5 ISLAMIC BANKING

Since the emergence of modern Islamic finance in the 1970s, it has grown significantly in both volume and scope, attracting significant attention worldwide. There are now more than 300 Islamic financial institutions operating in around 75 countries. Over the years, the Islamic financial landscape has transformed into a vibrant and competitive mode of global financial intermediation. According to an estimate, total shariah compliant assets worldwide have grown to about US$ 700 billion – with annual growth exceeding 10.0 percent during the past decade[1] - and are projected to grow to US$ 1.6 trillion by 2012.[2] Islamic banking and Sukuk represent the most well established forms of Islamic finance, whereas Takaful and shariah-compliant mutual funds are also evolving rapidly. In terms of contribution to the global shariah-compliant asset base, Islamic commercial banks take the lead with a 74 percent share of assets.[3]

Islamic financial institutions (IFIs), while not directly impacted by the repercussions of the global financial crisis,[4] did experience the knock-on risks transmitted through indirect channels. Notably, to comply with the "asset-backing principle"[5] of Islamic transactions, one of the preferred asset classes of Islamic banks is real estate. According to an estimate by Standard & Poor's,[6] around 20.0 percent of all financing by IFIs is backed by real estate, and a large number of commercial banks are vulnerable to the correction in the real estate market seen during the last two years. Secondly, given the dearth of shariah-compliant liquidity management instruments, IFIs have generally resorted to placing funds in the equity market, which has exposed them to the risk of severe correction in stock markets around the world, as seen during the course of the financial crisis. Third, the drying up of global liquidity has had an adverse impact on sukuk issuance, which has gone down to US$ 14.9 billion in 2008, as against US$ 34.3 billion in the previous year. The emergence of these risks as a consequence of the financial crisis has brought forth the realization that IFIs, while resilient to adverse developments, are not risk immune. The ensuing debate on the supremacy of the tenets of Islamic finance versus conventional finance needs to take these risk factors into account, given that both conventional and Islamic financial institutions function in one and the same global economy. Islamic Finance is one component of global finance and equally exposed to the developments in international financial markets. The view that IFIs are inherently safe because of the prohibition on the use of structured finance vehicles is countered by the argument that Islamic finance is still not a mature industry, that there would have been attempts to introduce shariah- compliant securitization instruments if the crisis hadn't occurred when it did, and that IFIs are prone to risks specific to the nature of their operations. Notwithstanding the ongoing debates and arguments, the fact that IFIs remained relatively unscathed during the initial phase of the crisis does speak of its virtues in comparison with conventional finance.

In Pakistan, since its re-launch[7] in 2002, Islamic banking has grown progressively. The asset base of the Islamic Banking Institutions (IBIs)[8] on average has grown at around 59 percent per annum since 2005. The growth in the deposit base and the ongoing expansion in outreach, based on the number of branches, is also impressive. As a proportion of the overall

[1] Islamic Finance Outlook 2009, Standard & Poor's, February 2009.
[2] "The Next Chapter in Islamic Finance - Higher Rewards but Higher Risks", Oliver Wyman, April 2009.
[3] Islamic Finance 2009, International Financial Services London (IFSL) Research, February 2009.
[4] Shariah Law prohibits interest-based structured financial products, the mismanagement of which led to the crisis.
[5] IFIs have to abide by the asset-backing principle which requires that each financial transaction must refer to a tangible, identifiable underlying asset.
[6] Islamic Finance Outlook 2009, Standard & Poor's, February 2009.
[7] Historical details in Chapter 4, SBP Financial Sector Assessment 2004, and Chapter 8, SBP Financial Stability Review 2007-08.
[8] IBIs include stand-alone Islamic banks, Islamic banking branches of conventional banks and Islamic window operations in conventional branches of conventional banks.

banking industry, the combined share of Islamic banks, Islamic branches of conventional banks and Islamic windows[9] is 5.2 percent in deposits, and 5.1 percent in assets, as of end-June CY09. State Bank of Pakistan's strategic plan for the Islamic banking industry launched in 2008,[10] aims to increase the size of the industry to 12.0 percent (of total banking assets) by 2012. In essence, the focus of the strategic plan is: (i) to extend the outreach of Islamic banking services by covering a broad-based geographical area and encouraging product development, (ii) strengthen the shariah-compliance mechanism and regulatory support, while (iii) building the capacity of Islamic banking institutions. Notably, the Islamic banking industry in Pakistan is also stymied with challenges faced by other jurisdictions such as the need for standardization in shariah rulings on products and services, developing appropriate instruments for liquidity management purposes etc, and the strategic plan aims to overcome these challenges, by focusing on the SMEs, microfinance and agriculture sectors.

This chapter gives a detailed performance review of the Islamic banking industry in Pakistan. The first section briefly highlights the progress of Islamic finance in the international sphere, the second section gives an overview of IBIs performance, while the third section discusses the key financial indicators, the financial stability and soundness of the domestic banking industry in 2008. The next section gives an assessment of the risks and the chapter is concluded with an update of the performance review in the first half of 2009, and a discussion of the issues and challenges faced by the industry as it continues to grow and expand.

5.1 International Developments

In terms of geographical outreach, Islamic financial services which were historically concentrated in predominantly Muslim countries such as Egypt, Malaysia, Iran and countries of the Gulf Co-operation Council (GCC), have gradually spread into other Muslim and non-Muslim countries around the globe as detailed in **Table 5.1,** which shows a growth of over 63 percent in the assets managed by the top 500 IFIs in Australia, Europe and US. Among western countries, the United Kingdom has emerged as a leading center for offering Islamic financial services. The growing shariah-compliant asset base in the country is indicative of supportive regulatory policies. At present, 22 banks in UK offer Islamic financial services, out of which 5 are fully shariah-compliant (four wholesale and one retail bank), while a license has also been issued for setting up a takaful company.

Table 5.1: Assets Managed by Top 500 Islamic Institutions

billion US Dollars

Region	CY08	CY07	%Change
Gulf Cooperation Council	262.7	178.1	47.5
Non-GCC MENA*	248.3	176.8	44.4
MENA Total	511	354.9	43.9
Sub-Saharan Africa	5.4	4.7	54.9
Asia	87.5	119.3	-26.6
Australia/Europe/US	35.1	21.5	63.3
Global	**639**	**500.5**	**27.7**

Source: Banker Magazine 2008

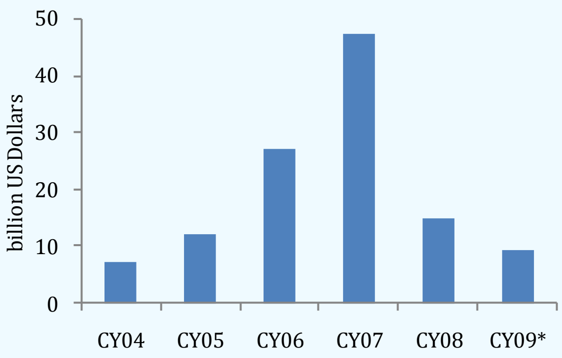
*Middle-East and North Africa

While London positions itself as the leading Islamic financial centre in Europe, France, which had earlier adopted a more conservative approach, is now striving to catch up, as indicated by the adjustments in its legal and fiscal framework to enable the development of Islamic finance, in particular sukuk issuance and structured real estate transactions. In doing so, France stands to gain the attention of Middle Eastern investors holding abundant liquidity, especially since global financial markets have run dry, while also tapping faith-based clientele in the country, given that it has the largest Muslim population in Europe.[11]

[9] IBD Circular No. 6 dated November 10, 2007.
[10] Strategic Plan for Islamic Banking Industry of Pakistan, September 2008, Islamic Banking Department, State Bank of Pakistan.
[11] "Islamic Finance in France: Paris tries to reduce the gap with London", Standard & Poor's 2009.

Sukuk Issuance: The pace of sukuk issuance which had slowed down in 2007, decelerated further in 2008 as a consequence of the global financial crisis which caused drying up of liquidity and widening of credit spreads, leading investors to adopt a wait-and-see attitude. The value of issuance in 2008 dropped by more than 56 percent to US$ 14.9 billion, from US$ 34.3 billion in 2007 (**Figure 5.1**). Albeit the number of issuers remained the same as in the previous year, indicating the much reduced issuance size. Data for the first 7 months of 2009 shows that sukuk issuance has reached US$ 9.3 billion, compared with US$ 11.1 billion issued in the first 7 months of 2008.[12]

Figure 5.1: Global Sukuk Issue

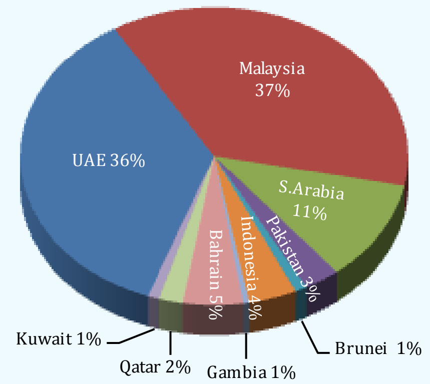


Source: IFSL & Standard and Poor's

Notably, two key markets for Islamic finance among the GCC countries i.e. UAE and Saudi Arabia experienced a major shift in liquidity flows, which started to reverse from the second half of 2008, leading to a significant downturn in the local and regional debt and equity markets, including the sukuk market.

Despite the marked decline in the value of sukuk issuance, the long term prospects of the Sukuk market remain strong. On the demand side, increased wealth accumulation in the Middle East on the back of high oil prices gives an indication of investor's appetite, whereas on the supply side, massive infrastructure projects in the Gulf will continue to require a huge amount of financing. According to Standard & Poor's, conservative estimates of issues in the pipeline are in excess of US$ 45 billion. Incidentally, the US Dollar has lost its appeal as the currency of choice for Sukuk issues with only 10.0 percent of new issues denominated in it, and it is expected that the sukuk market will be skewed towards issuances in local currencies to increase their appeal for domestic investors while international investors take a back seat, at least until the normal functioning of global financial markets is restored to pre-crisis levels.[13]

Figure 5.2: Countrywise Global Sukuk Issuance CY08



Source: Standard & Poor's 2009

One of the positive developments in 2008 was the continuation in the trend of continuous geographic diversification, as indicated in **Figure 5.2**. While the Malaysian and UAE-based issuers continue to drive the sukuk market, other GCC and Asian countries are also seen to be taking an active role in the growth of the market.

5.2 Islamic Banking in Pakistan – Performance Review

The Islamic Banking Industry in Pakistan consists of 6 Islamic Banks with 313 branches, 12 conventional banks with 138 Islamic branches and 78 sub-branches, bringing the total to

[12] "The Sukuk Market Has Continued To Progress In 2009 Despite Some Roadblocks", Standard & Poor's Ratings Direct, September 2, 2009.

[13] "Sukuk Market Declined Sharply In 2008, But Long-Term Prospects Remain Strong", Standard & Poor's 2009.

529 by H1-CY09. Keeping in view the difficult operating environment for the banking industry in CY08,[14] IBIs' performance is nothing short of remarkable, and a comparison of their performance with the overall banking industry shows favorable trends in almost all indicators, considering the small size and evolving nature of Islamic financial services in the country.

Table 5.2 : Growth of Islamic Banking

	Amount (billion Rupees)			Growth (percent)		
	CY06	CY07	CY08	CY06	CY07	CY08
Total Assets	119.9	205.9	276.0	66.9	71.6	34.0
Deposits	83.7	147.3	201.6	67.7	76.0	37.0
Financing	65.7	107.7	146.9	43.4	63.9	36.3
No. of Branches	150	289	515	114.3	92.7	78.2

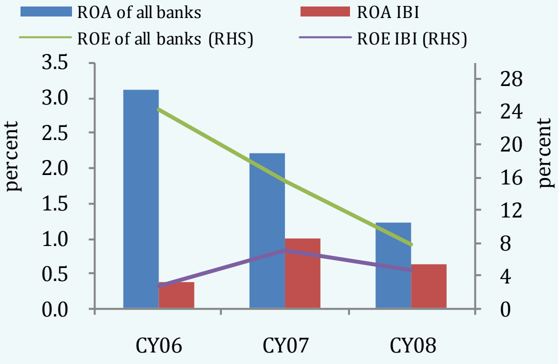
Note: These figures are inclusive of stand-alone Islamic banking branches of conventional banks.

Source: Islamic Banking Department, State Bank of Pakistan

As shown in **Table 5.2**, the high growth momentum of IBIs observed in the last few years, stabilized to a more sustainable pace in CY08, during which the overall banking industry was faced with a myriad of challenges emanating from its operating environment. Notwithstanding this assertion, the apparent slowdown is also driven by the base effect. IBIs' relative performance during the year in terms of growth in assets (34 percent), deposits (37 percent), financing (36 percent)[15] and number of branches is far superior to the performance of the conventional banking industry. The existing network of both conventional and Islamic banks further extended their outreach with the addition of 226 branches during the year.

Notwithstanding, the adverse economic situation has started to take its toll on IBIs given that the encouraging growth performance in assets, deposits, financing and investments which had started to manifest itself in the profitability indicators until CY07, could not sustain the trend in CY08. This is evident from the ROA and ROE of IBIs as shown in **Figure 5.3**. In CY08, IBIs' ROA (after-tax) declined to 0.6 percent as against 1.0 percent in CY07, while the ROA of the banking industry also continued on its declining trend observed since CY06, reaching 0.8 percent in CY08 as compared to 1.5 percent in CY07. The after-tax ROE of IBIs also decreased from 7.1 percent in CY07 to 4.6 percent in CY08, while the ROE of the overall banking industry declined from 15.4 percent in CY07 to 7.8 percent in CY08. Nevertheless, the performance of the still small but growing Islamic banking industry is quite encouraging in the backdrop of the slowdown in economic conditions in the country.

Figure 5.3: Profitability Comparison -IBIs vs Industry Average



Source: BSD, SBP

Notably, any performance review of the Islamic banking industry must be seen in perspective of its still short existence as compared to the conventional commercial banks. As also pointed out in FSR 2007-08, most of the players in the Islamic banking industry are relatively new with high start-up costs, and some still haven't reached the break-even stage.

[14] Detailed overview of the operating environment is discussed in "Chapter 4: Stability of the Banking System", in this edition of the FSR.

[15] For Islamic banking institutions the word "financing" has been used instead of advances due to the difference in conventional and Islamic banks' underlying modes' of transactions.

In an efficiently functioning economic environment, a newly established bank takes 3-4 years to become profitable but given the slowdown in economic activities, it might take longer for the start up costs and expenditure on the development of management systems and related infrastructure, to yield results. It is evident from bank-wise information that most of the Islamic banks are in an expansion phase and the administrative costs are relatively higher, more so for the new players in the industry as shown in **Table 5.3**. Evidently, rapid expansion in pursuit of penetrating the target market has translated into proportionately higher expenses than earnings.

Table 5.3: Admin. cost/Gross Income and Branches CY08
Ratio in percent, Branches in number

	Year of Inception	Admin. Cost/ Gross Income	Branches	
			CY07	CY08
Meezan Bank	2002	70.9	100	166
Dubai Islamic Bank	2006	117.4	17	25
Bank Islami	2006	127.8	36	102
Dawood Islamic Bank	2007	87.8	5	21
Emirate Global Islamic	2007	169.8	10	40
Albaraka Islamic Bank*	1991	115.9	18	30

*Islamic Banking license was obtained in 2004
Source: IBD,FSD Calculations

With this overview in mind, the next section gives an assessment of the various performance indicators of the IBIs.

5.3 Financial soundness and Stability of Islamic Banking

Asset and Liability Structure

The composition of a bank's balance sheet is one of the key determinants of the nature of risks it faces in its operating environment. **Table 5.4** gives a comparative position of the balance sheet components of the conventional banking industry and IBIs for CY08. On the face of it, the assets and liability composition of IBIs is not very different from that of the overall banking industry, however there are some inherent variations among the two, as explained below.

Table 5.4: Structure of IBIs vs. the Industry in CY08
share in percent

	All Banks	IBIs
Assets		
Cash & Balances	8.5	7.9
Balances With Other Banks	3.1	8.1
Lending To Financial Institutions	3.3	7.3
Investments – Net	19.2	15.2
Advances /financing– Net	56.6	52.1
Other Assets	9.3	9.4
Liabilities		
Bills payable	1.2	1.0
Due to financial institutions	8.2	7.9
Deposits and other accounts	75.0	73.0
Other liabilities	5.6	5.2
Equity	10.0	12.9
Total	100.0	100.0

Source: BSD and IBD, SBP

The most obvious difference is in the liquidity management approach of IBIs in comparison with conventional banks. The continued lack of instruments for liquidity management generally induces IBIs to place their excess liquid funds with other financial institutions **(Table 5.4),** as evidenced by the higher balances with other banks and higher lending to financial institutions, more so than conventional commercial banks, who have access to a fairly developed and reasonably active debt capital market for liquidity management purposes.

A related issue is the need for compliance with SBP's SLR requirements. In recognition of the low volume of shariah-compliant SLR eligible instruments (**Table 5.5**), SBP has generally maintained concessionary SLR requirements for IBIs in comparison with conventional banks. IBIs comply with their SLR requirements (currently at 9.0 percent of time liabilities with tenors of 1 year and above) either by investing in one of the SLR eligible Sukuk, and/or by keeping proportionate cash balances.[16] Notably, total investments in Sukuk for meeting SLR

[16] Cash balances with National Bank of Pakistan in current account are eligible for SLR requirements; BSD Circular No. 5 dated August 1, 2007.

requirements cannot exceed 7 percent of total demand and time liabilities (DTL), whereas the limit is 5 percent for holding a Sukuk of a particular issuer.[17] Such restrictions carry a high opportunity cost, especially in an era of rising interest rates, as was the case in CY08.

The lack of availability of shariah-compliant instruments is also reflected in the share of investments in total assets, of around 15 percent in CY07 and CY08. Notably, a large proportion of these investments are in private sector sukuk which have an illiquid secondary market and are not actively traded. **Table 5.5** gives details of Sukuk issuance since CY02, indicating a limited number of SLR eligible instruments available for IBIs. Notably, the introduction of the Government of Pakistan Ijarah Sukuk in CY08 has helped alleviate some of these concerns.[18] Bank-wise investments in the Ijarah Sukuk are given in **Table 5.6**.

Table 5.5 : Sukuk Issuance in Pakistan

million Rupees

Year	Amount Issued	No. of Issues	SLR	
			Eligible	Non-eligible
CY02	360	1	0	1
CY03	275	1	0	1
CY06	9,725	3	1	2
CY07	53,355	21	3	18
CY08	32,118	19	2	17
CY09*	33,671	4	2	2
Total	129,504	49	8	41

* CY09 till end September, issue-wise list in Appendix

Source: Islamic Banking Department, S&DWH, SBP

Despite the limited range of asset products, in particular the lack of viable shariah-compliant alternatives to the conventional running finance product and the most popular mode of consumer financing i.e. the unsecured personal loans, IBIs' financing portfolio grew by 36.3 percent in CY08 as compared to the 18.2 percent growth in the advances of the banking industry in CY08. This is a remarkable achievement given that, like other banks, IBIs were also faced with a difficult macroeconomic environment, and the fact that conventional banks, due to their well established customer base and access to a variety of loan products, have a competitive edge on IBIs. Data on the advances to deposit (ADR) ratio also supports this assertion, given that IBIs' ADR was 71.4 percent at end-CY08, indicating aggressive efforts to expand financing.

Table 5.6: Ijarah Sukuk Bank-wise Holding (Issue I-IV)*

share in percent

Primary Dealers	Share
Meezan Bank	32.3
Bank Al Falah	16.6
UBL	8.4
Habib Metropolitan	8.0
Bank Al Habib	7.3
NBP	6.5
Bank Islami Pakistan	5.3
Soneri Bank	4.9
Bank of Khyber	3.2
Dawood Islamic Bank	2.4
RBS	2.4
Al Baraka Islamic	1.5
MCB Bank	0.9
SCB	0.3
Grand Total	**100**

*As of Sep 2009.

Source: DMMD, SBP

However, growth in total financing has not translated into extended outreach as evident from the number of borrowers. To elaborate on this issue further, **Table 5.7** gives a sector-wise comparison of IBIs with the banking industry, which shows that while IBIs managed to increase their share in overall advances from 4.0 percent in CY07 to 4.6 percent in CY08, their share in the total number of borrowers decreased from 0.9 to 0.7 percent, indicating concentration of financing in a smaller base of borrowers. Notably, IBIs still have to make significant inroads into untapped segments like agriculture and SME financing, whose borrowers together constitute one-third of the total borrowers of the banking industry.

[17] BSD Circular No. 13, dated June 9, 2008.

[18] The total holdings of the instrument by a single bank cannot exceed 25 percent of the issue amount on any given day, FSCD Circular No. 13, dated September 6, 2008.

Table 5.7: Sector -Wise Comparison of Loans of IBIs and Conventional Banks for CY08

billion Rupees, share in percent

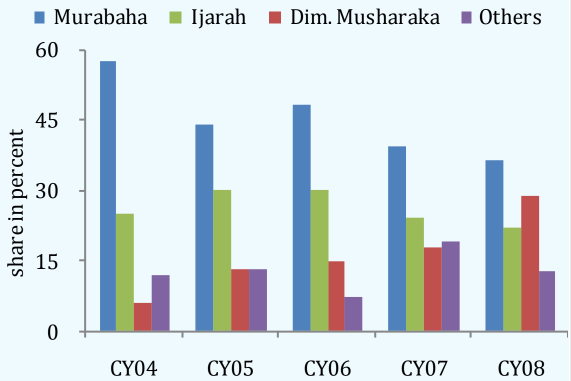
	Banking Industry		IBIs				Share of IBIs			
	No. of Borrowers	Amount	No. of Borrowers		Amount		No. of Borrowers		Amount	
Sector	CY08		CY07	CY08	CY07	CY08	CY07	CY08	CY07	CY08
Corporate	29,008	2,016	1,959	1,870	62.8	94.6	7.5	6.4	4.1	4.7
SMEs	214,357	375	2,685	2,573	12.5	14.4	1.5	1.2	2.9	3.8
Agriculture	1,285,639	156	159	67	0.01	0.05	0.01	0.01	0.0	0.03
Consumer- finance	2,889,460	332	36,533	26,684	28.8	32.7	1.2	0.9	7.8	9.9
Commodity finance	3,461	235	31	20	1.1	1.7	1.2	0.6	0.8	0.7
Others	122,276	78	1,148	1,578	2.5	3.5	0.9	1.3	3.4	4.5
Total	4,544,201	3,192	42,515	32,792	107.7	147.0	0.9	0.7	4.0	4.6

Source: Banking Surveillance Department and Islamic Banking Department, State Bank of Pakistan

Going forward, the expansion in IBIs' business will depend on their ability to extend their outreach into rural area, increase their penetration of the agriculture and SME sectors, and ensure product development and diversification to offer a complete financial package to their customers. Notably, these elements are also the points of focus of the 5 year strategy put forward by SBP in its capacity as the regulator of the industry. To facilitate IBIs, the Islamic Banking Department at SBP has introduced guidelines for Islamic Microfinance Business, and for Islamic financing for agriculture, in addition to issuing a Handbook for Islamic SME financing.[19]

In terms of modes of financing, gradual standardization[20] in shariah-complaint principles have helped IBIs in achieving an increased degree of diversification in the utilized modes of financing. As can be seen from **Figure 5.4**, the initial pattern of concentration in financing based on Murabaha has decreased over time, and both the Diminishing Musharika and Ijarah have emerged as the more popularly utilized modes of financing, with shares of 29 percent and 22 percent respectively.

Figure 5.4: Financing Products by Islamic Banks



Source: IBD, SBP

As indicated by the distribution of assets on the basis of modes of financing, IBIs in Pakistan, as in a few other jurisdictions, have not ventured into participatory modes of financing. Prudential Regulations prescribe limits on banks for undertaking purely equity-based transactions and rightly so, due to the higher risk involved.

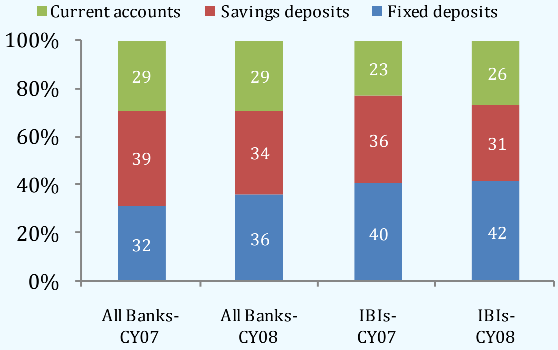
Moving on to the composition of liabilities, the share of deposits in total liabilities at 73 percent suggests that deposits are IBIs' main source of financing their assets, as is the case for the conventional banking industry. However, IBIs have traditionally had a higher share of fixed deposits (which are more expensive) than the relatively cheaper savings accounts (**Figure 5.5**). Notably, this specific composition arises from the fact that most of the IBIs are relatively new players in the market with a limited outreach in terms of a branch network.

[19] These documents can be accessed from www.sbp.org.pk

[20] For detail please see IBD Islamic Banking Bulletin Oct-Dec, 2008

Encouragingly though, with the progressive increase in outreach in recent years, there has been a shift in the composition of deposits such that the share of non-remunerative current accounts has increased to an average of 25 percent over the last 3 years (from less than 1 percent in CY03) and the share of fixed deposits has stabilized at an average of 42 percent over the same period, in comparison with an over 57 percent share in CY03. This change in composition has had the desired impact on the cost of funds as discussed in the next section.

Figure 5.5: Deposits Structure of IBIs and Banking Industry



Source: IBD, BSD, SBP

Earning and profitability

The impact of the asset-liability structure of IBIs on their key cost and earnings ratios is presented in **Table 5.8**. Despite the general slowdown in economic activities, IBIs have managed to post healthy earnings in the form of markup income which is a major contributor to their profitability. During CY08, the markup income to total assets' ratio at 9.1 percent was slightly higher than the industry average of 8.9 percent. On the other hand, the non-markup income to total assets ratio was only 0.9 percent as compared to the industrial average of 1.8 percent, indicating a small base of fee-based transactions, and the potential to increase revenue from this particular avenue.

Table 5.8: Cost and Income Ratios - CY08

percent

Ratios	All Banks	IBIs
Interest Income or Mark-up to Total Assets	8.9	9.1
Net Interest Income or Mark-up to Total Assets	4.4	4.4
Non-Interest or Mark-up Income to Total Assets	1.8	0.9
NIM or NMM* (based on earning assets)	5.3	5.3
Average Cost Of Deposits & Borrowings	5.4	5.9
Avg. Return On Advances/financing & Investments	10.8	11.1
Average Spread	5.4	5.2
Administrative Expense to Gross Income	33.9	75.3

*NMM – Net Mark-up Margin

Source: BSD and IBD, SBP

Given the favorable shift in the composition of deposits, the average cost of deposits and borrowings for CY08 is only slightly more than the cost for the banking industry. However, the much higher administrative expenses, at 2.5 times the industry average of around 34 percent, carry negative implications for IBIs' profitability.

Capital Adequacy

The Capital Adequacy Ratio (CAR) signifies a bank's ability or capacity to withstand losses incurred over time. **Table 5.9** shows the CAR of the six dedicated Islamic banks as specified in the Basel II framework. Given the requirement of 9.0 percent[21] for CY08, the significantly higher CARs for the 4 new banks in the industry indicate that both organic growth and implementation of minimum capital requirements (MCR) have helped in augmenting their capital base.

Table 5.9: Capital Adequacy of Islamic Banks as of CY08

percent

	CY07	CY08
Meezan Bank	10.8	10.0
Dubai Islamic Bank	23.5	20.7
Bank Islamic	26.2	39.8
Dawood Islamic Bank	51.8	45.2
Emirate Global Islamic Bank	50.0	30.3
Albaraka Islamic Bank	15.9	11.7

Source: Banking Surveillance Department

[21] BSD Circular No.30 dated November 25, 2008.

In terms of compliance with MCR, 4 out of the 6 dedicated Islamic Banks (IBs) have been able to meet the MCR of Rs. 5.0 billion at end CY08. Two IBs were granted extension to meet the CY08 MCR requirements in CY09, and one of them is now in compliance, while the other has planned a rights issue for Q3-CY09. Albaraka Islamic Bank, on the other hand, is allowed to maintain an MCR of Rs. 2.0 billion in its capacity as a branch of a foreign Islamic bank.[22]

Table 5.10 lists the Financial Soundness Indicators (FSIs) of IBIs, which while indicating slight deterioration in CY08, reflect a healthy financial position and the potential for future expansion on a sound footing. The stronger capital base ensures that these banks are well equipped to meet various kinds of shocks, if and when they arise. Of particular note is the net NPLs to capital ratio of 6.2 percent for IBIs as compared to 19.4 percent for the banking industry, indicating that the onslaught of NPLs hit the conventional banks harder than the IBIs in CY08. This is not a surprising observation, given that IFIs' financing portfolio is still young and the impact of the credit cycle[23] still has to surface.

Table 5.10: Financial Soundness Indicators

percent

	Banking Industry			IBIs		
	CY06	**CY07**	**CY08**	**CY06**	**CY07**	**CY08**
Total Capital to Total RWA	12.7	13.2	12.3	18.6	18.9	17.3
Total Capital to Total Assets	9.4	10.5	10.0	7.7	10.6	12.9
Net Non-Performing Loans/financing To Capital	9.7	5.6	19.4	-0.8	6.3	6.2

Source: Banking Surveillance Department

5.4 Assessment of Risks

Over the last two years, drastic changes in the global financial landscape have introduced various risks and challenges for the global financial system. Islamic financial services, which have grown in parallel with the conventional financial system and have gained popularity as an alternative mode of financial intermediation, are equally vulnerable to the risks posed by developments in their operating environment. Notably, in addition to conventional risks, IFIs are also faced with risks which emerge from their peculiar modes of operation. As the industry continues to evolve, the role of the regulator is even more critical in devising appropriate risk management guidelines, enabling the market participants to identify and manage the various risks with the objective of safeguarding the stability of the financial system.

Keeping in view the unique risks profile of IBIs, and with the objective of further strengthening their regulatory framework, SBP has formulated and issued Risk Management Guidelines (RMG) for IBIs,[24] in addition to the various other regulations and guidelines issued from time to time that IBIs need to comply with. These guidelines are based on the 'Guiding Principles of Risk Management for Institutions offering Islamic Financial Services' issued by the Islamic Financial Services Board (IFSB), and provide a set of principles for establishing and implementing effective risk management in IBIs.

This section assesses the risk profile of the IBIs operating in Pakistan.

Credit Risk

Owing largely to the slowdown in economic activities alongwith rising interest rates and high inflation, the pace of growth of IBIs' credit portfolio did slow down in CY08, but still maintained a strong growth rate of 36.3 percent, as against 63.9 percent in CY07, indicating their resilience to the adverse economic environment.

[22] BSD Circular No. 6 dated October 28, 2005.

[23]The credit cycles denotes the various stages that a loan application goes through, from being assessed for approval, to actual disbursement, to the collection of outstanding installments, until the loan is fully paid off.

[24] IBD Circular No.1 dated January 2, 2008

The sectoral break-up of financing (**Table 5.11**) shows that the strongest growth came from loans to the corporate sector, which grew by over 50 percent during CY08, in addition to the 13 percent and 14.6 percent growth in loans to the consumer and SMEs sector respectively. A striking difference between the composition of the loan portfolio of conventional banks and IBIs is the share of consumer finance at end-CY08, at 10.4 percent and 22.3 percent, respectively. Notably though, this seemingly high proportion of loans to the consumer sector by IBIs carries a lower risk weight. This is because as opposed to conventional banks which also offer unsecured products such as personal loans and credit cards, IBIs exposure is largely concentrated in two products i.e. auto loans and mortgage finance which are inherently backed by assets, which serves to safeguard the banks' risk exposure, while prudent loan-to-value ratios provide additional comfort against the potential risk of default.

Table 5.11: Sector wise break up of Financing

million Rupees, share in percent

	CY05		CY06		CY07		CY08	
Total Financing	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**
Corporate Sector	25,930	56.2	40,373	61.4	62,784	58.3	94,635	64.4
SMEs	6,771	14.7	8,542	13.0	12,535	11.6	14,374	9.8
Agriculture	88	0.2	2	0.0	13	0.01	46	0.03
Consumer Finance	10,012	21.7	15,022	22.8	28,843	26.8	32,718	22.3
Commodity Finance	3,116	6.7	625	1.0	1,118	1.0	1,662	1.1
Others	255	0.5	1,178	1.8	2,458	2.3	3,547	2.4
Total	46,173	100	65,742	100	107,752	100	146,982	100

Source: Islamic Banking Department, State Bank of Pakistan

Table 5.12: Category wise Consumer Finance of IBs-CY08

million Rupee

	Amount
Credit Cards	120.3
Auto Financing	15,566.7
Consumer Durable	11.4
Mortgage Loan	16,998.9
Other personal Financing	20.6
Total	32,718

Source: IBD Database, SBP

While some banks have attempted to introduce both shariah-compliant credit cards and other forms of personal loans, the amount financed for these products has a small share in total outstanding consumer loans (**Table 5.12**). Even in case of corporate sector loans which constitute around 64 percent of total financing, the traditional credit risk faced by conventional banks is relatively less in case of IBIs given the approach towards financing which requires identification of a purpose and the focus on financing real economic transactions which generate income.

Notwithstanding this positive element, credit concentration risk, pervasive in conventional banks, is even more of a concern in case of IBIs given the small base of borrowers, as also discussed earlier, in addition to the fact that IBIs' credit exposure is inordinately skewed towards the corporate and consumer sector which together constitute almost 87 percent of the total financing outstanding at end-CY08, indicating the need for diversification and a more balanced distribution of advances into various sectors.

Furthermore**, Table 5.13** shows the sectoral distribution of loans to the private sector for both conventional banks and the 6 dedicated Islamic Banks.[25] This data reveals the concentration of credit towards the manufacturing sector by both IBIs and the overall industry where, within the manufacturing industry, both conventional and Islamic banks have high stakes in the textile sector. This trend of sectoral concentration is another cause

[25] Sectoral exposure for Islamic banking branches and Islamic windows is not available.

for concern, given that the textile sector carries a higher degree of risk due to its high infection ratio of 14.78 percent at end-CY08, as against 10.7 percent at end-CY07.[26]

Another significant source of credit risk arises from the rising concentration of large-sized loans (over Rs. 10 million): 76.8 percent of total IBIs' financing falls in this category **(Table 5.14).**

Table 5.13: Sectoral Distribution of Loans -CY08

percent

	Industry	IBs
Chemical & Pharmaceuticals	3.5	6.2
Agribusiness	4.5	1.3
Textile	19.5	23.5
Cement	2.6	2.5
Sugar	1.9	2.7
Shoes & Leather garments	0.7	2.2
Automobile & Transport equipment	2.3	2.7
Financial	1.8	1.2
Insurance	0.1	0.0
Electronic & transmission of energy	9.9	1.2
Others	39.4	35.4

Source: BSD, SBP

Table 5.14: Distribution of Advances by Size

share in percent

Loan Size (mln Rupees)	CY07	CY08
Up to 0.1	6.2	5.0
0.1 to 0.5	10.0	8.1
0.5 to 1.0	2.8	2.4
1.0 to 5.0	8.7	8.0
5.0 to 10.0	4.5	4.7
Over 10.0	67.7	71.7

Source: Statistics Department

To assess the impact of the various kinds of credit risk on the quality of assets, various asset quality indicators for IBIs indicate that like the rest of the industry, total non-performing financing (NPFs) of the IBIs also increased during CY08. Notably, the pace of increase was unprecedented in the short history of Islamic banking in the country: total NPLs increased by Rs. 3.39 billion, or almost 263 percent in CY08 alone. However the outstanding stock of NPLs as a proportion of total financing was only 3.2 percent at end-CY08, compared to 1.2 percent in CY07, in comparison with 7.2 and 10.5 percent for CY07 and CY08 respectively for conventional banks. In particular, while NPLs have increased substantially, IBs' provisioning coverage ratio dropped to 54.1 percent from a relative higher coverage of 113.0 percent in CY07, showing the incidence of incremental flows into the initial buckets of NPLs classification which have partial provisioning requirements (**Table 5.15**).[27]

Table 5.15: Asset Quality Comparison

percent

	Banking Industry				Islamic Banks			
	CY05	CY06	CY07	CY08	CY05	CY06	CY07	CY08
NPFs to Financing	8.3	6.9	7.2	10.5	1.7	1.6	1.3	3.6
Net NPFs to Net Financing	2.1	1.6	1.1	3.4	0.6	0.6	-0.2	1.7
Provisions to NPFs	76.8	77.9	85.1	69.6	66.6	64.4	113.0	54.1

Source: Banking Surveillance Department

In conclusion, the financing portfolio of Islamic banks has a relatively lower degree of infection than conventional banks given the relatively young financing portfolio, while the heightened degree of concentration risk is mitigated to a certain degree by the asset-based nature of IBIs' financing.

Liquidity Risk

The banking sector experienced an exceptional liquidity shock in Q3-CY08, during which its DTL reduced by around 3 percent i.e. Rs 121.4 billion in 4 successive weeks over September

[26] These figures pertain to the overall banking industry. Details in Chapter 4, Stability of the Banking System, in this edition of the FSR.

[27] Data in Table 5.15 is for the 6 dedicated Islamic banks only and not for IBIs, hence figures in the text and the table can be different.

27 to October 25, CY08.[28] Due to a series of policy interventions by the central bank, banks were largely able to withstand the shock to their liquidity position. One of the steps taken by SBP at that time was to reduce CRR by 400 bps on demand liabilities in a phased manner, while exempting time deposits (of 1 year and above) from SLR requirements.

Table 5.16: Liquidity Ratios
percent

	Banking Industry			IBIs		
	CY06	CY07	CY08	CY06	CY07	CY08
Loan and Advances/Financing to Total Deposits	74.6	69.8	75.5	101	78.1	71.4
Loans/Financing to Deposits Ratio: Net of Export Refinance Borrowings	70.3	66.8	71.5	85.7	73.9	67.2
Liquid assets to Total Assets	31.9	33.6	28.6	28.2	20.5	16.0

Source: BSD, IBD SBP

While the CRR of Islamic banks was also reduced in tandem with conventional banks, their SLR remained at 9 percent with the additional concession that time deposits of one year and above tenor were exempted from SLR requirements. As part of the industry, Islamic banks did feel the impact of the temporary liquidity stress, especially given their small deposit base, but their liquidity position during CY08 remained comfortable.[29] The strong growth of in their financing at 36.4 percent lends credence to this assertion, as does their ADR at 67.2 percent (net of export refinance) (**Table 5.16**). Notwithstanding, the liquid assets to total assets ratio at 16.0 percent has been declining since CY06, and is significantly lower than the industry average of 28.6 percent. As shown in **Table 5.17**, 5 of the 6 dedicated Islamic Banks have this ratio at less than the industry average.

Analysis of the maturity gap (Assets–Liabilities) is another dimension for assessing banks' liquidity position. The data shows that maturity mismatches in various time buckets are within standard limits of ± 10 percent, with the exception of the 3 month bucket in which the GAP is negative. IBIs' deposit base which has a relatively higher share of fixed deposits, has had a positive impact on their GAP profile (**Figure 5.6**).

Market Risk

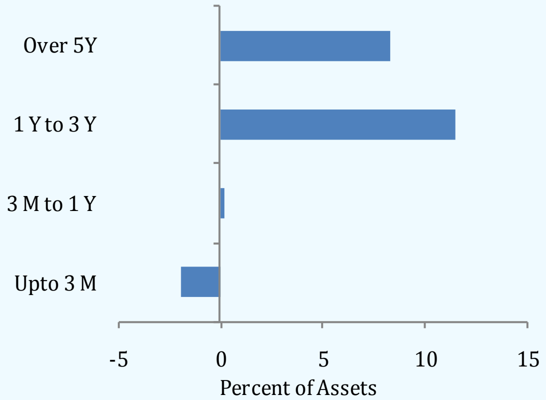
Adverse movements in interest rates, equity prices and exchange rate can potentially

Table 5.17: Distribution of Banks by Liquid Assets to Total Asset Ratio

No. of banks	CY06	CY07	CY08
Less than 10	0	0	0
from 10 to 20	0	1	1
< Industry average	4	5	5

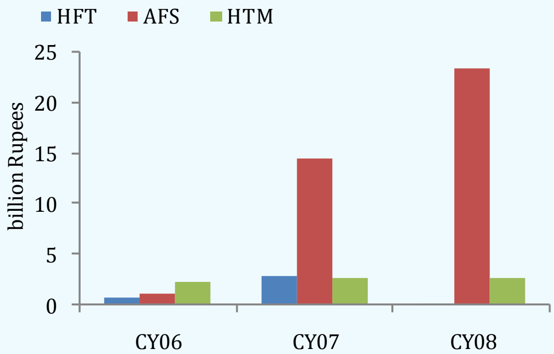
Source: SBP calculations

Figure 5.6: GAP (RSA-RSL) to Asset Ratio



Source: BSD

Figure 5.7: Investment Categorization of Islamic Banks



Source: BSD Database, SBP

[28] Details in liquidity risk section, Chapter 4 "Stability of the banking system", in this edition of the FSR.
[29] This is also true for IFIs' liquidity position in the global financial crisis as detailed in **Box 5.1**.

give rise to market risk. Since IBIs do not invest in fixed-income government securities, and their investments in shariah-compliant sukuk lack a liquid secondary market, most of their investments are generally not actively traded. However, the categorization of the investment portfolio of the 6 dedicated Islamic banks shows that around 89 percent of their investments are categorized as "Available for Sale" at end-CY08 (**Figure 5.7**). Given that Islamic banks don't have access to the conventional channels for liquidity management such as the repo market or SBP's discount window, they have the propensity to ensure that they have an ongoing access to their investments to generate and manage liquidity requirements. Furthermore, the 6-month floating rate structure of most of the sukuk issues is another incentive for this particular categorization from a valuation perspective. Data for CY08 shows

Box 5.1: Liquidity Assessment of Islamic Banks during the global crisis

The global financial turmoil resulted in a loss of confidence among banks, which led to a complete halt to the operations of the interbank markets. As a result, the banking system experienced a liquidity shortfall at a time that it was most needed which led to a consequent systemic risk, causing runs on a number of banks.

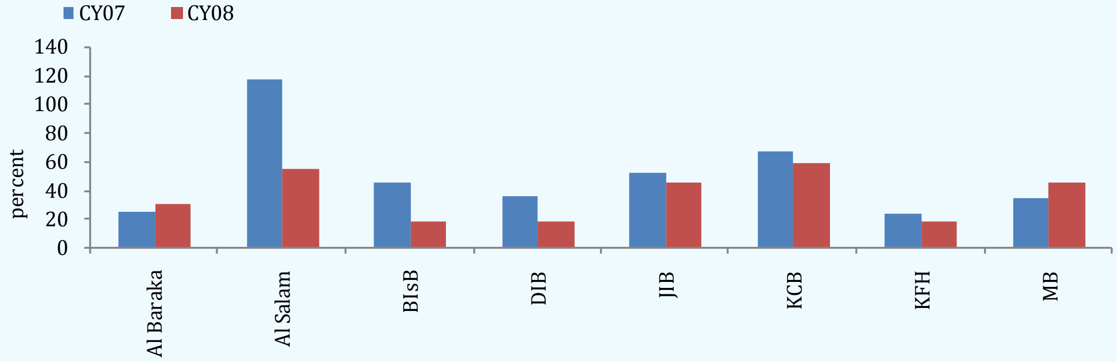
The basic premise of Islamic banking i.e. prohibition on interest and asset-based financing, served to protect Islamic banks to some extent. Notably, while Islamic banks were not entirely immune from the impact of declining real estate values and restricted real estate lending, they are still less likely than conventional banks to suffer adverse consequences beyond their capacity to sustain core profitability and capital.

To evaluate the liquidity of Islamic banks, the Islamic International Rating Agency (IIRA) conducted a survey by selecting key Islamic commercial banks in various countries and utilizing liquidity indicators for 2007/2008. The sample included : Al Baraka Islamic Bank Bahrain (Al Baraka), Al Salam Islamic Bank Bahrain (Al Salam), Bahrain Islamic Bank (BIsB), Dubai Islamic Bank (DIB), Jordan Islamic Bank (JIB), Khaleeji Commercial Bank (KCB), Kuwait Finance House Bahrain (KFHB) and Meezan Bank Pakistan (MB). IIRA defines liquid assets as cash or cash equivalents, short term placements to banks or financial institutions and liquid quoted investments such as government paper and quoted Sukuk. Short term liabilities include deposits and borrowings.

The liquidity assessment shows that these banks had a strong liquidity position at end 2007. Liquid assets constituted 46.9 percent for the selected banks, indicating strong liquidity irrespective of jurisdictions.

Carrying this strong liquidity position into 2008, on average, the impact of the global crisis on the liquid assets in 2008 remained limited as reflected in a relatively modest downward adjustment of the liquid assets to total liabilities ratio. This decrease should be seen in the context of an increase in the loans to core funding ratio which indicates that some of the liquid assets are now transferred to loans and advances. **Figure 1** clearly shows how the liquid assets in Islamic financial institutions have declined relative to liabilities. Quite noticeable among them are BIsB and DIB, whereas Al Baraka and Meezan have seen their liquid assets increase during the year.

Figure 1: Liquid Assets to Liability



Source: Islamic Finance News

Source: www.islamicfinancenews.com, June 2009 that Islamic banks have booked substantial revaluation surpluses given their large proportion of investments in sukuk, and relatively negligible investments in the equity market. Notably, only 2 of the 6 dedicated Islamic banks have equity investments, and whilethey are well within the (higher than conventional banks') prudential requirement of 35 percent, one of them has booked a substantial amount of revaluation deficit on equity investments in CY08.

To sum up, Islamic banks face a relatively lower degree of market risk as compared to conventional banks given the nature of their investments.

5.5 Update on Performance Review of H1-CY09

In sharp contrast to the conventional banking industry which has already weathered the worst of the storm in 2008, the impact of the slowdown in the economy has manifested itself more visibly on IBI's financial position in CY09, as shown in **Table 5.18** which lists summary indicators of the IBIs for H1-CY09. It is obvious from the data that while deposits have maintained the pace of growth, the financing portfolio of IBIs has been adversely impacted by the difficult macroeconomic environment, declining by 1.7 percent in H1-CY09, as against a growth of 23.0 percent in H1-CY08. This marked reversal of the growing pattern of financing is a reflection of both dissipating demand and banks' risk-averse behavior in face of deteriorating asset-quality indicators.

Disaggregated quarterly data reveals that Q1-CY09 did not contribute much to these trends rates given that deposits grew by only 2.3 percent during the first quarter of the year, whereas a relatively better pace of growth was seen in Q2-CY09 when the gradual improvement in macroeconomic fundamentals started to manifest itself more visibly. Considerable slowdown in financing is also reflected in the ADR which reduced from 71.4 percent at end-CY08 to 58.9 percent by end-June CY09. Asset quality indicators deteriorated further in the first half of the year as indicated by the rising NPFs and increase in both the NPFs to Financing and Net NPFs to Net Financing ratios. There was an obvious impact of these developments on profitability, as evidenced by the decline in both RoA and RoE.

Table 5.18(a) Performance Review Update for IBIs
billion Rupees, Ratios in percent

	CY08	H1-CY09	Growth
Deposits	201.6	238.2	[illegible]
Assets	276.0	313.0	13.4
Financing	146.9	144.3	-1.7
Equity	35.7	38.9	9.2
NPFs	4.7	7.3	55.3

Table 5.18(b) Selected ratios

	CY08	H1-CY09
NPFs / Financing	3.2	5.0
Net NPFs / Net Financing	1.5	2.4
Provisions to NPFs	52.5	54.4
Net NPFs / Capital	6.2	11.6
Financing / Deposits (ADR)	71.4	58.9
Liquid Assets / Total Assets	16.0	24.8
ROA (after-tax)	0.6	0.38
ROE (after-tax)	4.6	2.96

Source: IBD SBP

5.6 Looking Ahead - Issues and Challenges

Having reviewed the financial performance of Islamic banks, this section attempts to point out some of the key areas in which further work is needed to facilitate the growth of the industry.

5.6.1 Need for harmonization

The development of Islamic finance around the globe suffers from one major drawback – the lack of a harmonized or standardized approach in offering various products and services. Given the various schools of thought within the Islamic Fiqh which gives rise to different interpretations of shariah, this then results in disparate shariah-compliant products and services in various jurisdictions, such that a product approved as shariah-compliant in one country is not necessarily so in another. This prevents the emergence of for instance, an integrated sukuk market, among other products. In the recent past there has been some progress on this front, as detailed in **Box 5.2**. What is essentially needed is the harmonization of the 'fatwa' on products by various shariah boards, and standardization of documentation.

Box 5.2: Standardization of Islamic Finance Products

The issue of standardization has generated considerable debate in Islamic finance. While the proponents of standardization argue that the lack of it makes transactions time consuming and costly, there are others who hold the view that comprehensive standardization is not a practical idea given the various schools of Islamic thought, in addition to the differences in the tax and legal frameworks in various jurisdictions.

Some progress, however, has been made towards standardization with the introduction of the world's first standardized master agreement to facilitate Commodity Murabaha transactions, by the International Islamic Financial Market in October 2008. Known as the Master Agreement for Treasury Placement (MATP), it enables companies from various jurisdictions to use a standardized document, subject to several negotiable clauses. To take this development a step further, the Association of Islamic Banking Institutions Malaysia (AIBIM) unanimously adopted two standardized interbank master agreements for Islamic deposit-taking and placement transactions, known as the Interbank Murabaha Master Agreement (IMMA) and Master Agency Agreement (MAA). The difference between the MATP and the other two agreements is that IMMA and MAA are rigid — there can be no alterations, amendments, additions or removal of clauses — whereas the MATP is flexible, in that it accommodates variations. In May 2009, it was announced that the Dubai Financial Market had finalized comprehensive standards to be established for the issuance of Sukuk.

Notwithstanding these developments, the executive director of the International Shariah Research Academy for Islamic Finance (ISRA) which is an initiative of Bank Negara Malaysia, strongly advocates harmonization of shariah as opposed to comprehensive standardization. His argument is based on the primary sources of Islamic law i.e. the Quran, Sunnah and the traditions of the prophets which underpin the deductive methodology being used by scholars across various jurisdictions which give rise to different interpretations. As pointed out by another industry participant, standardized contracts should be seen as guidelines or general guiding principles rather than obligatory documents or structures, given that two sukuk, even though they are both Ijarah, could still have a lot of differences and variations between them.

In May 2009, shariah advisors and product development experts of all full-fledged six Islamic banks in Pakistan met to decide upon the mechanism for inter-bank placement amongst Islamic banks and to move towards the development of an Islamic inter-bank market. After careful deliberation, standardized agreements – namely Interbank Musharaka and Interbank Wakala Agreements – were finalized and it was agreed that henceforth only these standard contracts would be used by the Islamic banking industry in the country.

This achievement is an important milestone towards the development of an inter-bank market for Islamic banks and will pave the way for the long awaited Islamic benchmark rate as an alternative to KIBOR.

Source: Islamic Finance News, May 2009 & Islamic Banking Bulletin, IBD, SBP, January-March 2009

5.6.2 Shariah-Compliant Lender of Last Resort Function

Conventional banks have access to the SBP discount window as the Lender of Last Resort (LoLR) for managing their liquidity requirements. The LoLR facility operates on the basis of a reverse repo mechanism, with T-bills and PIBs constituting the underlying permissible securities for such transactions. However, given the lack of a suitable shariah-compliant alternative to this mechanism, Islamic Banks do not have access to SBP's discount window, which understandably has been a matter of great concern for the market players and has compelled them to remain wary of any developments that can adversely affect their liquidity positions. Now a taskforce at SBP is preparing recommendations for introducing a similar facility for IBIs on the basis of shariah-compliant modes. While details of the facility will be disclosed once the proposal has been finalized, suffice to say that IBIs will thenceforth be able to operate at par with the conventional banks in terms of managing their liquidity requirements.

5.6.3 Aligning Regulatory Requirements

Reserve requirements are used both as an instrument of monetary policy implementation as well as a prudential tool by central banks. Due to the continued dearth of shariah- compliant SLR eligible instruments (as discussed in section 5.3), SBP has generally maintained a concessionary SLR requirement for IBIs, which is currently at 9.0 percent of DTL (excluding time deposits of 1 year and above), in comparison with 19 percent for conventional banks. The only way to eliminate this distortion from the system and for all banks to operate on a level playing field would be to facilitate and encourage the issuance of more SLR eligible instruments. This is all the more necessary given the rapidly growing deposit base of the IBIs.

Appendix : Sukuk Issuance in Pakistan

	Sukuk Name	Issue Date	Maturity Date	Amount (mln Rs)	Rate	Listed / PP[1]	Islamic Modes Applied[2]	SLR Eligible
1	WAPDA Sukuk - 1	Jan-06	Jan-13	8,000	6MK+0.35%	PP	Ijarah	YES
2	Sitara Chemical Sukuk -II	Jun-06	Jun-11	1,100	3MK+1.65%	PP	DM	NO
3	Sitara Chemical Sukuk -I	Dec-06	Dec-11	625	3MK+1.7%	PP	DM	NO
4	SSGC Sukuk- 1	Mar-07	Mar-12	1,000	3MK+1.40%	PP	DM	NO
5	Security Leasing Sukuk - 1	May-07	May-12	750	6 Mk +2.00%		DM	NO
6	SSGC Sukuk- 2	Jun-07	Jun-12	2,000	3MK+0.80%	PP	DM	NO
7	Orix Leasing Sukuk	Jun-07	Jun-12	525	6MK+1.25%	PP	DM	NO
8	WAPDA Sukuk - 2	Jul-07	Jul-17	8,000	6MK-0.25%	PP	Ijarah	Yes
9	LG Sukuk-1	Jul-07	Jul-12	600	3MK+2.60%	PP	DM	NO
10	Sitara Energy Sukuk	Jul-07	Jul-12	600	6MK+1.95%	PP	DM	NO
11	National Industrial Park Sukuk	Aug-07	Aug-14	2,000	6MK+0.6%	PP	Musharakah	Yes
12	Security Leasing Sukuk - 2	Aug-07	Aug-12	750	6 MK+1.95%	PP	DM	NO
13	Engro Chemical Sukuk	Sep-07	Sep-15	3,000	6MK+1.50%	PP	DM	NO
14	Dawood Hercules Chemicals Sukuk	Sep-07	Sep-12	6,500	6MK+1.20%	PP	DM	NO
15	Shahmurad Sugar Mills Sukuk	Sep-07	Sep-12	500	6MK+0.02%	PP	DM	NO
16	Century Paper & Board Mills Sukuk	Sep-07	Sep-14	3,500	6MK+1.35%	PP	DM	NO
17	Pak Electron Ltd Sukuk - I	Sep-07	Sep-12	1,200	3MK+1.75%	PP	DM	NO
18	Amtex Sukuk	Oct-07	Oct-12	650	6MK+2.0%	PP	DM	NO
19	Karachi Shipyard & Engineering Works Ltd Sukuk	Nov-07	Dec-15	4,200	6MK+0.40%	PP	Ijarah	YES
20	Mapel Leaf Sukuk	Dec-07	Dec-13	8,000	6 MK+1.70%	PP	DM	NO
21	LG Sukuk-2	Dec-07	Dec-12	750	3MK+2.20%	PP	DM	NO
22	Kohat Cement Sukuk	Dec-07	Sep-12	2,500	6MK+1.80%	PP	DM	NO
23	Eden Housing Sukuk - 1	Dec-07	Dec-12	1,630	6MK+2.5%	PP	DM	NO
24	SSGC Sukuk- 3	Dec-07	Dec-12	4,700	3MK+0.20%	PP	DM	NO
25	Eden Housing Sukuk - 2	Mar-08	Mar-13	730	6 Mk+2.5%		DM	NO
26	Optimus Sukuk	Mar-08	Mar-15	250	6MK+1.25%	PP	DM	NO
27	Shahraj Fabrics Sukuk	Mar-08	Mar-13	550	6MK+2.10%	PP	DM	NO
28	Arzoo Textile Mills Sukuk	Apr-08	Apr-14	740	6 MK + 2.00%	PP	DM	No
29	Lahore Electric Supply Corp Sukuk	Apr-08	Apr-09	5,000	6K+0.2%	PP	DM	NO
30	HBFC Sukuk	May-08	May-14	1,500	6MK+1.00%	PP	DM	NO
31	BBR Guardian Sukuk	May-08	May-14	800	6 Mk+1.30%		DM	NO
32	JWD Suger Mills Sukuk	Jun-08	Jun-14	500	3MK+1.25%	PP	DM	NO
33	Kolson Sukuk	Jun-08	Jun-12	1,300	3 MK+1.30%		DM	NO
34	Three Stars Hosiery Sukuk	Aug-08	Aug-13	400	3MK+3.25%	PP	DM	NO
35	Pak American Fertilizers Sukuk	Aug-08	Aug-15	1,600	6 MK + 2.00%	PP	DM	NO
36	Haq Bahu Sugar Mill Sukuk - 1	Aug-08	Aug-11	290	6 MK +3.25%	PP	DM	NO
37	Haq Bahu Sugar Mill sukuk - 2	Aug-08	Nov-09	50	3MK +3.5%	PP	DM	NO
38	Sitara Peroxide Sukuk	Aug-08	Aug-13	1,400	3MK+1.10%	PP	DM	NO
39	Eden Builders Sukuk	Sep-08	Mar-14	2,000	3 Mk + 2.3%	PP	DM	NO
40	GOP Ijarah Sukuk -1	Sep-08	Sep-11	6,523	6 M TB + 0.45%	SBP Auction	Ijarah	Yes
41	Quetta Textile Mills Sukuk	Sep-08	Sep-15	1,385	6 MK + 1.5%	PP	DM	NO
42	Pak Electron Ltd Sukuk - II	Sep-08	Sep-15	1,100	3 Mk +1.00%	PP	DM	NO
43	GOP Ijarah Sukuk -2	Dec-08	Dec-11	6,000	6 M TB + 0.75%	SBP Auction	Ijarah	Yes
44	Engro Foods Sukuk	Jan-09	Jan-17	950	6 MK + 0.69%	PP	DM	NO
45	GOP Ijarah Sukuk -3	Mar-09	Mar-12	15,325	6 M TB + 0.00%	SBP Auction	Ijarah	Yes
46	Liberty Power Tech Ltd Sukuk	Mar-09	Dec-20	3,000	3 MK + 3.00%	PP	Ijarah	NO
47	GOP Ijarah Sukuk -4	Sep-09	Sep-12	14396	6M-MTB-0.05bps	SBP Auction	Ijarah	Yes

1. PP= Privately Placed 2. DM=Diminishing Musharakah

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