per year.
https://www.islamicfinancenews.com

III. Articles & Views

COVID-19: Strange times, familiar principles

In today's markets, Islamic finance and conventional products represent well-established financial instruments for both the project finance and bank finance sectors. Although Islamic jurisprudence requires that Islamic finance transactions conform to the established principles of the prohibition of Riba (interest), Gharar (speculation) and Maysir (uncertainty), Islamic scholars have succeeded in developing products that resemble conventional finance products and can be utilized seamlessly. During the global financial crisis of 2007–08, Islamic banks fared better compared to conventional banks. An IMF study published in October 2010 revealed that smaller investment portfolios, lower leverage and adherence to Shariah principles precluded Islamic banks from financing or investing in the kind of instruments that had the most adverse impacts on their conventional competitors, and helped contain the impact of the financial crisis on the Islamic banking market.
https://www.islamicfinancenews.com

Is a truly digital Islamic banking frontier on the horizon?

A question many people in the Islamic banking industry are asking is: "With the speed things are moving at, will frontier markets be left out?" Generally, it is agreed that Islamic banking is already behind when it comes to infrastructure, organizational culture and communication — add in a global pandemic and we are looking at one of two things: 1. A radical shift in the customer experience around how people manage their money with Islamic banks, and 2. A double-down effect on the adoption of conventional banking under the banner of security. It has taken a global pandemic for institutions to understand the lack of digital infrastructure in both the west and the east — no one was ready but the fact remains that since theCOVID-19 situation has spread further, we have yet to see any Islamic

banking leadership come out and make a real drastic commitment to change the way it will serve customers. So the only way frontier markets will be left behind is if leaders in the market fail to recognize the global digital trend and act on the opportunity that exists. The time is now
https://www.islamicfinancenews.com

Could coronavirus herald a new era for Islamic fintech?

In these chaotic times, banking models have been an early casualty, opening the door for a whole new horizon of digital alternatives. The way that financial institutions traditionally operate — through retail branches, trading floors, and office locations — is no longer practicable. By comparison, Islamic fintech solutions are stepping up to the plate as the digital channel becomes, suddenly, the industry's most crucial connection. Last week, the chief of one of the world's largest independent financial advisory organizations warned that traditional banks are likely to fall even further behind in both market share and customer experience due to the global coronavirus pandemic, while the use of financial apps (in Europe) was up 72% since mid-March.
https://www.islamicfinancenews.com

How to improve the secondary market for Sukuk

Sukuk have been gaining in popularity since their first issuance in 1990. According to the International Islamic Financial Market, global Sukuk issuances with a maturity of over 18 months totaled US$ 42 billion in 2019, a growth of 6% over 2018 and nearly 40% over 2009. However, in spite of the rise in issuances, the secondary market for Sukuk has remained illiquid with most of the bonds held to maturity. One reason is most Sukuk by law are subject to trading restrictions like Sukuk Salam which are tradable at par value only..
https://www.islamicfinancenews.com

Annexure I: Islamic Banking Branch Network

Islamic Banking Brach Network (As of June 2020)			
Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	183	-
	BankIslami Pakistan Limited	227	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Meezan Bank Limited	799	-
	MCB Islamic Bank Limited	180	-
	Sub-Total	**1,599**	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	85
	Askari Bank Limited	91	-
	Bank Al Habib Limited	92	142
	Bank Alfalah Limited	165	121
	Faysal Bank Limited	413	24
	Habib Bank Limited	48	493
	Habib Metropolitan Bank Limited	31	224
	National Bank of Pakistan	189	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	25	-
	Standard Chartered Bank (Pakistan) Limited	4	56
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	98	-
	United Bank Limited	100	162
	Zarai Taraqiati Bank Limited	5	-
	Sub-Total	**1,520**	1,394
	Total Full-Fledged Branches	**3,119**	**-**
Sub Branches	AlBaraka Bank (Pakistan) Limited	8	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	112	-
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	1	
	Habib Bank Limited	2	-
	United Bank Limited	2	-
	Total Sub-Branches	**155**	**-**
	Grand Total Branches/Sub-Branches	**3,274**	**1,394**

Source: SBP

Annexure II: Province/Region wise Break-up of Islamic Banking Branch Network

Type	Bank Name	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa*	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan)	3	6	6	2	16	102	48	183
	BankIslami Pakistan	4	14	9	3	20	99	78	227
	Dubai Islamic Bank Pakistan	7	5	15	3	10	86	84	210
	Meezan Bank	6	27	36	3	56	420	251	799
	MCB Islamic Bank	2	13	9	1	13	79	63	180
	Islamic Banks	**22**	**65**	**75**	**12**	**115**	**786**	**524**	**1,599**
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank	2	4	6	1	12	69	23	117
	Askari Bank	-	3	8	1	13	46	20	91
	Bank Al Habib	-	4	5	1	12	31	39	92
	Bank Alfalah	1	5	13	-	11	95	40	165
	Faysal Bank	7	21	18	7	43	231	86	413
	Habib Bank	2	1	4	-	5	24	12	48
	Habib Metropolitan Bank	-	-	1	-	7	9	14	31
	National Bank of Pakistan	9	6	6	1	38	95	34	189
	Silk Bank	1	1	3	-	5	11	9	30
	Sindh Bank	1	1		-	2	7	3	14
	Soneri Bank	-	1	2	1	6	10	5	25
	Standard Chartered Bank (Pakistan)	-	-		-	1	1	2	4
	Summit Bank	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	4	2	-	65	10	3	84
	The Bank of Punjab	1	6	6	-	13	72	-	98
	United Bank	1	4	5	-	19	39	32	100
	Zarai Taraqiati Bank		-	1	-	1	2	1	5
	Islamic Banking Branches Total	**25**	**62**	**82**	**14**	**254**	**754**	**329**	**1,520**
Sub Branches	AlBaraka Bank (Pakistan)	-	-	1	-	-	1	6	8
	Askari Bank	-	1		-	1	1	-	3
	BankIslami Pakistan	1	6	8	-	5	41	51	112
	Dubai Islamic Bank Pakistan						9	16	25
	Faysal Bank		-	-	-	-	1	-	1
	Habib Bank	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	2	-	2
	United Bank	-	-	1	-	1		-	2
	Sub-Branches Total	**1**	**7**	**10**	**0**	**7**	**55**	**75**	**155**
	Grand Total	**48**	**134**	**167**	**26**	**376**	**1,595**	**928**	**3,274**

*** FATA merged with KPK through 25th amendment to the constitution**

Annexure III: District-wise Break-up of Islamic Banking Branch Network

(As of June 30, 2020)

S. No.	Province	District	No. of Branches*
1	Sindh	Badin	4
2		Dadu	6
3		Ghotki	4
4		Hyderabad	64
5		Jacobabad	5
6		Jamshoro	3
7		Karachi City	739
8		Kashmore	1
9		Khairpur	4
10		Larkana	6
11		Matiari	4
12		Mirpurkhas	13
13		Naushahro Feroze	4
14		Shaheed Benazir Abad	18
15		Sanghar	16
16		Shikarpur	1
17		Sukkur	20
18		Shahdadkot	2
19		Tando Allahyar	4
20		Tando Mohammad Khan	3
21		Thatta	3
22		Umer Kot	4
Sindh Total			**928**
23	Punjab	Attock	20
24		Bahawalnagar	19
25		Bahawalpur	29
26		Bhakkar	5
27		Chakwal	19
28		Chiniot	6
29		Dera Ghazi Khan	20
30		Faisalabad	123
31		Gujranwala	81
32		Gujrat	58
33		Hafizabad	6
34		Jhang	15
35		Jhelum	19
36		Kasur	19
37		Khanewal	30
38		Khushab	8
39		Lahore City	515
40		Layyah	8
41		Lodhran	5
42		Mandi Bahauddin	15
43		Mianwali	9
44		Multan	92
45		Muzaffargarh	12
46		Nankana Sahib	11
47		Narowal	10
48		Okara	27
49		Pakpattan	11
50		Rahim Yar Khan	44
51		Rajanpur	4
52		Rawalpindi	161
53		Sahiwal	33
54		Sargodha	36
55		Sheikhupura	28
56		Sialkot	54
57		Toba Tek Singh	22
58		Vehari	21
Punjab Total			**1595**
59	Azad Kashmir	Bagh	2
60		Bhimber	1
61		Dadyal	4
62		Hattian Bala	1
63		Kotli	6
64		Mirpur	19
65		Muzaffarabad	12
66		Poonch	3
Azad Kashmir Total			**48**

S. No.	Province	District	No. of Branches*
67	Khyber Pakhtunkhwa	Abbottabad	26
68		Bannu	9
69		Batagram	3
70		Buner	5
71		Charsadda	10
72		Chitral	7
73		Dera Ismail Khan	15
74		Hangu	7
75		Haripur	13
76		Karak	1
77		Kohat	11
78		Lakki Marwat	1
79		Lower Dir	15
80		Malakand	16
81		Mansehra	16
82		Mardan	21
83		Nowshera	22
84		Peshawar	106
85		Shangla	5
86		Swabi	9
87		Swat	31
88		Tank	2
89		Torghar	1
90		Upper Dir	7
91		Kohistan	2
92		Bajaur Agency	3
93		Khyber Agency	7
94		Mohmand Agnecy	1
95		Orakzai Agency	2
96		Kurram Agency	2
KPK Total			**376**
97	ICT	Islamabad	167
Islamabad Total			**167**
98	Gilgit-Baltistan	Astore	1
99		Ghizer	1
100		Hunza	1
101		Skardu	3
102		Diamir	7
103		Gilgit	13
Gilgit-Baltistan Total			**26**
104	Balochistan	Chaghi	2
105		Gawadar	8
106		Harnai	1
107		Jaffarabad	1
108		Kech	2
109		Khuzdar	4
110		Lasbela	5
111		Loralai	6
112		Noshki	1
113		Nasirabad	1
114		Panjgur	2
115		Pishin	8
116		Qilla Abdullah	6
117		Qilla Saifullah	7
118		Quetta	67
119		Sibi	2
120		Turbat	2
121		Zhob	6
122		Ziarat	3
Baluchistan Total			**134**
Grand Total			**3,274**

*including sub-branches