Islamic Banking Bulletin

June 2012

Islamic Banking Department
State Bank of Pakistan

Table of Contents

Islamic Finance in Pakistan - Where We Stand and The Way Forward:

Keynote Address:
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Deputy Governor State Bank of Pakistan,
IFN Road Show 2012, LRC, SBP, Karachi
4th Sep, 2012

Distinguished guests, ladies and gentlemen! Assalam-u-alikum and a very good morning. It is my great pleasure to welcome you all in this IFN road show. I would like to congratulate and thank Redmoney for organizing the show in Pakistan, which is one of the fastest growing Islamic finance markets across the globe. Such events not only enhance Islamic finance awareness and stimulate its demand but also provide a platform to Islamic finance stakeholders to share their experiences and insights about this fast emerging segment of the financial system. I hope that today's discussions and deliberations would help in addressing the key challenges being faced by the industry and contribute towards sustaining the growth momentum.

Ladies & Gentlemen! Since the inception of modern Islamic finance in 1960's, Islamic banking has evolved from its relatively modest size to a vibrant industry with an increasing global footprint. With a size of US$1.35 trillion (according to Global Islamic Finance Report 2012) and annual growth rate of more than 20 percent, the Islamic financial industry now comprises 430 Islamic banks and financial institutions and around 191 conventional banks having Islamic banking windows operating in more than 75 countries. The relative resilience and stability of the industry during the financial crisis and its flexibility and responsiveness to changing business needs has helped the industry to establish itself as a viable financial system. The tremors and aftershocks of the financial crisis are still on either in the form of European debt crisis and/or weakening global economic outlook and the policy makers are still looking for answers to fix these issues. Islamic finance, with its roots in a moral economic model that supports productive economic activity and discourages excessive leveraging and imprudent risk taking, can play an important role in rebuilding the financial system. I believe that this is high time for Islamic economists and scholars to highlight the inherent strengths and potential of Islamic finance in addressing the existential challenges faced by the global financial and economic systems.

Ladies & Gentlemen! The evolution of Islamic finance industry in Pakistan has followed the same trajectory as global Islamic financial industry; with growth mainly intensifying over the last decade. Despite having introduced landmark changes during 1980s including amendment in the Banking Companies Ordinance, enactment of Mudaraba Companies and Mudarabas (Floatation and Control) Ordinance etc, efforts for transformation of financial system to Shariah Compliant met with limited success only. This was primarily due to unavailability of adequate infrastructure and lack of trained human resources.

Learning from past experience, Islamic banking was re-launched in 2002 with a more practical and gradual approach that allowed Islamic banks to operate in parallel with conventional banks. This time we also introduced a comprehensive Shariah compliance framework to ensure that the operations of Islamic banks are in conformity with the Shariah principles; this was necessary to give confidence to the consumers about Shariah permissibility of Islamic banks' business and operations. The approach has proved a mega success as the industry growing from scratch in 2002 now constitutes over 8 percent of the country's banking system with a network of 964[1] branches and over 500 windows across the country. The future outlook is also positive; the Islamic finance industry with its rapidly growing acceptability both amongst the providers and users of financial services, is likely to increase its share in the banking system to 15 percent during next five years. Encouragingly, the sustained growth of Islamic banking in the country during the last decade has also started catalyzing growth and development of Islamic capital markets, Mutual funds and Takaful companies etc; presently we have 5 Takaful operators, about 30 Islamic mutual funds. We have an effective coordination mechanism with SECP- the capital markets and NBFIs' regulator- and I am sure that the non-banking Islamic financial services industry would also be growing in tandem with the Islamic banking industry.

Ladies & Gentlemen! The State Bank of Pakistan fully owns the Islamic banking industry and has been taking a number of initiatives to strengthen the legal, regulatory and Shariah compliance framework, create awareness amongst the masses and build the industry's HR capacity. I will share a few with this audience today. The development and issuance of sovereign Sukuk for the domestic market, which is an important liquidity management instrument was a long outstanding demand of the industry. The SBP in collaboration with the industry and the Federal Government developed sovereign Sukuk and you would be pleased to know that during last two years sovereign Sukuk of Rs.369 billion (USD 4 billion approx) have been issued that has largely addressed the liquidity management issue of the industry. The regular issuance of the Sukuk, almost on quarterly basis, has improved market confidence and tradability of the Sukuk.

To improve transparency and bring standardization in IBIs' profit distribution and pool management practices, we have developed a comprehensive profit distribution and pool management framework in consultation with the industry. The framework will be issued most probably within this month and will be instrumental in improving public confidence in Islamic banking generally and profit distribution policies and practices of IBIs particularly.

Similarly to further strengthen the Shariah governance in IBIs, we are in the process of developing a comprehensive Shariah Governance framework. The framework will explicitly define the roles and responsibilities of different organs of IBIs including the Board of Directors, Shariah Advisors/Committees and Executive Management for ensuring Shariah compliance. Presently Shariah compliance is perceived to be the responsibility of the Shariah Advisors only whereas Board of Directors and Executive Management assume no such responsibility. This we believe is contrary to the corporate governance principles as unless the BOD and management are not fully aware of the Shariah non-compliance risk, it would be difficult for the Shariah Advisor to develop an effective Shariah compliance mechanism in IBIs. The proposed framework will fix these and other similar issues.

Further, the SBP, in collaboration with the industry, will also be developing the strategic plan for the industry for the next five years ie 2013-2017. The plan will make a detailed assessment of the earlier plan

[1] As of 30th August, 2012

(2007-2012) as well as the existing environment and will set the strategic direction for the industry. This is an important project which would define the strategies and action plans to move the industry to the next level of growth and SBP would expect active and meaningful involvement of the industry in development of the plan.

Ladies & Gentlemen! As you all know that SBP has been at the forefront of the initiatives and programs for creating awareness. Being the host of today's program is a part of its efforts to improve public understanding of Islamic banking and minimize their apprehensions and confusions. While seminars, conferences, workshops are being organized across the country on regular basis, we will soon be launching a mass media campaign to create awareness about Islamic banking. The campaign we believe will be instrumental in enhancing public awareness and allaying their apprehensions and confusions about Islamic finance and thus would give further boost to the growth momentum.

Lastly, I would reiterate my optimism about the growth prospects of the industry; I believe the growth momentum will not only be sustained but will gather further strength as we will see some more key players entering the market with aggressive expansion plans in very near future. The challenge will however be to develop suitably qualified and trained HR to man this growth; while SBP will be further intensifying its efforts to build the industry's HR capacity through its regular and specialized training programs, the IBIs would also have to significantly increase their investment in HR development. Another challenge would be diversification of assets mix and taping non-traditional sectors like agriculture and SMEs to deploy the growing deposit base in productive avenues. Presently the IBIs' exposure in these sectors is nominal that needs to be increased significantly, which would not only improve their repute amongst the masses but would also provide them an attractive avenue to develop and expand their assets portfolios. SBP would be willing to provide necessary support to IBIs to build portfolios in these non-traditional but strategically important sectors.

My thanks and appreciation again to Redmoney for organizing this event and I hope such collaborations will continue in future. I wish all the foreign delegates to have pleasant stay in Karachi and a safe journey back home.

Thank you

Islamic Financial Industry

A. Domestic Islamic Banking Industry- Market Analysis

Overview: Islamic banking industry (IBI) continued its expansionary phase by opening 43 new branches (see **Annexure** for details) during the second quarter CY 12 representing 9 percent share of overall banking branch network while the outreach of IBI in terms of borrowers still remains 1 percent of overall banking industry. Assets of the industry were reported at above Rs. 711 billion showing more than 10 percent growth during the second quarter CY 12. Deposits of IBI constitute almost 9 percent of overall banking industry's deposits indicating a growth rate of 14 percent during the period under review (see Table **1**). The increment in capital base of IBI during the second quarter CY 12 is mainly driven by the rising profitability of the industry that also helped in absorbing the impact of rising trend of non-performing financing (NPF) during the quarter. The impact of rising NPFs during the second quarter CY 12 is also reflected by decline in ROA and ROE of the industry from 1.6 percent and 17.8 percent by end March CY 12 to 1.4 percent and 16.6 percent respectively by end June CY 12.

Table 1: Industry Progress and market share

	Islamic Banking Industry Progress			**Growth (YoY)**			**Share in Overall Banking Industry**		
	Jun-11	**Mar-12**	**Jun-12**	**Jun-11**	**Mar-12**	**Jun-12**	**Jun-11**	**Mar-12**	**Jun-12**
Total Assets	560	644	711	36.3%	29.5%	26.9%	7.3%	7.7%	8.2%
Deposits	*452*	530	603	37.1%	33.2%	33.3%	7.6%	8.4%	8.9%
Net Financing & Investment	*420*	*487*	*543*	78.3%	30.3%	29.2%	7.0%	7.4%	7.9%
Total Islamic Banking Institutions	*17*	*17*	*17*	–	–	–	–	–	–
Total No. of Branches*	*799*	*905*	*948*	–	–	–	–	–	–

Source: Quarterly Unaudited Accounts

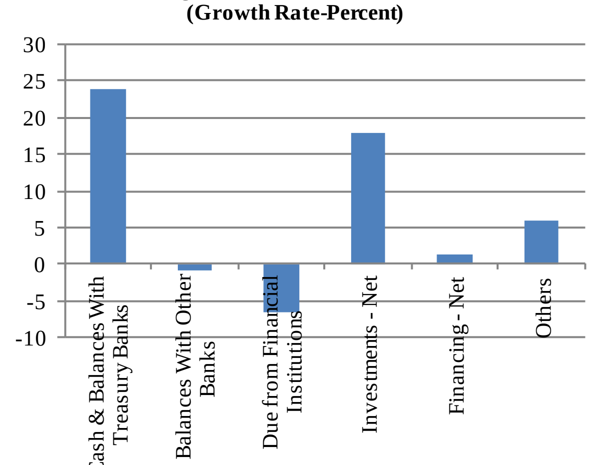
**number includes sub-branches*

Assets:

Investment Based Asset Expansion

Islamic banking industry saw expansion in its asset base due to high growth of investment; (18 percent) during the second quarter CY 12 and holds 8.2 percent share of overall banking industry's assets. In total Islamic Banking Industry (IBI) assets, the share of full fledged Islamic banks (IBs) and conventional banks having Islamic windows (IBDs) remained the same with IBs holding major share (64 percent) of overall assets.

Figure1: IBI Asset Structure (Growth Rate-Percent)



Investment based asset expansion of Islamic banking industry is in line with the trend of overall banking industry, however, the difference can be observed with

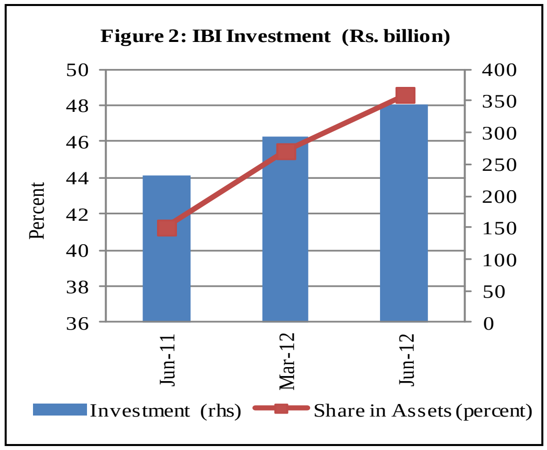
Growth Trend of Investment & Financing of IBI is opposite to overall banking Industry

reference to asset mix of overall banking industry and Islamic banking Industry (see **Table 2**); share of investment though has risen significantly (38 percent) in overall banking industry still below than financing (41 percent) while for IBI the share of investment has surpassed the share of financing since start of 2011 (see **Box 2** for detailed discussion). With particular reference to the second quarter CY 12, the growth rate of investment (3 percent) for overall banking industry is lower than that of financing (4 percent), however, the trend is opposite in case of Islamic banking industry where growth rate of investment (18 percent) is significantly higher than that of financing (1 percent).

Table 2: Financing Vs. Investment (IB Vs. Banking Industry)(percent)

		Jun-11		Mar-12		Jun-12	
		Share	GR*	Share	GR	Share	GR
Banking Industry	Investment	34	15	38	4	38	3
	Financing	44	1	41	3	41	4
IBI	Investment	41	19	45	7	49	18
	Financing	34	5	30	-3	28	1

* GR= Growth Rate

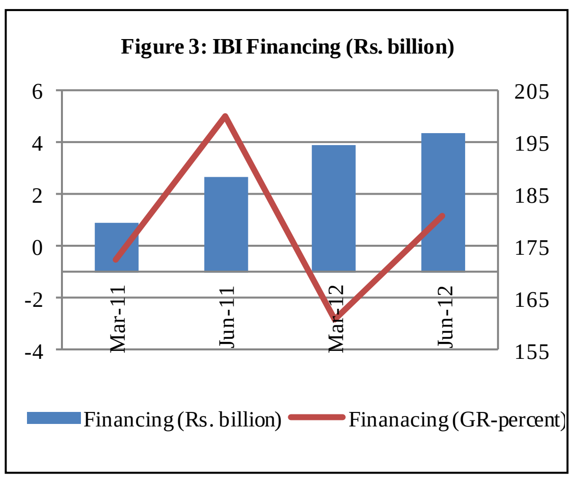


Investment: The continuous high growth in investments is resulting in improving its share in overall assets; during the period under review the share of investment in total assets increased from 45 percent to almost 49 percent (see **Figure 2**). This trend of IBI of enhancing its assets base on the basis of investment is mainly driven by regular issuance of GOP Sukuk (Shariah complaint government securities); the period under review depicted an increase of almost Rs. 48 billion in category of federal government securities that further contributed in increasing its share in total investment from 67 percent in the last quarter ending March CY 12 to 70 percent (see **Table 3**) by end-June CY 12.

Table 3: IBI Investment (Rs. billion)				Share (percent)		
	Jun-11	Mar-12	Jun-12	Jun-11	Mar-12	Jun-12
Federal government securities	148	195	243	64	67	70
Fully paid up ordinary shares	2	3	4	1	1	1
TFCs, Debentures, Bonds, & PTCs	30	30	31	13	10	9
Other investments	52	65	69	23	22	20

Financing Growth Rate is lower than that of similar quarter last year

Financing: Following its usual trend financing picked up during the second quarter CY12 after showing a deceleration in the first quarter; however, the growth rate (1.2 percent) is still lower than that of during the same quarter (5 percent)



last year (see **Figure 3**). This deceleration can be linked to the continuing overall bad economic situation of the country as also indicated by industry wise financing that shows a slower growth in textile industry (see **Table 4(a)**; the largest share holder in overall financing of IBI.

Table 4(a): Industry Wise Financing

	Jun-11		Mar-12		Jun-12	
	Share	**GR**	**GR**	**Share**	**GR**	**Share**
Chemical and Pharmaceuticals	7%	6%	7%	-8%	7%	6%
Agribusiness	3%	77%	3%	-20%	5%	50%
Textile	20%	-5%	21%	3%	16%	-24%
Cement	3%	-3%	3%	1%	2%	-20%
Sugar	5%	-8%	5%	52%	4%	-19%
Production and transmission of energy	8%	24%	10%	0%	11%	6%
Individuals	16%	0%	15%	0%	16%	5%
Others	31%	12%	29%	-10%	33%	15%

Table 4(b) : Client Wise Financing Portfolio (Rs. billion) & Growth Rate (percent)

	Jun-11		Mar-12		Jun-12	
	Amount	GR	Amount	GR	Amount	GR
Corporate Sector	139	4%	152	-1%	147	-3%
SMEs	10	-7%	10	-6%	11	4%
Agriculture#	0	-70%	0	-17%	0	-22%
Consumer Finance	30	0	30	2%	31	3%
Commodity Financing	14	61%	9	-24%	15	62%
Staff Financing	3	0	4	2%	4	3%
Others	1	-66%	0	-4%	1	367%
Total	198	5%	205	-2%	208	1%

* GR-growth rate, # Amount of agriculture is 41.5 million, 155.8 million and 121.8 million for June 2011, March 2012 and June 2012 respectively.

Client wise financing portfolio indicates continuation of negative trend in financing to Corporate sector (both public & private) even during the second quarter CY 12; financing to corporate sector dropped from Rs. 152 billion by end March CY12 to Rs. 147 billion by end June CY12 (see **Table 4(b)**. Commodity financing recorded a positive trend during the second quarter due to financing to government for procurement of wheat. However, the share of commodity financing is just below 8 percent and the high growth in this category can be linked to base effect as well.

Table 5 (a): Non-Performing Financing (Rs. billion)

	Jun-11	Mar-12	Jun-12	Growth (percent) YoY	Growth (percent) QoQ
NPF	15	17	18	23.3	6.1
Provisions	9	11	11	22.2	1.0
Net NPF	6	6	7	25.0	14.6
Recovery (year to date)	1	1	1	16.8	35.9
Asset Quality Ratios(percent)	**Jun-11**	**Mar-12**	**Jun-12**	**Industry**	
NPFs to Financing	7.5	8.4	8.8	15.9	
Net NPFs to Net Financing	3.2	3.3	3.8	6.0	

Table: 5(b): Break up of NPFs

Break up of NPFs (Rs. billion)				Share (percent)	
Amount	Jun-11	Mar-12	Jun-12	Jun-12	
NPF	15.0	17.3	18	IBI	Industry
Substandard	2.2	2.8	4.0	22.0	10.0
Doubtful	2.3	2.4	1.9	10.0	9.0
Loss	10.4	12.1	12.5	68.0	79.0

* the difference between sum of three categories and total NPFs is due to premise that few banks that still report data under OAEM category .

NPFs though rising, NPF/Financing & Net NPFs/Financing are lower than overall banking industry ratios

Asset Quality:

Non-Performing Financing (NPFs) continued its rising trend and by end first half CY 12 NPFs are reported at above Rs. 18 billion having 68 percent concentration in the category; " Loss" which is of concern (see **Table 5(a) & (b))**. Asset quality ratios; NPFs to Financing and Net NPFs to Net Financing increased from 8.4 percent to 8.8 percent and from 3.3 percent to 3.8 percent respectively over the last quarter though both are below than that of industry averages of 16 percent and 6 percent respectively (see **Table 5(a))**. Anecdotal evidence suggests that rising trend of NPFs can be linked to involuntary default resulting from overall bad economic situation of the country.

Table 6: Sources of Funds

	Jun-11	Mar-12	Jun-12	Increment (Jun-12) Rs.billion	Growth Rate (percent)
Total Liabilities	**509**	**586**	**652**	**66**	**11**
Bills Payable	6	7	8	1	10
Due to Financial Institution	24	25	18	-7	-28
Deposits And Other Accounts	452	530	603	72	14
Other Liabilities	27	24	24	0	-1
Net Assets	51	58	59	1	3
Share Holders' Equity	50	56	58	2	3
Share Capital	45	46	46	0	0
Reserves	0	1	1	0	18
Unappropriated Profit	5	9	11	2	17
Surplus/Deficit On Revaluation Of Assets	1	1	1	0	-33

* Other Liabilities include Sub-ordinated Financing, Liabilities Against Assets Subject To Finance Lease, Deferred Tax Liabilities, Other Liabilities

Funding Structure:

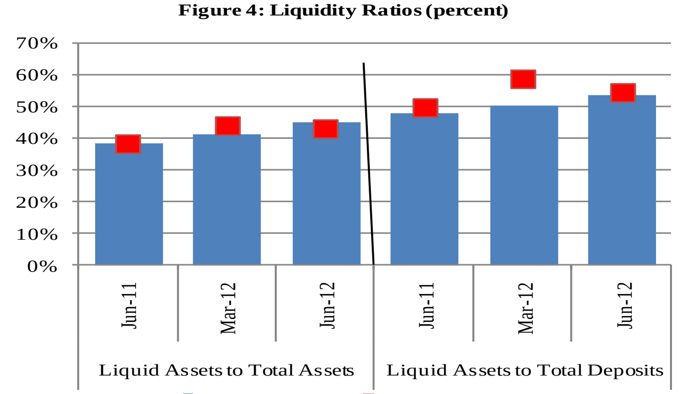
During the second quarter CY 12, equity showed an increment of Rs.2 billion mainly contributed from unappropriated profit (see **Table 6**). However, deposits; the major source of funds; during the period under review witnessed a significant growth of above 13 percent to reach at Rs. 603 billion (see **Table 6**) representing 9 percent share of overall banking industry's deposits. Like overall banking industry, the deposits of IBI is concentrated in saving and current account (both remunerative & non-remunerative) (see **Table 7**).

Table 7: Break up of Deposits

Rupees in billion and growth in percent

	Jun-11	Mar-12	Jun-12	Growth YoY	Growth QoQ
Deposits	398	521	530	33	2
Customers	**375**	**483**	**496**	**32**	**3**
Fixed Deposits	152	185	191	26	3
Saving Deposits	134	172	182	36	6
Current accounts - Remunerative	0	1	1	757	-2
Current accounts - Non-remunerative	87	122	118	36	-3
Others	2	2	2	8	-1
Financial Institutions	**23**	**38**	**35**	**53**	**-8**
Remunerative Deposits	23	37	34	51	-9
Non-remunerative Deposits	0	0	1	386	110

Figure 4: Liquidity Ratios (percent)



Liquidity Status

IBI appears more liquid compared to last quarter as depicted by the rising trend of liquidity ratios during the quarter under review; Liquid Assets to Total Assets (LA/TA) increased from 41 percent to 45 percent during the quarter ending June CY12 while Liquid Assets/ Total Deposits also depicted an upward trend from 50 percent to 53 percent during the same period while both indicators adopted a reverse trend in case of overall banking industry (see **Figure 4**). One of the major contributing factors for this rising trend is the deployment of deposits in Sukuk which constitute more than 70 percent investment of IBI by end second quarter CY 12.

Asset-Liability Gap is positive only in Category; maturing from 1 yr to 5 yrs

Asset liability gap showed the industry liquid in all categories except "maturing from 1 yrs to 5 yrs" where the gap between assets and liabilities as percentage of total assets is positive (29.1). This trend is in contrast to overall banking industry where the gap is negative 3.3 percent showing the difference in deposit deployment portfolio of both industries (see **Table 8**). The difference between deployment portfolio of IBI and overall banking industry emerges from the premise that Islamic banking institutions can invest only in Shariah complaint securities and tenure for at present available securities is mostly for three to five years while conventional banks have got the option of investment in various government securities having maturities of both short term and long term.

Table 8: Asset Liability Gap (percent share)

	Jun-11	Mar-12	Jun-12	Industry
Maturing upto 3 months	-21.0	-19.2	-20.0	-2.6
Maturing from 3 months to 1 yr	-11.4	-12.0	-9.0	7.8
Maturing from 1 yr to 5 yrs	30.1	32.1	29.1	-3.3
Maturing after 5 yrs	2.3	-0.9	-0.1	-1.9

Profit of IBI doubled during the quarter; higher than that of similar quarter last year as well

Earnings & Profitability:

Profitability of the industry doubled from Rs. 3 billion by end March CY12 to Rs. 6 billion by end June CY 12 primarily contributed by IBs; the share of full fledged banks in overall industry's profit is more than 50 percent (Rs.3.1 billion) (see **Table 9**) compared to Rs 2.8 billion of IBDs.

Table 9: Profit of IBI (Rupees in billions)

	Jun-11		Mar-12		Jun-12	
	amount	share	amount	share	amount	share
Profit (Before Tax)	5		3		6	
IBs	3	59%	1	46%	3	53%
IBDs	2	41%	2	54%	3	47%

ROA & ROE both declined marginally due to rising NPFs

During the period under review earnings in terms of Return on Equity (ROE) and Return on Assets (ROA) declined from 1.6 percent and 17.8 percent to 1.4 percent and 16.6 percent respectively (see **Table 10**) mainly due to rising NPFs and high operating expense. Continuing its usual trend Net Mark up Income to Total Income of Islamic banking Industry (80.2 percent) is higher than that of overall banking industry

Table 10: Earnings & Expenses

	Jun-11	Mar-11	Jun-12	Industry
Net Income to Total Assets(ROA)	1.6%	1.6%	1.4%	1.5%
Return on Equity (ROE)	16.5%	17.8%	16.6%	16.1%
Net Markup Income to Gross Income	82.6%	79.7%	80.2%	72.3%
Non-Markup Income to Gross Income	17.4%	20.3%	19.8%	27.7%
Operating Expense to Gross Income	60.9%	62.3%	64.7%	52.5%
Personnel Expense to Operating Expense	36.1%	38.7%	38.0%	43.6%

(72.3 percent) while Non-Markup Income to Total Income (19.8 percent) is lower than that of overall banking industry (27.7 percent).

In terms of expenditure, Operating Expense to Gross Income increased from 62 percent by end March CY 12 to almost 65 percent by end June CY 12; this trend is still higher than that of overall banking industry average (see **Table 10**). One of likely reasons for this might be the expansionary phase of Islamic banking industry and high operational cost due to its relatively smaller size.

Box 2: Rising Share of Investment in Asset portfolio leading to higher Profitability of Islamic banking Industry- (2003-2011)

Profitability of Islamic Banking Industry (IBI) crossed Rs. 10 billion mark by end Dec 2011 due to significant rise in profitability since CY 2010 (see **Figure 1)**. This high growth of profitability is also depicted by rising trend of return on assets (ROA)[2] that increased from 0.6 percent of assets in Dec 2010 to 1.6 percent by end Dec 2011 respectively.

By looking at income distribution between Mark-up Income and Non-mark up Income (see **Figure 2**) it is evident that Mark-up income adopted a rising trend since 2008[3] and witnessed the highest rise in June 2011. This implies that the significant rise in profitability is linked with Mark-up income. However, to analyse the profitability it is critical to examine the components of assets that constitute Mark-up Income.

Component Wise asset detail depicts that like conventional banking, Financing and Investment of IBI are two major components of assets in absolute as well as in terms of shares (see **Figure 3**). The most interesting aspect to note is the start of the structural shift from financing to investment in total assets of IBI since 2008. This shift can be linked to two major reasons;

(i) Post crisis (2008) cautious approach of banks towards Financing

(ii) Availability of Shariah compliant sovereign securities (Sukuk); Risk free investment avenue.

Figure 1 : IBI Profit (Rs. Billion)

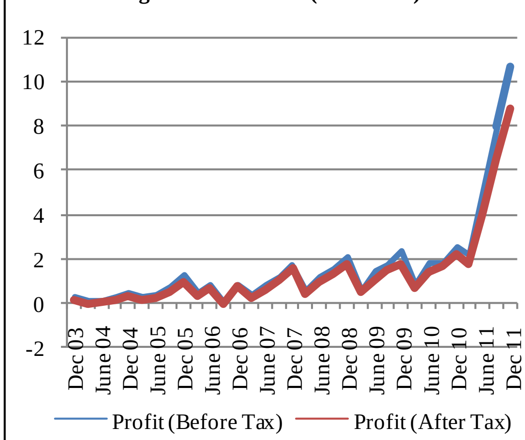
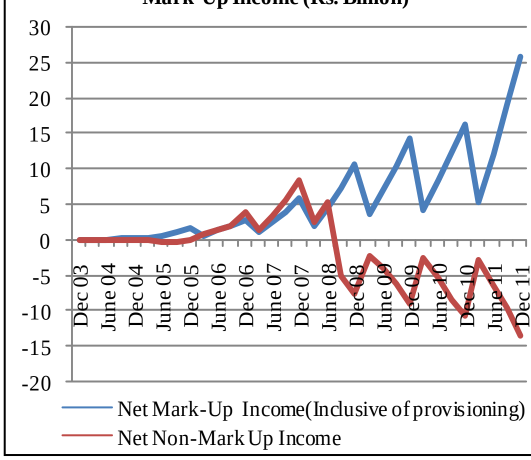


Figure 2: Net Mark-Up Income Vs. Net Non-Mark-Up Income (Rs. Billion)



[2] ROE increased from 5.2 percent of assets in Dec 2010 to 17.3 percent by end Dec 2011 respectively

[3] Since 2008 Non-mark up income has started declining

Figure 3(a): Asset Componenets (2003-2011) Rs. billion

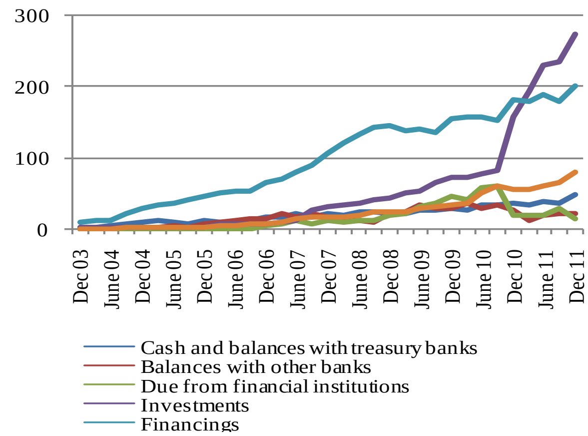
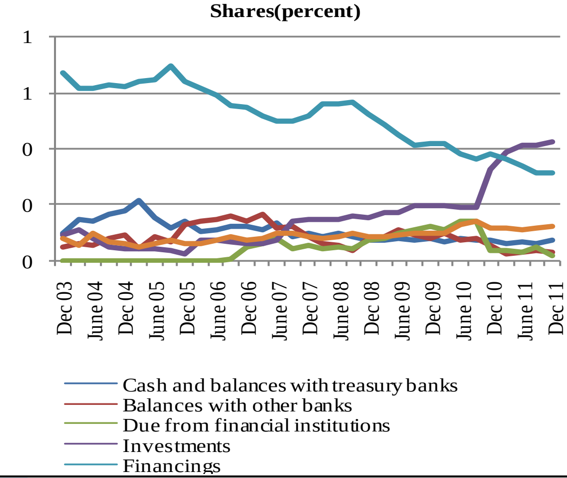


Figure 3(b): Asset Componenets (2003-2011) Shares(percent)



Post 2008 crisis, financing started observing declining trend due to risk averse behavior of IBI, resulting in drop in share of financing from 52 percent in Dec 2008 to 31 percent in Dec 2011. However, during this period, investment of the industry depicted an upward trend (see **Figure 4)**. Investment jumped from Rs. 72.2 billion in Dec 2009 to Rs. 157.8 billion in Dec 2010 and by growing at rate higher than the growth rate of financing reached to Rs. 274 billion in Dec 2011 where as financing grew to Rs. 200 billion in Dec 2011 from Rs. 180 billion in Dec 2010. This has resulted in significant rising share of Investment from 33 percent in Dec 10 to 43 percent in Dec 201 mainly linked to frequent issuance of Sukuk particularly since Sep 2010 (see **Figure 5**).

Figure 4: Financing & Investment Growth Rate (percent)

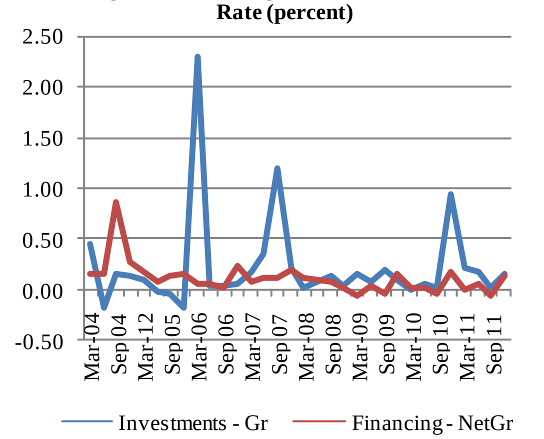
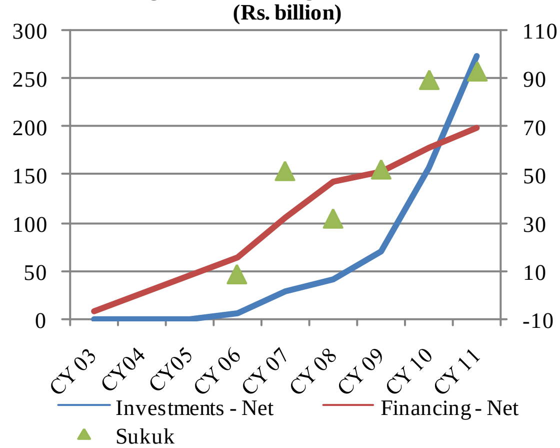
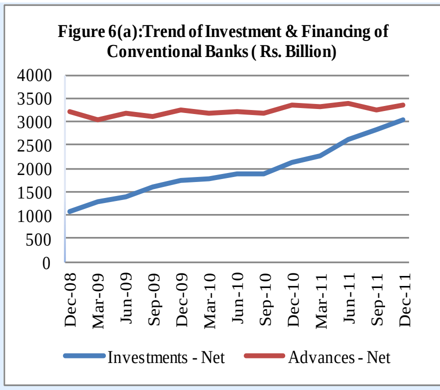


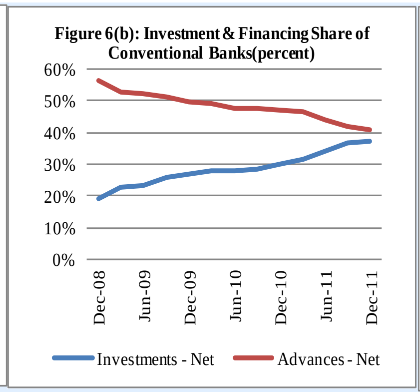
Figure 5: Financing & Investment (Rs. billion)

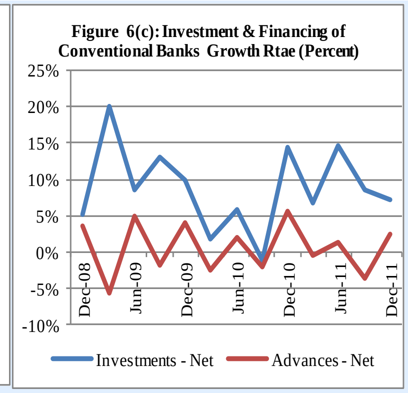


The trend is almost similar to that of conventional banking industry; Post 2008 the growth rate of investment by conventional banking industry remained higher than that of financing growth rate resulting in rise in share of investments in overall assets of the banking industry (see **Figure 6**). However, unlike Islamic banking industry the share of financing in total assets of the banking industry is still higher than investment.

Both Conventional industry and Islamic banking industry is continuing its trend of expanding asset base on the basis of increase in investment even in current year (CY 12), and the difference between the asset structure of both industries is the same as of last three years; share of investment in overall asset portfolio of conventional banking is increasing though lower than financing while for Islamic banking the share of investment is not only higher than financing but is also increasing







Conclusion:

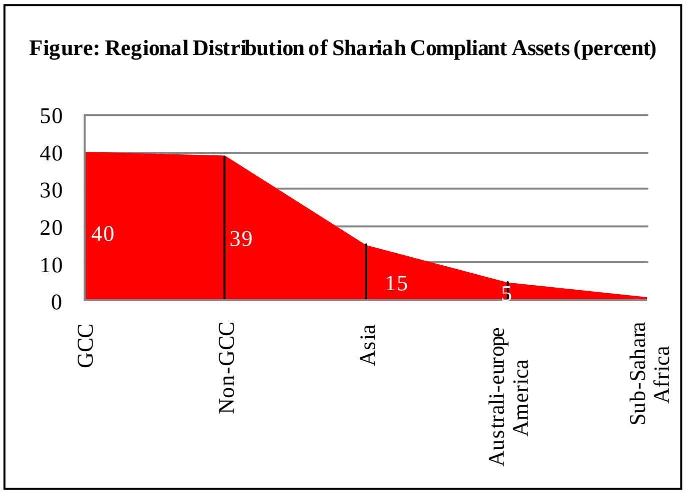
High profitability of the industry is signaling its great potential for growth and a promising future. However, it can be inferred from the above discussion that the significant growth in profitability of the industry is driven by investment which raises concern for sustainability of industry's profitability for two main reasons;

(i) Financing avenues are not being explored and target market for financing is significantly below the demand

(ii) The rising trend of investment is linked to frequent issuance of Sukuk since Oct 2010; however this investment avenue is uncertain and is not the core business of banks which in the long run may negatively affect the sustainability of income of Islamic banking institutions.

B. Global Developments: An Overview

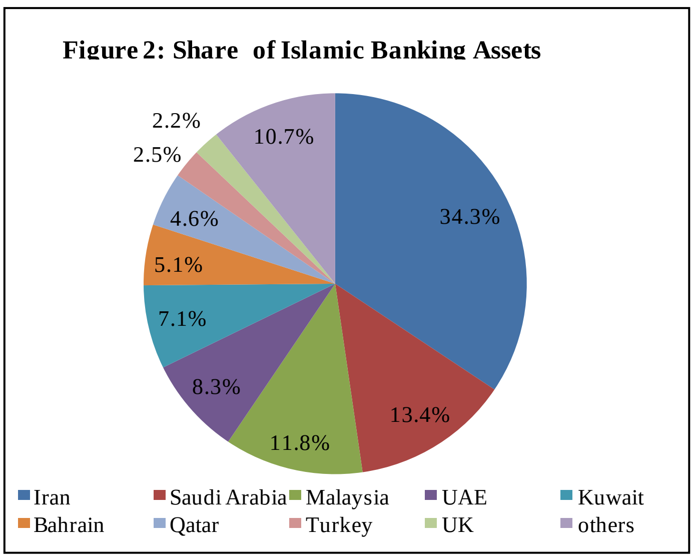
Industry Size [4]



- Global Islamic financial industry stands at above US$ 1 trillion, having concentration in GCC countries, followed by non-GCC MENA region and Asia (see **Figure 1**)[5].

- Iran has got the highest level of Shariah compliant assets (US $388 billion), followed by Saudi Arabia (US $151 billion) and Malaysia (US $ 133 billion) (see **Figure 2** for Top 10 countries). [6]

- In terms of penetration level of Islamic banking industry Sudan and Iran (both are considered fully Islamic) are followed by Bangladesh (65 percent), Bahrain (46 percent) and Saudi Arabia (35 percent) (see **Table 1** for Top 10 countries along with share of Muslim Population).[7]



- According to Standard & Poor's estimates global Islamic finance market will continue its upsurge and is likely to grow 20 per cent annually between 2011-15 and thereby crossing US$ 2 trillion[8]. The report suggested major underlying factors for potential high growth of Islamic financial industry to be (i) young, fast-growing Muslim populations (ii) robust macroeconomic environments (iii) and large infrastructure projects that require financing (see **Box 1** for reason quoted by World Bank for potential high growth of Islamic financial industry).

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[4] This issue cover significant developments of Islamic financial industry during 2011 while next issues of bulletin will be discussing quarterly updates of global industry

[5] " Islamic Finance in OIC Member Countries" , Statistical, Economic and Social Research and taining Cente for Islamic countries (SECRIC), May 2012

[6] ibid

[7] For Pakistan see part B

[8] http://www.gulfbase.com/newarticles/specialarticledetail/3020

Sukuk

- Global Sukuk issuances surged to US$ 169 billion during 2011; Malaysia having 62 percent share followed by Middle East (26 percent). According to some estimates, Sukuk issuance is expected to cross US$ 100 billion in September 2012 against the target of US$ 44 billion for the year.

  According to Ernst & Young Islamic Banking Center of Excellence (GIBE), the demand for Islamic Sukuk is expected to reach $900 billion by 2017 and the industry is not yet ready to fully capitalize on this demand potential and the supply of Sukuk may fall well short of demand over next five years.

- Thomson Reuters has recently launched Thomson Reuters Global Sukuk Index to monitor Sukuk performance. Earlier Bloomberg has launched three indices; all are based in Malaysian ringgit.

Table: 1 Top Ten Countries (Penetration Level of IBI-Percent Share)

	Share of IB Assets (Percent)	Share of Muslim Population (Percent)*
Iran	100	98
Sudan	100	71
Bangladesh	65	90
Bahrain	46	81
S. Arabia	35	97
Kuwait	31	86
Malaysia	25	61
Iraq	25	99
UAE	17	76
Pakistan	9	97

Source: Islamic finance in OIC Member Countries, May 2012

*Source: CIA: The World Fact Book

Regulatory Architecture

- During this year CY 12, Islamic Financial Services Board (IFSB) issued two new standards; *Guiding Principles on Liquidity Risk Management for Institutions offering Islamic Financial Services* (IFSB-12) and *Guiding Principles on Stress Testing for Institutions offering Islamic Financial Services* (IFSB-13)

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued 7 new Sharia standards for Islamic finance addressing issues of financial rights, bankruptcy, capital protection, entrusting money to an agent for investment, and contract termination as well as the ways in which financial institutions manage their liquidity, discussing the sources and uses of funds and offering rules for calculating and distributing profits from investment instruments. The detailed update on AAOIFI Shariah Standards since 2011 is given below:

Box 1: Underlying Factors for Future High Growth of Islamic Financial Market

1. The commodity boom has generated surpluses in some Muslim countries that need to be allocated through financial intermediaries and sovereign wealth funds.
2. Through quality improvements and the development of new instruments, Islamic finance is increasingly considered a practical alternative to conventional instruments for savers and investors.
3. Conventional multinational financial institutions are offering Islamic windows and have increased their Islamic finance operations and portfolios to meet growing demand in London, Luxembourg, and other capitals.
4. The formation of Shariah-compliant indices for companies listed in stock markets is boosting the demand for Islamic finance.
5. Recent political developments in several majority Muslim countries point to a growing role for Islamic financial instruments.

Source: “Realizing the Potential of Islamic Finance”-March 2012, The World Bank

List of AAOIFI standards– 2011 onwards	
Accounting Standards	New Conceptual Framework for Financial Reporting (to replace Statements of Financial Accounting 1 and 2)
	Revised / new Financial Accounting Standard (FAS) 25 Investments in Sukuk, Shares, and Similar Instruments
	Revised / new FAS on Investments in Real Estate – *exposure draft released.*
	Revised FAS 5 and 6 Equity on Investment Accountholders – *consultation note released*.
	Revised FAS 12, 13, 15 and 19 relating to Takaful – *consultation note to be released in 2H 2012*.
	Revised FAS 1 General Presentation and Disclosures in Financial Statements – *consultation note to be released in 2H 2012.*
	Revised FAS 2 Murabaha.
	Revised FAS 3 Mudaraba.
	Revised FAS 4 Musharaka.
	Revised FAS 8 Ijarah.
	Revised FAS 11 Provisions and Reserves.
	Revised FAS 14 Investment Funds.
	New standard on accounting for Sukuk.
	New FAS on Interim Reporting.
	New FAS on Fair Value.
	New FAS on Assets Held for Sale.
	New FAS on Liabilities.
	New FAS on Revenue Recognition.
	New FAS on Related Party Transactions.
Auditing and Governance Standards	New Governance Standard (GS) on Governance for Shariah Supervisory Board (SSB) – *consultation note issued*
	Amendment to Auditing Standard (AS) 1, 2, 3 and 4 relating to auditors' opinion on Shariah compliance.
	New GS on Relationship between Regulators, SSB and External Auditors.
	New AS on materiality in planning and performing an audit.
	New AS on audit evidence regarding specific financial statement account balances and disclosures.
	New AS on analytical procedures.
	New AS on quality control for an audit of financial statements.
	New AS on modifications to the auditor's opinion.
	New AS on auditor's responsibility regarding subsequent events.
Shariah Standards	New Shariah Standards (SSs) on Disposal of Rights; Bankruptcy; Liquidity Management; Capital Protection (in Investment Products); Agency Investment Contracts; Stipulations on Income and Profits (in Financial Transactions); Options in Legal Contracts
	New SSs under development include those on Contracts Termination and Compensation; Fiduciary Investment Contracts; Promise and Bilateral Promise; Purification of Prohibited Income; Repos; Risk Management; and Special Purpose Vehicles.

Country Model: Kuwait

Introduction:

Islamic financial services in Kuwait can be traced back to more than 30 years with the establishment of Kuwait Finance House (KFH), the first financial institution in the country to operate in accordance with Islamic Shariah. Up till 2003, Kuwait Finance House remained the only institute offering Islamic financial services. However, following amendments in Central Bank Law (1968) in 2003 by including provisions for Islamic banking, new players entered the Islamic financial industry.

Presently Islamic financial services are offered in Kuwait by Islamic commercial banks as well as Islamic investment companies. According to Central Bank of Kuwait Annual Report 2011-12, there are 6 Islamic banks operating in the country (5 local and 1 foreign) along with 51 Islamic investment companies. In terms of market share, Islamic banking assets as share of overall banking assets constitute around 31 percent[9].

Islamic Banking Regulations:

The Central Bank of Kuwait regulates Islamic banking industry in the country under Central Bank of Kuwait Law. Section 10 of the Central Bank of Kuwait Law (Article 86–100) provides the legal provision pertaining to the rules and controls of Islamic Financial Institutions. The above mentioned articles not only provide definition of an Islamic bank but also provide regulatory and supervisory framework for Islamic banking and explicitly requires all such activities to be in accordance with Shariah principles.

Shariah Supervisory Board:

Central Bank of Kuwait Law requires the establishment of an independent Shariah Supervisory Board (SBB) for all Islamic financial institutions in the country. All banks are required to have at least three members in the Shariah Supervisory Board (SBB) who are responsible for providing ruling on the validity of various banking transactions in accordance with Shariah principles. The Shariah Supervisory Board (SBB) is also mandated to submit an annual report to the general assembly of their respective banks and provide their opinion on the overall operations of bank with respect to Shariah compliance. The Shariah report is required to be included in the annual report of respective bank.

It is important to note that Central Bank of Kuwait does not have a central Shariah Board. Thus in case of conflict of Shariah opinions among members of Shariah Supervisory Board (SBB) of a certain bank such matters are referred to the Fatwa board in the Ministry of Awqaf and Islamic Affairs, that serves as the final authority in all Shariah matters related to Islamic banking.

[9] World Islamic Banking Competitive Report 2011-12

Islamic Banks Supervision:

In terms of supervision, Central Bank of Kuwait follows a consolidated supervisory regime for both conventional as well as Islamic banks. All banks are required to follow Basel capital requirements. However, owing to separate nature of Islamic banking compared to conventional banks, a manual for Islamic banks titled "Instructions manual, for Islamic Banks Supervision" has been prepared. The above mentioned manual includes three chapters namely (a) instructions on the registration system of Islamic banks, (b) law, instructions, regulatory and supervisory regulations and (c) periodic data and statistics of Islamic banks. Importantly, serious considerations are being given towards adopting a separate Islamic banking law for Islamic banks in the country.

The Kuwait Finance House

As stated earlier Kuwait Finance House was the first institution to operate in the country in accordance with Islamic Shariah. The Kuwait Finance House remained exempted from central bank's regulations for more than twenty years since its inception. Such freedom allowed Kuwait Finance House to engage in a wide range of Shariah compliant products which were not confined to banking but also included areas like real estate, automobiles, trade finance and investment portfolios.

Kuwait Finance House has also engaged in investment activities in major markets of US, Europe and South East Asia through alliances with major global banks and financial institutions including Citibank, Deutsche Bank, JPMorgan, Chase, BNP Paribas, ABN Amro, HSBC, and Islamic Development Bank. Importantly Kuwait Finance House has established fully owned, independently functioning banks in Turkey, Bahrain, and Malaysia apart from representative offices in Singapore and Melbourne. Given its global presence and wide range of products, Kuwait Finance House is considered as a leading player in the Islamic banking and finance industry.

Kuwait Sukuk Market:

Despite having strong infrastructure for Islamic banking and finance, Kuwait has as yet not penetrated the global Sukuk market. According to International Islamic Financial Market Sukuk report there were only 9 global Sukuk issuances by Kuwait up till 2010 which collectively amounted US$ 1.58 billion; 3 percent of the global Sukuk issuances. One of the major reasons cited for this relative inactivity in the global Sukuk market is the lack of comprehensive legal framework for Sukuk issuances in the country. It is, however, pertinent to note that government of Kuwait is presently working with lawmakers for developing a conducive legal framework for Sukuk issuances. The government has already established Capital Markets Authority in 2011 aimed at improving the overall working of Kuwait's capital markets. Going forward such actions are likely to result in improving Sukuk market activity in the country.

Sources:

- Zulkifli Hasan (2010), "Regulatory Framework of *Shari'ah* Governance System in Malaysia, GCC Countries and the UK", Kyoto Bulletin of Islamic Area Studies, 3-2 (March 2010), pp. 82–115
- M. Umer Chapra and Tariqullah Khan (2000), "Regulation and Supervision of Islamic banks", Occasional paper # 3, Islamic Development Bank and Islamic Research and Training Institute

- Website of Central Bank of Kuwait
- Website of Kuwait Finance House
- World Islamic Banking Competitive Report 2011-12
- Global Islam Financial Review (2010 and 2011), BNM Islamic
- IIFM Sukuk Report 2nd Edition, 2011

Adoption of AAOIFI Shariah Standards: Case of Pakistan

Introduction

Harmonizing and standardizing Shariah practices and procedures of global Islamic financial institutions is considered essential for sustainable growth of the industry. To this end, various global Islamic organizations have strived towards forming standards and procedures that are not only Shariah compliant but are also acceptable by conventional regulators. Bahrain based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is one of such globally recognized international bodies that prepare Shariah based accounting, auditing, governance, ethics and Shariah Standards for the Islamic financial industry (see **Box 2** for details). AAOIFI based standards are generally considered to be globally acceptable and are adopted in various jurisdictions of the world including the Kingdom of Bahrain, Jordan, Lebanon, Qatar, Sudan and Syria. Pakistan also remained committed to provide an internationally acceptable regulatory structure and in the first phase has adopted four AAOIFI Shariah Standards after tailoring them in accordance with the legal and regulatory framework of the country. Other Shariah standards are also under consideration for implementation in the country with necessary amendments/clarifications if any.

Box: 2 The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI):

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an independent body dedicated to the development of international standards applicable for Islamic financial institutions. The Bahrain-based organization was registered as an international autonomous non-profit making corporate body in 1991 and started producing standards in 1993. AAOIFI is supported by institutional members including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry. To date AAOIFI has developed standards related to accounting (26), auditing (5), governance (7), ethics (2) and Shariah (45) for Islamic financial industry.

Murabaha to Purchase Orderer (Shariah Standard 8)

In general terms, Murabaha means sale of goods by a person to another under an arrangement whereby the seller is obliged to disclose to the buyer the cost of goods sold either on cash basis or deferred payment basis and a margin of profit is included in the sale price of goods agreed to be sold. However, in Islamic banking when Murabaha is used as a mode of finance it is slightly different as in this case the transaction is concluded with a prior promise to buy, submitted by the person interested in acquiring goods through the institution. Such transaction is generally referred to as Murabaha to the purchase orderer.

AAOIFI Shariah standard (8) addresses this mode of transaction and tries to explain the rules for such transaction, the various stages that form part of this transaction along with the Shariah requirements that need to be observed by Islamic financial institutions for executing this transaction. Accordingly the standard is explained through clauses in the following sequence:

- **Procedures prior to the contract of Murabaha:** All steps that need to be fulfilled before execution of the Murabaha contract are explained in this clause which is further divided into following sub-clauses.
    - The customer's expression of his wish to acquire an item through the institution (4 sub-clauses)
    - The position of the Institution In respect to the application of the customer for Murabaha to the purchase orderer (6 sub-clauses)
    - The promise from the customer (5 sub-clauses)
    - Commissions and expenses (5 sub-clauses)
    - Guarantees related to the commencement of the transaction (6 sub-clauses)
- **Acquisition of title to, and possession of, the asset by the institution or its agent:**
    - The acquisition of the asset or good by the institution prior to its sale by means of Murabaha to the purchase orderer
    - The institution's taking possession of the asset or good, prior to its sale by Murabaha to the purchase orderer
- **Conclusion of a Murabaha contract**
- **Guarantees and treatment of Murabaha receivables**

The standard concludes by providing 5 Appendices related to the Shariah standard. These Appendices are related to:

- Appendix A: Notice for Purchase of goods / assets by the agent
- Appendix B: Notice of the acceptance by the institution
- Appendix C: Brief history of the preparation of the Standard
- Appendix D: Basis of the Shariah rulings
- Appendix E: Definitions

Adoption of Murabaha to Purchase Orderer Standard in Pakistan:

As stated earlier, Pakistan has adopted four AAOIFI Shariah Standards after tailoring them in accordance with the legal and regulatory framework of the country. In case of Murabaha to Purchase Orderer, State Bank of Pakistan after consultation with local stakeholders, made further clarifications and amendments in various clauses of the Standard that are discussed below:

Original Clause	**Amendment**	**Clarification**	**Reason (if any)**
It is essential to exclude any prior contractual relationship between the customer who is the purchase orderer and the original supplier of the item ordered, if any, regarding the supply of the item. It is a requirement of Murabaha to the purchase orderer that the transaction between the two parties must genuinely, not fictitiously, exclude any prior contractual relationship.		The phrase, “prior contractual relationship” shall refer to “prior sale contract”.	
It is not permitted for the institution and the customer to agree to form a musharaka in a project or a specified deal together with a promise from one of them to buy the other's musharaka participation by means of Murabaha on either spot or deferred payment terms. However, it is permissible for one partner to promise to purchase the other's musharaka participation at market selling price or at a price to be agreed upon at the time of sale provided a new contract is drawn up. This sale may be on spot or on deferred payment terms.		This clause is not applicable to Shirkat ul Milk.	
It is not permissible that the document of promise to buy (signed by the customer) should include a bilateral promise which is binding on both parties (the institution and the customer).	Currently, in the context of Murabaha in Pakistan, a bilateral promise / agreement is permissible.		Master Murabaha agreements contains bilateral covenant regarding purchase of the asset.
It is permissible for the institution to take urbon (earnest money) after concluding the Murabaha sale with the customer. This may not be done during the contractual stage at which the customer has given his promise to purchase. It is preferable that the institution return to the customer the amount that remains after deducting the actual damage incurred from the urbon as a result of the breach, namely the difference between the cost of the item to the institution and its selling price to a third party.	The institution shall return to the customer the amount of Urbon (earnest money) after deducting the actual damages incurred.		In order to ensure that actual damages incurred by the bank are recovered from Urbon the use of word permissible should be replaced by mandatory. Hence an explanatory note was added.
The original principle is that the institution itself purchases the item directly from the supplier. However,		The agent shall not consume or sell, goods purchased on behalf of	Clarification for the word dire need was necessary. Thus it

it is permissible for the institution to carry out the purchase by authorizing an agent, other than the purchase orderer, to make the purchase; and the customer (the purchase orderer) should not be appointed to act as an agent except in a situation of dire need. Furthermore, the agent must not sell the item to himself. Rather, the institution must first acquire title of the item and then sell it to the agent.		the institution until such goods are sold by the institution to the customer.	was suggested in such special case where cash is provided on dire need basis an explanation, approved by Shariah advisor should be provided by the bank. Hence clarification was provided.
In cases when the customer is authorized to purchase the item as the institution's agent, it is obligatory to adopt procedures which would ensure that certain conditions are observed. These conditions include the requirement that: (a) the institution itself must pay the supplier, and not pay the price of the item into the account of the customer as agent. (b) the institution should obtain from the supplier the documents that confirm that a sale has taken place.	The payment mechanism presently adopted by Islamic Banking Institutions, whereby the supplier is paid by the bank through the transaction account opened in the name of agent and the customer may also acts as an agent, achieves the rationale behind this clause. However, in exceptional cases where the agent has to be given cash for onward payment to supplier, the matter can be decided by the Shariah Adviser and his specific approval would be required for this purpose.		Current practice followed by Islamic banks in the country regarding payments made to the supplier achieves the objectives of this clause. Hence amendment was made for clarification purposes.

Apart from the above mentioned amendments/clarifications in various clauses of the Shariah standard, two appendixes i.e. Appendix A (Notice for Purchase of goods / assets by the agent) & Appendix B- (Notice of the acceptance by the institution), were also amended and it was decided that the Model Murabaha Facility Agreement, shall be followed instead of these two appendices.

Sources:

- Shariah Standards for Islamic Financial Institutions, AAOIFI (2010)
- Website of State Bank of Pakistan (www.sbp.org.pk)
- Website of AAOIFI (http://www.aaoifi.com)
- http://www.islamicbanker.com/aaoifi-standards

Events and Developments at IBD

IRTI - SBP Joint Training Program on "Islamic Financial Products"
Held on 11-15 June, 2012, Karachi
A one week joint training program by Islamic Research and Training Institute (IRTI) – a member of the Islamic Development Bank Group (IDB), and State Bank of Pakistan (SBP) was held between June 11, 2012 and June 15, 2012 at Karachi under the title "Islamic Financial Products". This program was in continuation of IRTI's collaboration with SBP in the area of capacity building for Islamic finance industry in Pakistan. The course was attended by both international and local speakers and participants.

"**Fundamentals of Islamic Banking Operations (FIBO)"**
Held on 09-13 July 2012 SBP BSC, Hyderabad
As part of the series of programs aimed at increasing awareness level of Islamic banking and finance, SBP BSC, Hyderabad from the platform of NIBAF coordinated a five day training program on Fundamentals of Islamic Banking Operations (FIBO) between July 09, 2012 and July 13, 2012 at Hyderabad. The program was aimed for branch and operation managers of Islamic banking institutions.

IFN Road Show 2012,
Held on 4th Sep, 2012LRC, SBP, Karachi,
REDmoney a leading specialized publishing and events company of Malaysia conducted a one day road show at LRC, SBP, Karachi, on 4th September, 2012. The event was supported by SBP and focused on Pakistan Islamic banking and finance market and issues related to treasury, legal & regulatory environment, Sukuk and Takaful markets came under discussion. Kazi Abdul Muktadir, Deputy Governor State Bank of Pakistan, inaugurated the Road show and delivered keynote address. Dr. Ishrat Hussain, ex-Governor SBP, was chief guest at concluding session.

Islamic Banking News and Views

News

Bangladesh launches Islamic interbank money market

Bangladesh has launched an Islamic interbank money market, aiming to help sharia-compliant banks manage their short-term funding. Central bank governor Atiur Rahman told Reuters that the market would provide Islamic banks with a channel to use surplus money.
http://www.reuters.com/article/2012/06/05/islamic-finance-liquidity-idUSL5E8H45DN20120605

Europe debt crisis offers growth opportunity for Islamic Banks

The European debt crisis and public anger over government aid to banks offered Islamic lenders a "golden opportunity" to capture a bigger share of the world banking market, according to Noor Investment Group LLC. Islamic banking has the potential to overtake conventional lenders by offering an alternative to both Muslims and non- Muslims, Hussain Al Qemzi, chief executive officer of the United Arab Emirates-based group, said in a statement at the World Islamic Banking Conference in Singapore.
http://www.bloomberg.com/news/2012-06-05/europe-debt-crisis-offers-growth-opportunity-for-islamic-banks.html

Islamic banking assets set to reach $1.1 trillion in 2012

With the gap between Islamic and conventional banking solutions narrowing substantially, banking assets of the Shariah-complaint segment — growing twice as fast as conventional banking assets — are expected to reach $1.1 trillion globally in 2012, up 33 per cent from 2010, according to Standard Chartered.
http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/bankingfinance/2012/June/bankingfinance_June22.xml&section=bankingfinance

'Centre of Excellence in Islamic Microfinance' established

Centre of Excellence on Islamic Microfinance has been established in Pakistan in order to provide capacity building, Shariah guidance and capacity building to the Microfinance & Islamic Microfinance Institutions, considering its popular trend in poverty alleviation from the world.
http://pakobserver.net/detailnews.asp?id=164700

Saudi- Islamic capital markets to witness unprecedented growth

Saudi Arabia has proved its potential in the capital markets issuance space in 2012, with a slew of high-profile sukuk issuances backed by the government. The single largest sukuk issue ever originated from Saudi Arabia in January 2012, worth $4 billion, by the General Authority of Civil Aviation (GACA). The Kingdom's sukuk market is now considered the third largest in the world after Malaysia and the UAE and is expected to continue to climb up the issuance ladder moving forward.
http://www.menafn.com/menafn/1093539572/Saudi-Islamic-capital-markets-to-witness-unprecedented-growth

First Islamic Debit Card launched

Burj Bank in association with MasterCard, a global payments and technology company, announced the launch of Pakistan's first Islamic MasterCard debit card that is designed to benefit customers who prefer better control over their expenditure.
http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/16-Aug-2012/first-islamic-debit-card-launched

Articles/Views

What next in the challenging world of IB
http://biz.thestar.com.my/news/story.asp?file=/2012/6/2/business/11398236&sec=business

Shariah banking growing rapidly
http://www.businesslive.co.za/personalfinance/2012/06/09/shariah-banking-growing-rapidly

Islamic finance strong alternative to face economic crisis
http://www.presstv.ir/detail/2012/06/15/246351/islamic-finance-alternative--economic-crisis/

Will India accept Islamic banking?
http://www.nst.com.my/opinion/columnist/will-india-accept-islamic-banking-1.103746

Developing an Islamic monetary policy
http://tribune.com.pk/story/405443/developing-an-islamic-monetary-policy/

Are religious beliefs a drag on economic growth?
http://tribune.com.pk/story/411909/are-religious-beliefs-a-drag-on-economic-growth/

Corporate Governance in IF
http://businessislamica.com/2012/03/13/corporate-governance-in-if/

Takaful rules 2012, an opportunity for insurance under Shariah
http://pakobserver.net/detailnews.asp?id=168027

Does Islamic banking need tax-break pick-ups to lubricate the sector?
http://www.albawaba.com/business/islamic-banking-tax-436283

Annexure A

Annexure: AI

Islamic Banking Branch Network

(As of June 30, 2012)

Type	Name of Bank	No of Branches*
Islamic Banks	AlBaraka Bank (Pakistan) Limited	87
	BankIslami Pakistan Limited	71
	Burj Bank Limited	42
	Dubai Islamic Bank Pakistan Ltd	91
	Meezan Bank Ltd	301
		592
Islamic Branches of Conventional Banks	Askari Bank Limited	29
	Bank Al Habib Ltd	13
	Bank Alfalah Ltd	85
	Faysal Bank Limited	51
	Habib Bank Ltd	29
	Habib Metropolitan Bank	4
	MCB Bank Ltd	22
	National Bank of Pakistan	8
	Soneri Bank Ltd	7
	Standard Chartered Bank	15
	The Bank of Khyber	31
	United Bank Ltd	14
	Sub Total	**308**
Sub Branches	AlBaraka Bank (Pakistan) Limited	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	33
	Burj Bank Limited	8
	Habib Bank Ltd	1
	MCB Bank Ltd	2
	Sub Total	**48**
	Grand Total	**948**

* *Source: Banking Policy & Regulations Department, State Bank of Pakistan.*

Annexure: AII

Province wise Break-up of Islamic Banking Branch Network

(As of June 30, 2012)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtun khwa	Punjab	Sindh	Grand Total
Islamic Banks.	AlBaraka Bank (Pakistan) Limited	1	3	-	4	-	9	42	28	87
	BankIslami Pakistan Limited	1	8	-	2	1	5	30	24	71
	Burj Bank Limited	-	1	-	2	-	2	17	20	42
	Dubai Islamic Bank Pakistan Limited	1	5	-	4	-	3	44	34	91
	Meezan Bank Limited	4	9	-	15	-	27	140	106	301
IB. Total		**7**	**26**		**27**	**1**	**46**	**273**	**212**	**592**
Islamic Branches of Conventional Banks	Askari Bank Limited	-	2	-	1	-	5	14	7	29
	Bank AL Habib Limited	-	1	-	-	-	1	3	8	13
	Bank Alfalah Limited	-	3	-	6	-	4	52	20	85
	Faysal Bank Limited	-	2	-	3	-	12	22	12	51
	Habib Bank Limited	2	1	-	2	-	2	11	11	29
	Habib Metropolitan Bank Limited	-	-	-	-	-	-	1	3	4
	MCB Bank Limited	-	1	-	2	-	1	11	7	22
	National Bank of Pakistan	1	-	-	-	-	1	4	2	8
	Soneri Bank Limited	-	1	-	2	-	1	1	2	7
	Standard Chartered Bank(Pakistan)	-	1	-	1	-	3	4	6	15
	The Bank of Khyber	-	2	2	-	-	20	4	3	31
	United Bank Limited	-	1	-	1	-	2	5	5	14
SAIBBs Total		**3**	**15**	**2**	**18**	**-**	**52**	**132**	**86**	**308**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	1	-	-	-	1	2
	Askari Bank Limited	-	-	-	1	-	-	-	1	2
	BankIslami Pakistan Limited	1	3	-	3	-	2	9	15	33
	Burj Bank Limited	-	-	-	-	-	-	3	5	8
	Habib Bank Limited	-	-	-	-	-	-	-	1	1
	MCB Ban Limited	-	-	-	-	-	-	1	1	2
Sub Branches Total		**1**	**3**	**-**	**5**	**-**	**2**	**13**	**24**	**48**
Grand Total		**11**	**44**	**2**	**50**	**1**	**100**	**418**	**322**	**948**

Annexure: AIII

City wise Break-up of Islamic Banking Branch Network

(As of June 30, 2012)

S. No	Province	Cities	No of Branches
1	Sindh	Badin	1
2		Dadu	3
3		Hyderabad	22
4		Jacobabad	1
5		Karachi City	264
6		Larkana	2
7		Matiari	1
8		Mirpurkhas	4
9		Naushero Feroze	1
10		Nawabshah	5
11		Sanghar	5
12		Sukkur	10
13		Tando Allahyar	2
14		Tando Mohammad	1
	Sindh Total		**322**
15	Punjab	Attock	6
16		Bahawalnagar	5
17		Bahawalpur	4
18		Chakwal	4
19		Dera Ghazi Khan	3
20		Faisalabad	40
21		Gujranwala	16
22		Gujrat	16
23		Hafizabad	2
24		Jhang	3
25		Jhelum	6
26		Kasur	3
27		Khanewal	7
28		Khushab	5
29		Lahore City	152
30		Lodhran	1
31		Mandi Bahauddin	1
32		Mianwali	2
33		Multan	30
34		Muzaffargarh	3
35		Okara	3
36		Pakpattan	2
37		Rahim Yar Khan	10
38		Rawalpindi	48
39		Sahiwal	4
40		Sargodha	12
41		Sheikhupura	6
42		Sialkot	16
43		Toba Tek Singh	3
44		Vehari	5
	Punjab Total		**418**

S. No	Province	Cities	No of Branches
45	Khyber Pakhtunkhwa	Abottabad	11
46		Banu	3
47		Charsadda	3
48		Chitral	1
49		Dera Ismail Khan	5
50		Hangu	2
51		Haripur	4
52		Kohat	3
53		Malakand	1
54		Mansehra	7
55		Mardan	7
56		Nowshera	4
57		Peshawar	39
58		Swabi	3
59		Swat	3
60		Tank	1
61		Upper Dir	3
	KP Total		**100**
62	Gilgit-Baltistan	Gilgit	1
	GB Total		**1**
63	**FATA**	Khyber Agency	1
64		Orakzai Agency	1
	FATA Total		**2**
65	**Federal Capital**	Islamabad	50
	Federal Capital Total		**50**
66	Balochistan	Chagi	1
67		Gawadar	1
68		Kila Abdullah	2
69		Killa Saifullah	3
70		Lasbela	1
71		Loralai	5
72		Pishin	1
73		Quetta	29
74		Zhob	1
	Balochistan Total		**44**
75	**Azad Kashmir**	Mirpur	8
76		Muzaffarabad	3
	AJK Total		**11**
	Grand Total		**948**

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