Islamic Banking Bulletin

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Global Forum on Islamic Finance: Developments & The Way Forward

COMSATS, Lahore

Key Note Address by Saeed Ahmad,
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It gives me immense pleasure to be here today to address such a distinguished gathering. My sincere appreciation to the organizers for holding this event in the second consecutive year. It is indeed a delight to see presence of international dignitaries and I hope they would have a pleasant stay in this historical city -the cultural capital of Pakistan.

Given these times when the world is recovering from the aftermath of financial crises, this conference provides an opportunity to review the role Islamic finance can play in the revival and rebuilding of confidence of masses in the financial system. I hope that deliberations here will provide direction for the way forward and means of addressing the challenges faced by the industry.

Ladies & Gentlemen:

The world is waking up to the realization that inherent flaws of the conventional financial architecture due to its detachment from real economy added to its fragility. Economic imbalances caused by weak link between the productive economic activities and the conventional financial system not only contributed to high levels of instability but also resulted in financial exclusion of many. There is now increasingly greater realization of weaknesses and limitations of the conventional financial system even amongst the western economists and policy makers. It is amazing that the solutions being suggested are largely in line with Islamic finance principles of risk sharing. The significantly enhanced capital requirements under Basel III, the problem bank resolution mechanism adopted in Cyprus and proposed in European Union are such examples. The solution requires creditors and depositors to be treated like like shareholders in crisis situations. This as I said, is largely in conformity with the spirit of core Shari'a principle i.e. "Risk and Reward Sharing". Similarly the UK government's announcement in World Islamic Economic Forum to make London the global hub of Islamic finance acknowledges and reiterates the importance of Islamic finance on global level.

In this backdrop Islamic banking is increasingly making its mark by putting forward a system that is based on morals and ethics embedded in our religion Islam. Global Islamic finance since its inception almost five decades back has grown substantially from being a niche into a vibrant industry. Growing annually by more than 20 percent, the Islamic financial industry asset base has increased to over US$ 1.6 trillion, covering financial centers even beyond Muslim dominated jurisdictions. This is yet again a reflection of growing popularity and acceptability of Islamic finance as a realistic alternate to the conventional financial system. The story is no different in our part of the world. Islamic banking since its re-launch in 2002 has been growing by over 30 percent annually and its asset base has crossed Rs 1 trillion mark in December 2013.

Ladies and Gentlemen: I don't have any hesitation to associate this high pace growth of the industry with the supportive role of State Bank of Pakistan (SBP). The central bank has remained at the forefront and played an active role in development of Islamic finance in the country. **Alhumdullillah!** SBP has been amongst the central banks that are actively supporting development of Islamic banking industry through enabling policy and regulatory environment. It has always been cognizant of evolving industry needs and eager to adapt the legal, regulatory and supervisory framework to the industry dynamics and risks.

SBP has recently issued its strategic plan for the next five years that sets out a consensus direction for the industry and gives strategies and action plans. The key focus areas of the plan include i) further improvement in legal, regulatory and taxation environment, ii) improving Shari'a governance, iii) markets and products diversification, iv) awareness and capacity building initiatives.

Effective Shari'a compliance is central to the operations of Islamic banking. SBP has reviewed the Shari'a compliance framework through extensive industry consultation and developed a comprehensive Shari'a Governance Framework. The framework to be introduced very soon will institutionalize the Shari'a compliance practices in the industry and explicitly define the Shari'a related roles and responsibilities of various organs of IBIs including the Board of Directors, the executive management and Shari'a Boards. SBP is also gradually adopting AAOIFI Shari'a standards to ensure Shari'a standardization and harmonization. So far it has adopted six standards after necessary customization and two more standards on 'Salam' and 'Istasna' will be adopted and notified within the next quarter.

SBP last year issued landmark Instructions for Profit & Loss Distribution and Pool Management of Islamic Banking Institutions (IBIs). This is to improve transparency and bring standardization in profit computation and distribution practices of the industry besides safeguarding the interests of depositors.

Ladies and Gentlemen: In the very near future In-Sha Allah we will also be introducing a robust Liquidity Management Framework that would not only ensure development of Islamic Interbank Money Market but would also allow IBIs to place surplus funds with SBP under a Mudaraba based placement facility. This, I am highly confident, would resolve the long outstanding issue of the industry enabling them to efficiently and effectively manage their short term liquidity needs.

The overall policy environment for Islamic banking and finance industry in Pakistan is highly conducive and enabling; the government, SBP, SECP and the industry are on the same page on the need as well as strategy for developing the industry. The Industry should capitalize on this enabling and conducive environment and make necessary investments to improve their product suitcase, HR capacity and delivery infrastructure.

The SBP strategic plan for Islamic banking industry also envisages significant improvement in IBIs presence in non-traditional sectors like SME, agri and rural business and microfinance. This I believe would not only provide attractive and sustainable investment avenues to IBIs but would also significantly improve their image and perception as the business and economy friendly institutions.

Ladies and Gentlemen: We have yet to see Islamic banking industry making significant progress in the microfinance (MF) sector. While there are specific challenges in catering to this area, Islamic finance can overcome these challenges through its inherent controls and its unique business model. This will not only enable them to contribute towards financial inclusion but also help in increasing their outreach. Admitting the dire need of Islamic MF in the country, SBP has provided various options to encourage the private sector to partake in this sector of strategic importance. These options broadly include (a) Establishment of full-fledged Islamic microfinance bank (b)Islamic Microfinance Services by Full-fledged Islamic Banks, (c) Islamic Microfinance Services by Conventional Banks (d) Islamic Microfinance Services by Conventional Microfinance Banks (MFBs). I would strongly urge IBIs to develop linkages with Islamic Microfinance Institutions and provide them wholesale funds for financing to micro and small enterprises. These may be covered by guarantee facility under DFID UK.

Ladies & Gentlemen: Well developed capital markets are key components of financial system. They provide options to the business community and investors for raising and placing the funds. While Islamic banking industry has grown at an exceptionally fast pace, Islamic capital markets have yet to keep pace with the development of Islamic banking both internationally and locally. Similarly a vibrant takaful industry is essential to support the current high growth of Islamic banking in Pakistan. SBP realizes the need for active capital markets and sound takaful sector and is hence actively collaborating with the Securities and Exchange Commission of Pakistan (SECP) for ensuring sustainable growth and smooth functioning of overall Islamic financial system. Encouragingly! SECP has started taking initiatives for development of necessary infrastructure for Islamic Capital Markets. It has issued draft Sukuk guidelines, introduced takaful rules and established its Shari'a advisory board that will go a long way in development of Islamic Capital market in the country.

The recently formed Steering Committee for promotion of Islamic banking and finance by the Government has also provided an effective platform for collaboration between various stakeholders of the industry. To this end, sub-committees having representation from SECP, SBP and the Ministry have already been formed. I am sure that the work undertaken by these committees will provide comprehensive solutions across the board covering both banking and capital market.

Ladies & Gentlemen: As the industry grows lack of adequate human resource is being viewed as the major stumbling block. While SBP and industry are working to resolve this issue, we need to synergize our efforts with other players particularly academic institutions to meet the growing needs of this emerging industry. I can share with you that work is underway in this respect and in the near future we will see establishment of a Center of Excellence in Islamic Finance. The Center would not only help in providing a steady stream of skilled human resource for the industry but would also significantly augment the research capacity of the industry. You would be pleased to know that SBP has recently completed the first survey based study to estimate the demand for Islamic banking in the country. The study findings will be shared with the industry shortly.

Ladies & Gentlemen: Lastly let me again congratulate COMSATS for organizing such an impressive forum in second consecutive year. Their enthusiasm and commitment is highly appreciable and fully in line with the Government and SBP policy and plans for development of Islamic banking in Pakistan. The inauguration of the forum by Finance Minister himself yesterday is indicative of his strong commitment and resolve to help develop the industry. SBP shares the same vision and has been vigorously working towards an enabling regulatory environment and supports initiatives taken for development of Islamic finance. While we remain committed, the industry and academia needs to play a more active role in the growth of this sector. I am optimistic that our concentrated efforts will lead the industry to the next level of growth and development and would significantly increase its foot print in the country.

Thank you

Islamic Banking Industry- Progress & Market Share

Overview

Assets of the Islamic banking industry increased slightly during the first quarter of CY14 to be recorded at Rs. 1016 billion compared to Rs 1014 billion in the last quarter (see **Table 1**). Deposits of the Islamic banking industry also increased during the review quarter to reach Rs 872 billion. In terms of market share, assets of Islamic banking industry in overall banking industry declined to 9.4 percent during the review quarter from 9.6 percent in the previous quarter. On the other hand, market share of Islamic banking industry's deposits in overall banking industry increased during the quarter ending March 2014 to reach 10.7 percent. Profitability of the Islamic banking industry registered at Rs 3.2 billion by end March 2014 remained higher compared to Rs 2.2 billion profit by end March 2013. Among asset quality indicators, non-performing financing (NPF) of Islamic banking industry decreased during the first quarter of CY14 resulting in an increase in both return on equity (ROE) and return on assets (ROA) compared to previous quarter.

Table 1: Industry Progress and market share **(Rupees in billions)**

	Industry Progress			Growth (YoY)			Share in Industry		
	Mar-13	Dec-13	Mar-14	Mar-13	Dec-13	Mar-14	Mar-13	Dec-13	Mar-14
Total Assets	847	1014	1016	31.5%	21.2%	20.0%	8.7%	9.6%	9.4%
Deposits	704	868	872	32.8%	22.8%	23.9%	9.7%	10.4%	10.7%
Net Financing & Investment	666	709	662	36.7%	13.4%	-0.7%	8.9%	8.5%	7.6%
Total Islamic Banking Institutions	19	19	20	–	–	–	–	–	–
Total No. of Branches*	1100	1304	1314	–	–	–	–	–	–

Source: Quarterly Unaudited Accounts

**number includes sub-branches*

IBI Network Expansion

In line with the general trend during the first quarter of any calendar year, the branch network of Islamic banking industry witnessed moderate increase. The branch network reached a cumulative number of 1314 with an increase of 10 branches during the first quarter of CY14. Importantly, the number of Islamic banking institutions increased during the quarter, as Summit Bank Limited started Islamic banking operations after obtaining license and necessary approval from SBP. However, with more than 75 percent concentration of Islamic banking branch network in two provinces (Punjab and Sindh, see **Table 2**) and 56 percent concentration in 5 big cities (Karachi, Lahore, Quetta, Peshawar and Islamabad), smaller provinces in conjunction with second and third tier cities still remain under served.

Table 2: Province Wise Branch Network(March 2014)

Province	Total Number	Share (percent)
Punjab	574	43.7%
Sindh	443	33.7%
Khyber Pakhtoonkhawa	146	11.1%
Baluchistan	55	4.2%
Gilgit Baltistan	5	0.4%
FATA	4	0.3%
Federal Capital	72	5.5%
AJK	15	1.1%
Total	**1,314**	**100.0**

Asset & Liability Structure

Asset: Assets of the Islamic banking industry registered a moderate growth of 0.2 percent during January to March quarter 2014 to reach Rs. 1016 billion from Rs. 1014 billion in the previous quarter. However, market share of Islamic banking assets in overall banking industry decreased during the quarter under review as assets of overall banking industry grew at a faster pace (2.0 percent) compared to Islamic banking industry. Further analysis of assets reveals that both investments and financing, the major components of assets, registered decline during the first quarter of CY 14. Decline in investments was mainly due to non-availability of any new GoP Ijara Sukuk while decline in financing is in line with general trend witnessed during first quarter of any calendar year (see sections on **Investments** and **Financing** for details).[1]

Bifurcation of assets among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks reveals that assets of IBs increased whereas assets of IBDs declined during the review quarter compared to previous quarter. Consequently share of assets of IBDs in overall assets of Islamic banking industry witnessed decline as they decreased from 37 percent in December 2013 to 36 percent in March 2014.

Investments:

Investments of Islamic banking industry continued to decline during the first quarter of CY14 to reach almost Rs 354 billion from Rs 394 billion by end December 2013 (see **Table 3**). One of the major reasons for this decline in investments is non-availability of any new GoP Ijara Sukuk since March 2013 that has generally remained the main investment option for Islamic banking industry; Federal government securities witnessed a decline of 9.8 percent during the review quarter.

Table 3: Investments

Rupees in million

				Growth	
	Mar-13	**Dec-13**	**Mar-14**	**YoY**	**QoQ**
Federal government securities	307,544.8	266,687.2	240,438.3	(21.8)	(9.8)
Fully paid up ordinary shares	3,983.4	4,334.8	5,516.2	38.5	27.3
TFCs, Debentures, Bonds, & PTCs	34,230.5	34,000.1	34,636.0	1.2	1.9
Other investments	85,679.5	90,869.6	74,930.0	(12.5)	(17.5)
Investments by type					
Held for Trading	719.03	2,183.66	420.33	(41.5)	(80.8)
Available for Sale	411,782.2	368,089.8	325,891.5	(20.9)	(11.5)
Held to Maturity	9,258.6	15,383.5	15,861.7	71.3	3.1
Surplus /(deficit) on revaluation	1,347.6	2,714.9	5,964.4	342.6	119.7
Net Investments	**430,173.9**	**394,372.0**	**353,955.1**	**(17.7)**	**(10.2)**

[1] Other components of assets, in particular “Cash & balances with treasury banks” and “due from financial institutions” witnessed increase during the quarter under review resulting in an overall growth in assets of the Islamic banking industry.

Financing

Gross financing of the Islamic banking industry declined by 2.1 percent during the quarter under review, to reach Rs 323.2 billion by end March 2014 from Rs 330.2 billion in the previous quarter. This however, is in line with the seasonal pattern witnessed during the first quarter of calendar year owing to retirement of financing by majority of client industries due to the nature of their business cycle.

Analysis of financing mix reveals that the decline in financing was mainly contributed by Murabaha (see **Table 4 (a)**). Consequently, share of Murabaha in overall financing declined during the review quarter. For the first time Diminishing Musharaka became the mode with highest share in overall financing (see **Table 4 (b)**).

Sectoral distribution of financing reveals that the industry continued its concentration in the textile sector which is in line with that of overall banking industry. However, during the quarter under review, share of textile financing in overall financing registered a marginal decrease compared with previous quarter. Other sectors including 'Chemical and Pharmaceuticals', 'Sugar', 'Automobile and transportation equipment', 'Electronics and electrical appliances' and 'Individuals" witnessed an increase in their shares in overall financing during the quarter under review (see **Table 5**).

Table 4 : Financing Mix

(a) Amount in billion Rupees	Mar-13	Dec-13	Mar-14
Murabaha	90.4	134.2	106.7
Ijarah	23.2	25.4	27.1
Musharaka	3.6	22.0	27.9
Mudaraba	0.5	0.5	0.6
Diminishing Musharaka (DM)	89.7	101.8	107.2
Salam	13.0	13.3	18.6
Istisna	16.4	18.5	19.5
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	14.1	14.5	15.5
Total	**251.1**	**330.2**	**323.2**
(b) Percent Share			
Murabaha	36.0	40.6	33.0
Ijarah	9.2	7.7	8.4
Musharaka	1.4	6.7	8.6
Mudaraba	0.2	0.2	0.2
Diminishing Musharaka (DM)	35.7	30.8	33.2
Salam	5.2	4.0	5.8
Istisna	6.5	5.6	6.0
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	5.6	4.4	4.8
Total	**100.0**	**100.0**	**100.0**

Table 5: Financing Concentration - percent share

	Mar-13	Dec-13	Mar-14	Industry
Chemical and Pharmaceuticals	7.2%	6.3%	7.6%	3.6%
Agribusiness	2.1%	3.6%	1.7%	7.5%
Textile	18.9%	19.1%	19.0%	17.1%
Cement	1.6%	0.9%	0.7%	1.1%
Sugar	6.6%	3.9%	4.8%	3.9%
Shoes and leather garments	1.0%	0.9%	0.8%	0.6%
Automobile and transportation equipment	1.5%	1.7%	2.2%	1.4%
Financial	1.1%	0.7%	0.7%	2.3%
Insurance	0.0%	0.0%	0.0%	0.0%
Electronics and electrical appliances	1.4%	1.7%	1.7%	1.5%
Production and transmission of energy	9.2%	8.9%	10.8%	12.4%
Individuals	14.8%	13.3%	14.0%	9.0%
Others	34.6%	38.9%	36.1%	39.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In line with the general trend, client category wise financing of IBIs remained concentrated in corporate sector, having a share of nearly 75 percent followed by consumer financing (12.7 percent), commodity financing (5.8 percent) and SME (5.3 percent) in overall financing (see **Table 6**).

Table 6: Client Wise Financing Portfolio (Share Percent)

	Mar-13	Dec-13	Mar-14	Industry
Corporate Sector	72.7%	71.8%	74.4%	68.9%
SMEs	4.8%	5.1%	5.3%	6.1%
Agriculture	0.1%	0.1%	0.1%	5.6%
Consumer Finance	13.4%	11.6%	12.7%	6.6%
Commodity Financing	6.8%	9.6%	5.8%	10.6%
Staff Financing	1.7%	1.6%	1.7%	2.1%
Others	0.4%	0.2%	0.1%	0.2%
Total	72.7%	71.8%	74.4%	68.9%

Asset Quality

Like previous quarter, non-performing financing (NPF) of Islamic banking industry decreased and reached Rs 18.8 billion during the January to March 2014 quarter indicating quarterly (QoQ) decline of 0.7 percent. This decline was mainly contributed by the 'doubtful' category as the decline in the said category was more than the increase in other two categories i.e. 'substandard' and 'loss' during the quarter (see **Table 7**). Non-performing assets (NPA) of Islamic banking industry witnessed moderate increase of 0.6 percent during the quarter under review.

Table 7: Non-Performing Financing & Assets

Rupees in billions

	Mar-13	Dec-13	Mar-14	Growth in % YoY	QoQ
NPF	19.5	18.9	18.8	-3.9	-0.7
Substandard	1.2	1.3	1.4	21.7	9.4
Doubtful	3.6	1.8	0.9	-76.1	-50.6
Loss	14.7	15.8	16.4	11.8	4.0
Provisions	12.5	14.1	14.4	15.1	2.1
Net NPF	7.1	4.8	4.4	-37.6	-8.8
Recovery (year to date)	1.3	1.2	0.5	-61.8	-59.3
NPA	22.9	22.3	22.4	-2.2	0.6
Net NPAs	8.1	5.6	5.3	-35.1	-5.4

Among asset quality indicators, NPFs to financing ratio increased during the first quarter of CY14. Provisions made by Islamic banking industry also increased during the review period resulting in increase in Provisions to NPFs ratio (see **Table 8**). Among other asset quality indicators, Net NPAs to Capital and Net NPFs to Net Financing declined during the review quarter. All above mentioned performance indicators of Islamic banking industry are however still lower

Table 8: Performance Indicators

	Mar-13	Dec-13	Mar-14	Industry
Assets Quality Ratio				
NPFs to Financing	7.9%	5.7%	5.8%	13.4%
Net NPFs to Net Financing	3.0%	1.5%	1.4%	3.3%
Provisions to NPFs	63.9%	74.4%	76.5%	77.8%
Net NPAs to Total Capital	12.8%	7.9%	7.0%	14.5%
Real estate Financing to Total Financing	5.9%	5.1%	5.4%	1.3%
FCY Denominated Financing to Capital	8.5%	23.8%	16.9%	23.8%

than overall industry ratios indicative of relatively better asset quality of Islamic banking industry.

Liabilities

Growing by 0.5 percent during the quarter, deposits of the Islamic banking industry reached Rs. 872 billion by end March 2014 from Rs 868 billion in the previous quarter. Likewise, share of Islamic banking industry's deposits in overall banking industry increased from 10.4 percent in December 2013 to 10.7 percent by the end March 2014. This increase in deposits was mainly due to customers' deposits that grew by 1.3 percent during the review quarter. On the other hand, financial institutions' deposits with IBIs registered decline during the first quarter of CY14.

Table 9: Break up of Deposits

Rupees in million and growth in percent

				Growth	
	Mar-13	**Dec-13**	**Mar-14**	**YoY**	**QoQ**
Deposits	**704,007.8**	**867,698.8**	**872,094.8**	**23.9**	**0.5**
Customers	**671,824.7**	**798,622.2**	**808,622.3**	**20.4**	**1.3**
Fixed Deposits	234,412.8	261,240.2	249,983.9	6.6	(4.3)
Saving Deposits	268,235.2	314,361.7	340,232.8	26.8	8.2
Current accounts - Remunerative	1,590.8	2,337.6	2,633.5	65.5	12.7
Current accounts - Non-remunerative	164,554.6	217,147.9	212,414.6	29.1	(2.2)
Others	3,031.2	3,534.8	3,357.5	10.8	(5.0)
Financial Institutions	**32,183.1**	**69,076.6**	**63,472.4**	**97.2**	**(8.1)**
Remunerative Deposits	31,923.0	68,490.4	62,916.5	97.1	(8.1)
Non-remunerative Deposits	260.1	586.2	555.9	113.7	(5.2)
Currency Wise					
Local Currency Deposits	666,760.1	820,442.8	828,058.8	24.2	0.9
Foreign Currency Deposits	37,247.7	47,256.0	44,035.9	18.2	(6.8)

Further analysis of customers' deposits shows that savings deposits registered positive growth while fixed deposits, which constitute smaller share in customers' deposits (31 percent) declined during the period under review (see **Table 9**).

Earning & Profitability

Profitability of the Islamic banking industry recorded at Rs 3.2 billion by end March 2014 was higher compared to Rs 2.2 billion profit by end March 2013. Among indicators of earnings and profitability both return on equity (ROE) and return on assets (ROA) increased compared to previous quarter mainly due to declining non-performing financing of the Islamic banking industry (see **Table 10**). Similarly non-markup income to gross income of Islamic banking Industry registered increase during the first quarter of CY14. On the other hand Net Mark up Income to Gross Income declined during the quarter ending December 2013 though it stayed above overall banking industry average. In line with general trend Operating Expense to Gross Income of Islamic banking industry remained higher than that of overall banking industry.

Table 10: Earning & Profitability	Mar-13	Dec-13	Mar-14	Industry
Net Income to Total Assets (ROA)	0.8%	0.9%	1.0%	1.3%
Return on Equity (ROE)	11.2%	12.0%	13.7%	14.1%
Net mark up Income to Gross Income	78.7%	78.5%	74.4%	70.1%
Non-mark up Income to Gross Income	21.3%	21.5%	25.6%	29.9%
Trading & Fx Gains/(Losses) to Gross Income	7.2%	7.3%	12.5%	8.8%
Operating Expense to Gross Income	70.7%	69.7%	68.8%	57.0%
Personnel Expense to Operating Expense	37.8%	37.6%	40.0%	45.6%

Country Model

Islamic Republic of Iran is the largest contributor in overall Islamic finance industry with 42.7 percent share[2]. In terms of top institutions, seven out of ten Islamic banks are from Iran; the biggest Islamic bank (Bank Melli) is also in Iran. However, given its huge potential and bigger size, the Islamic Republic of Iran does not appear an active participant in the global Islamic financial market. However, the joining of Iran's Securities and Exchange Organization (SEO) as full member of IFSB is an encouraging development in this regard.

<u>Evolution of Islamic Banking</u>

After the Islamic revolution in Iran in 1979, the process of Islamisation of banking system initiated with nationalization of all banks during the period 1979-82. In 1983, the most significant development, the law of Usury Free Banking, was passed in the country which became effective since the end of first quarter 1984. According to the law, banks were granted one year to convert their deposits in compliance with Islamic law and three years to make their full operations free from interest.

However, the law has not explicitly defined the prohibited riba while it is also acceptable for government owned institutions and departments to continue with their interest based transactions and agreements between each other. Consequently, banks can offer interest based funding to all government institutions/ organizations. Furthermore, banks are also permitted for offering non-contractual non-fixed bonuses in cash or in kind to their depositors. This has provided space to these banks to continue with accounting standards and practices of conventional banking. All these features indicate Islamic banking in Iran significantly different from the basic features of Islamic banking in other regions of the world. However, the Islamic republic of Iran is making efforts to nurture its Islamic banking by developing new Shariah compliant financial instruments. In this regard, the significant development is the approval of Law for Development of New Financial Instruments and Institutions in early 2010 and the preparation of necessary regulations in response to the law.

The Islamic Republic of Iran is also aware of the significance of Sukuk and the capital market of the republic has started emphasizing on this instrument to raise financing. The market of sukuk was originated in Iran with the issuance of Musharaka Sukuk in 1994 by the municipality of Tehran. This successful first experience was followed by many state owned and private sector companies who used this instrument of Musharkaha Sukuk to raise funds. At that time those issuances were governed by regulations of the central bank which were issued in 1994. Later on in 1997 the Iran's parliament ratified the Law for Issuing of Musharaka Sukuk. According to the law the central bank was authorised to provide required permission for issuance of Musharkaha sukuk which was later shifted to SEO in 2005. In 2008 SEO has passed terms of reference for issuance of Ijara Sukuk, while the first Ijara sukuk came after three years of these regulations.

Source: Tehrantimes; http://tehrantimes.com/economy-and-business/106521-iran-holds-427-of-total-global-islamic-banking-assets {accessed on May 20, 2014}

Conclusion

Islamic republic of Iran though constitutes major share of Islamic banking in the global market, however, the growth of banking sector has remained very sluggish. The republic has also not been seen as an active player in international market mainly due to economic sanctions against them as well as due to the premise that the fundamentals of Islamic banking prevalent in Iran are different from other countries having Islamic finance.

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Adoption of AAOIFI Shari'a Standards: Case of Pakistan

INVESTMENT SUKUK

Shari'a Standard No. 17 is applicable to Investment Sukuk and these sukuk include sukuk of ownership of leased assets, ownership of usufructs, ownership of services, Murabaha, Salam, Istisna'a, Mudaraba, Musharkaha, investment agency and sharecropping, irrigation and agricultural partnerships according to the scope of the standard. The standard does not apply to shares of joint stock companies, certificates of funds and investment portfolios. This standard has been explained through six main clauses including the first clause of Scope and the last clause describing the issue date of the standard.

Second clause of the standard defines investment sukuk as "*Certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the sukuk, the closing of subscription and the employment of funds received for the purpose for which the sukuk were issued*". Investment sukuk have been designed under this standard in a way that these are distinguished from shares and bonds.

Third clause of the standard discusses types of investment sukuk in detail. This clause has been divided into two nine sub-clauses;

1. ***Certificates of ownership in leased assets*** have been defined as certificates of equal value issued either by the owner of a leased asset or a tangible asset to be leased by promise or these are issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription so that holders of the certificates become owners of the assets.
2. ***Certificates of ownership of usufruct are certificates*** of equal value issued by the owners of an existing asset either on his own or through a financial intermediary with the aim of leasing /sub-leasing the asset and receiving the rental from the revenue of the subscription so that the usufruct of assets passes into ownership of the holders of the certificates. These certificates have been further explained through two categories ***(i)*** Certificates of ownership of usufruct of existing assets and (ii) Certificates of ownership of usufruct of described future assets.
3. ***Salam Certificates*** are certificates of equal values issued for the purpose of mobilizing Salam Capital.
4. ***Istisna Certificates*** are certificates of equal values issued for the purpose of mobilizing funds to be employed for the production of goods.
5. ***Murabaha Certificates*** are certificates of equal values issued for the purpose of financing the purchase of goods through Murabaha.

6. ***Musharakah` Certificates*** are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, developing an existing project or financing a business activity on the basis of any partnership contracts so that the certificates holders become the owners of the project or the assets of the activity as per their respective shares. Musharkaha Certificates can be managed on the basis of (i) Partnership certificates, (ii) Mudaraba sukuk and (iii) Investment agency sukuk.
7. ***Muzara'a (sharecropping) Certificates*** are certificates of equal value issued for the purpose of using the funds mobilized through subscription for financing a project on the basis of Muzara'a so that the certificate holders become entitled to a share in the crop according to the terms of agreement.
8. ***Musaqa (irrigation) Certificates*** are certificates of equal value issued for the purpose of using the funds mobilized through subscription for financing a project on the basis of Musaqa so that the certificate holders become entitled to a share in the crop according to the terms of agreement.
9. ***Mugharasa (agricultural) Certificates*** are certificates of equal value issued for the purpose of using the funds mobilized through subscription for financing a project on the basis of Mugharasa so that the certificate holders become entitled to a share in the crop according to the terms of agreement.

Fourth clause through its five sub-clauses explains in detail the characteristics of investment sukuk. The clause after defining investment sukuk as "Investment *sukuk are certificates of equal value issued in the name of the owner or bearer in order to establish the claim of certificate owner over the financial rights and obligations represented by the certificate*" explain that these sukuk do not represent a debt owed to the issuer by the certificate holder. The clause further explains that owners of these certificates share the return in accordance to the subscription prospectus and bear the loss in proportion to the certificates owned by them while their trading is subject to the terms that govern trading of the rights they represent.

Fifth clause of the standard contains Shari'a rulings and regulations applicable to this instrument. This clause is divided into two main parts (i) Issuance of Investment Sukuk (ii) Trading of Sukuk and their Redemption.

(i) Issuance of Investment Sukuk: The clause states that it is permissible to issue investment certificates by way of subscription on the basis of any of Shari'a nominated investment contract and the contract of issue has all the legal effects of the contract which occurs after the closing of the subscription and the allotment of certificates. The clause while mentioning the two parties of the contract as issuer and subscribers explain that the relationship between the parties is determined by the type of contract and its status in Shari'a and also by description that this standard provides w.r.t major contracts including (i) certificates of ownership of leased assets (ii) certificates of ownership of usufructs (iii) Salam certificates (iv) Istisna certificates (v) Murabaha certificates (vi) Musharakah certificates (vii) Mudaraba certificates

(viii) certificates of Investment agency (ix) Muzara'a certificates (x) Musaqa certificates (xi) Mugharasa certificates.

The clause explicitly describes that the relationship between issuer and subscriber will be governed by applicable contract of issuing sukuk, however, the mere conclusion of the contract will give rise to legal effects with respect to rights and obligations of the parties. The standard also mentions that the issuance of the prospectus would indicate the offer of issuer's invitation while the subscription will be treated as acceptance[3].

With respect to underwriting the unsubscribed issues the standard allows the institution to underwrite, however, in such case the obligation of the underwriter is based on binding promise. It is not permitted to receive any commission for such underwriting. The standard allows the issuance of sukuk of any term in accordance with the principles of Shari'a; issuance of sukuk without even specifying a period depending upon the nature of contract is also permitted. Furthermore, the standard allows adopting any permissible method of managing risks and of mitigating fluctuations of distributable profits by payment of premiums from the income of the shares of sukuk holders or through their donations.

(ii)Trading of Sukuk and their Redemption: Trading and redemption is permissible after closing subscription, allotment of sukuk and commencement of activity. However for trading /redemption prior to the commencement of activity it is necessary to observe the rules of the contract of Sarf (currency exchange) along with rules for debt (receivables) when liquidation is complete and the assets are receivables or when assets represented by the sukuk are sold for a deferred price.

The standard permits the issuer to undertake to purchase at market value after the process of completion of issue, however, it is not allowed to purchase at nominal value. The standard allows trading immediately upon issuance and to the date of maturity (but after the passing of ownership of the assets to the holders of sukuk) and also permits any means for trading which is not in conflict with Shari'a. For the redemption the standard allows the issuer to redeem prior to maturity at the market price or at a rate agreed upon at the date of redemption between the certificate holder and the issuer.

Similar to trading in certificates/securities of ownership of assets, the standard allows the trading in securities of ownership of usufruct of tangible assets prior to a contract for sub-leasing the assets as well as the redemption of such sukuk. However, it is not permissible to trade in certificates of ownership of usufructs of a described asset before the asset from which usufruct is to be made available is ascertained, except by observing the rules for disposal of receivables. The standard explicitly describes that trade is allowed in Istisna, Murabaha, Mudaraba, Musharakah, Muzara Musaqa, Mugharasa and investment agency certificates while it is not permitted in Salam certificates.

[3] Clause 5/1/8 of the standard contains all details that should be included in the prospectus of issue.

Adoption of Shari’a Standard No. 17

AAOIFI Shari’a Standard No. 17 related to ‘Investment Sukuk’ is adopted by SBP for IBIs w.e.f July 15, 2013[4] with following clarifications/amendments in the continuous process of standardization and harmonization of the Shari’a practices in Islamic banking industry;

Clause No	Original Clause	Amendment/Clarification
Clause 1 (Scope of the Standard)	The Standard applies to investment sukuk. These sukuk include sukuk of ownership of leased assets, ownership of usufructs, ownership of services, Murabaha, Salam, Istisna’s, Musharaka, investment agency and sharecropping, irrigation and agricultural partnerships. The standard does not apply to shares of joint stock companies, certificates of funds and investment portfolios.	The following clarification is added as the footnote to the clause; “As the standard covers various types of sukuk, in case of any query, the provisions/rulings of relevant mode may be referred. For example, in case of query on Ijarah sukuk, the Shari’a Standard on Ijarah may be referred. Further, AAOIFI Resolution on sukuk issued in February 2008 which provides necessary explanation to the subject standard is also adopted with this standard.
Clause 2	Investment sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the sukuk, the closing of subscription and the employment of funds received for the purpose for which the sukuk were issued. In this standard, sukuk have been designated as Investment sukuk in order to distinguish them from shares and bonds.	The following is added as footnote to the clause: “The phrase ‘undivided shares’ appearing in the clause may be read as ‘undivided share.”
Clause 3/2/2	These are certificates of equal value issued for the purpose of leasing out tangible future assets and for collecting the rental from the subscription revenue so that the usufruct of the described future asset passes into the ownership of the holders of the certificates.	The following clarification is added as the footnote to the clause which defines Ijarah Mowsoofa fi Zimmah certificates: “The Ijarah Mowsoofa fi Zimmah’ referred to in the clause means Ijarah of described but unidentified assets or services.”
Clause 3/2/3	These are certificates of equal value issued for the purpose of providing services through a specified provider (such as educational benefits in a nominated) and obtaining the service	The following is added as footnote to the clause: “The phrase ‘subscription income’ used in the clause may be read as ‘subscription

[4] **IBD Circular No. 03 of 2013**

	charges in the form of subscription income so that the holders of the certificates become owners of these services.	revenue'."
Clause 4/3	Investment sukuk are issued on the basis of a Shari'a-nominated contract in accordance with the rules of Shari'a that govern their issuance and trading.	The following is added as footnote to the clause: "The term 'Sharia-nominated' used in the clause may be read as 'Shari'a-compliant'."
Clause 4/4	The trading of investment sukuk is subject to the terms that govern trading of the right they represent.	The following clarification is made with respect to the clause: "The clause may be read as 'The trading of investment sukuk is subject to the terms that govern trading of the assets they represent'."
Clause 5/1/5/2 (c)	The issuer of these certificates is the seller of services; the subscribers are buyers of the services, while the funds mobilized through subscription are the purchase price of the services. The certificate holders are entitled to sell the profits of all the types that are listed at (a), (b), and (c) and are entitled to the income from the resale of such usufruct.	The following is added as footnote to the clause: "The holders of these sukuk listed at a, b, and c of the clause are entitled to the revenue generated by onward sale of these services."
Clause 5/1/5/10 & 5/1/5/11	(a) The issuer of these certificates is the owner (or owner of usufruct) of the land that consists of trees; the subscribers are those who assume the obligation of irrigation through a Musaqah contract, while the realized funds are the maintaining cost of the trees. (b) The issuer of these certificates may be the irrigator (the worker) and the subscribers the owners of the land (investors whose subscription amounts are used to irrigate the land).The certificate holders are entitled to a share of the produce of the trees as per agreement.	The following is added as footnote to the clause: "The phrase 'maintaining cost' in these clauses may be read as 'maintenance cost'."
Clause 5/1/8/4	The prospects must explicitly mention the obligation to abide by the rules and principles of the Islamic Shari'a, and that there is a Shari'a board that approves the procedures of the issues and monitors the implementation of the project throughout its duration.	The following is added as footnote to the clause: "Islamic bank investing in such sukuk shall put in place a mechanism to satisfy itself regarding the Shari'a compliance of the sukuk during its entire duration."
Clause 5/1/8/7	The prospectus must not include any statement to the effect that the issuer of the certificate accepts the liability to compensate the owner of	The following is added as footnote to the clause: "The clause pertains to sukuk based on Shirkatul Aqd

	the certificate up to the nominal value of the certificate in situations other than torts and negligence nor that he guarantees a fixed percentage of profit. It is, however, permitted to an independent third party to provide a guarantee free of charge, while taking into account item 7/6 of Shari'a standard No. (5) in respect of guarantees. It is also permitted to the issuer of the certificate to offer some tangible or personal guarantees with respect to its wrongful act or negligence, while taking into account item 3/1/4/3 of Shari'a standard no. (12) in respect of Sharika (Musharaka) and Modern Corporations as well as the contracts stated in that standard.	and not on those based on Shirkatul Milk."
Clause 5/2/2	In the case of negotiable sukuk, it is permissible for the issuer to undertake, through the prospectus of issue, to purchase at market value, after the completion of the process of issue, any certificate that may be offered to him, however, it is not permissible for the issuer to undertake to purchase the sukuk at their nominal value.	The following is added as footnote to the clause: "The impermissibility of undertaking by the issuer to purchase the sukuk at nominal value is not applicable on sukuk based on 'Shariktul Milk' or 'Ijarah'. Further, the term 'negotiable sukuk' used in the clause may be read as 'tradable sukuk'."
Clause 5/2/5	It is permissible for the issuer to redeem, prior to maturity, certificates of ownership of leased assets at the market price or at a rate agreed upon, at the date of redemption, between the certificate holder and the issuer.	The following is added as footnote to the clause: "This clause is applicable on sukuk issued on the basis of portfolio of already leased assets only."
Clause 5/2/7	It is permissible for the issuer to redeem sukuk of ownership of the usufruct of tangible assets from the holder, after allotment and payment of the subscription price, at the market price or at a price agreed upon between the parties at the time of redemption, on the condition that the subscription amount or redemption price is not deferred. See item ¾ of Shari's standard No. (9) pertaining to Ijara and Ijara terminating in ownership.	The following is added as footnote to the clause: "In cases of sukuk based on sale-and lease-back, the issuer shall not repurchase the leased asset from the sukuk holders before the completion of one calendar year."
Clause 5/2/14	It is not permissible to trade in Salam certificates.	The following is added as footnote to the clause: "However, trading of Salam sukuk is permissible only after taking delivery of the goods and before their onward sale."

Sources:

- Shari'a Standards for Islamic Financial Institutions, AAOIFI (2010)
- Website of State Bank of Pakistan (www.sbp.org.pk)

Events and Developments at IBD

Focus Group Meeting & Awareness Session
Held on December 13, 2013 at UET Lahore

Director – Islamic Banking Department (IBD) participated as a guest speaker in an Awareness Session on Islamic Banking & Finance, at University of Engineering and Technology (UET), Lahore on December 13, 2013. The same is in line with IBD's objective of improving awareness of Islamic banking among different segments of society including academia and students. It was arranged as one of the supplementary program along with Islamic Banking Focus Group meeting at SBP-BSC Lahore office, on the same date.

Conference/Seminar on Fundamentals of Islamic Banking
Held on December 02, 2013 at SBP-BSC Quetta

In line with the objective of IBD of improving awareness of Islamic finance among various segments of the society, a one day seminar on Fundamentals of Islamic Finance was conducted at SBP-BSC Quetta office on December 2, 2013. Director –IBD participated as a chief guest and the program was attended by more than 100 participants, representing academia, chamber of commerce and banking industry.

Islamic Banking News and Views

2014 will be promising for Islamic Finance Industry

Islamic finance will grow with rapid pace in the year 2014 and its volume will pass through US $ 2 trillion where Islamic banking keeps 78%, Sukuk 16%, Takaful 1%, Islamic Funds 4% and Islamic Microfinance has 1% share in the Islamic Finance industry. In the year 2014, Dubai and London will be in competition to be the global hub of Islamic Banking and Finance while Kuala Lumpur will also attempt to be in this contest but the Islamic finance in-dustry can be grown more through synergizing approach and alliance with industry stake-holders rather than setting any competition.
http://www.zawya.com/story/2014_will_be_promising_for_Islamic_Finance_Industry-ZAWYA 20131231113149/

Islamic Finance on the rise in North Africa

The estimated $1.4 trillion global Islamic finance sector could be on the rise in North Africa where governments have been introducing new regulation as they seek Shari'a-compliant alternatives for decreasing conventional funding sources and try to plug current account deficits. Tunisia and Egypt implemented new laws allowing for the issuance of Islamic bonds in late 2013, while Morocco last month put in place a legal framework for Islamic institutions, according to Standard & Poor's.
http://stream.wsj.com/story/latest-headlines/SS-2-63399/SS-2-463599/

India takes key step toward full-fledged Islamic banks

India is planning to set up a body to fine-tune and promote Islamic finance before issuing license to start full-fledged banking operations, according to one of the country's senior ministers. "The formation of the entity is an important step forward. We need to set a framework for rules for different financial products

to be offered by these banks or through the Islamic banking windows," said Rahman Khan, India's minister for minority affairs.
http://www.zawya.com/story/India_takes_key_step_toward_fullfledged_Islamic_banks-ZAWYA20140218035317/

Bahrain eyes external Sharia audits for Islamic banks

Bahrain's Waqf Fund, a non-profit body set up by the central bank, has proposed mandatory external Shari'a audits for Islamic financial institutions to help strengthen compliance and improve the image of the industry. Regulators around the world are increasing their scrutiny of Islamic finance, including the boards of Shari'a scholars who rule on whether activities follow religious principles. Since Shari'a boards tend to be paid by the institutions whose activities they oversee, the scholars can be open to accusations of conflicts of interest - prompting calls for separate and independent oversight.
http://www.reuters.com/article/2014/03/03/islamic-finance-bahrain-idUSL6N0M000G20140303

IFSB implements a new standard on supervisory review for IIFS

During its 24th Meeting in Brunei, the Council of the Islamic Financial Services Board (IFSB) passed a resolutions on the adoption of a new standard. The new standard, known as IFSB-16, is the Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services, which excludes Takaful institutions and Islamic collective investment schemes. The revised standard is an updated version of an earlier standard (IFSB-5) that enumerates key elements in the supervisory review process for authorities supervising institutions offering Islamic financial services (IIFS).
http://www.islamicfinancenews.com

K-Electric Sukuk oversubscribed

K-Electric has concluded the subscription of its PKR750 million (US$7.08 million) Sukuk-I. The program was oversubscribed by PKR131 million (US$1.24 million).
http://www.islamicfinancenews.com

SBP launches strategic plan for Islamic banking

The State Bank of Pakistan (SBP) is pursuing a five-year strategic plan, aimed at setting a consensus direction for the Islamic banking industry, in an effort to step up existing growth momentum and lead the industry to the next level of development. The plan revolves around initiatives necessary for improving the public perception of Islamic banking and promoting it as a distinct and viable system to meet financial services' need of the public in general and business community in particular, the SBP said.
http://tribune.com.pk/story/675753/sbp-launches-strategic-plan-for-islamic-banking/

Pakistan tightens rules on Islamic banking windows

Pakistan's central bank has issued new rules for the operation of Islamic banking windows, aiming to strengthen their role in the world's second-most populous Muslim nation. The new requirements come at a time when Pakistan is stepping up efforts to develop Islamic finance, prompting several banks to expand their operations in the sector.

http://www.arabtimesonline.com/NewsDetails/tabid/96/smid/414/ArticleID/204861/reftab/36/t/Pakistan-tightens-rules-on-Islamic-banking-windows/Default.aspx

Summit Bank launches Islamic banking

Summit Bank Limited has launched its Islamic Banking with setting up new branch in Karachi with a plan to convert overall banking operation from conventional to Sharia-compliant in the next three years. The bank has been established with Rs 1 billion equity in accordance of mandatory operations requirement of starting operations with the capital driven through non-interest source.
http://www.dailytimes.com.pk/business/08-Mar-2014/summit-bank-launches-islamic-banking

Summit Bank allowed to convert operations into Islamic mode

The State Bank of Pakistan (SBP) has given a green signal to Summit Bank Limited to transform its conventional core banking operations into Shari'a-compliant Islamic banking. Sources in banking industry told that this would be first of its kind migration of any Pakistani bank from conventional to Islamic banking in the banking history of the country at a massive level.
http://www.brecorder.com/money-a-banking/198/1143167/

MCB to set up Islamic bank as subsidiary

In order to further widen the Islamic banking operation, MCB Bank has planned to set up a subsidiary for Islamic banking. Industry sources said MCB Bank"s request for a wholly owned Islamic banking subsidiary has been approved by the State Bank of Pakistan and accordingly, a No Objection Certificate (NOC) has been issued to MCB Bank.
http://www.brecorder.com/money-a-banking/198/1144055/

Sindh Bank gets Islamic Banking license

State Bank of Pakistan (SBP) has granted Islamic Banking license to Sindh Bank for the commencement of Islamic Banking operations. The bank successfully completed the pre-launch phase on a fast track, and now work started on pre-commencement phase in full swing. The first Islamic Banking Branch of Sindh Bank will open its doors soon.

Pakistan's Faysal Bank to convert into Islamic bank

Faysal Bank Limited will convert itself into a full-fledged Islamic lender as its majority shareholder, Bahrain's Ithmaar Bank, looks to consolidate its business lines. Islamic retail bank Ithmaar, with a 67 percent stake in FBL, wants to extract up to $35 million in savings from a turnaround plan after posting a net loss of 29.9 million dinars ($79.3 million) last year.
http://www.reuters.com/article/2014/03/25/ithmaar-bnk-pakistan-faysal-bank
idUSL5N0MM0PN20140325

Articles/Views:

Islamic wealth management next phase of growth for Islamic finance

Some two years ago, Malaysia's former Prime Minister Tun Dr Mahathir Mohammad delivered a thought-provoking talk themed "Islamic Finance as the means for Revival of Islamic Renaissance". He spoke at length on how managing wealth efficiently can contribute to a country's growth. What Dr Mahathir was trying to say was by leveraging on expertise and skills, especially in wealth management, a country can benefit not only from the spinoffs of the products but also the potential of the industry moving forward.
http://www.theborneopost.com/2014/01/02/islamic-wealth-management-next-phase-of-growth-for-islamic-finance/

Islamic Finance on the verge of a tipping point

Will the year 2014 be a tipping point for Islamic finance? It's a question in the minds of many inside the rapidly growing industry, as a confluence of factors came together in 2013 that could portend a structural shift in how the world views Islamic banking products and the Islamic consumer. In order for the tipping point to be achieved, the industry must move beyond its traditional hubs of Malaysia and the Gulf states and expand across emerging markets, Europe and the United States.
http://www.aawsat.net/2014/01/article55326542

Human resource development: Training in Islamic banking comes at centre of strategy

With the change in government after the May 2013 elections, there is a surge in interest in reviving Islamic banking in Pakistan. The government has responded well by committing to use a Shari'a-compliant structure of financing under the Prime Minister's Business Loans Program for the Youth. Finance Minister Ishaq Dar has also set up a committee to promote and strengthen Islamic banking in the country. It is expected that MCB Bank will soon spin off its Islamic banking business into a fully-fledged subsidiary, separately licensed by the State Bank of Pakistan (SBP). Bank Alfalah, which has the largest Islamic banking business after Meezan Bank, will also consider a subsidiary model for its Islamic banking. Despite this positive outlook, human resource development for the Islamic banking in-dustry will remain a challenge.
http://tribune.com.pk/story/660740/human-resource-development-training-in-islamic-banking-comes-at-centre-of-strategy/

Marketing the Islamic finance and banking brand: Which approach?

Aside from product development, one area in which the Islamic finance industry has been consistently working on is creating a name for itself in the wider universe of finance. In other words: marketing and branding. When an evolving industry situated in what should be a thriving market by means of demographics does not command the market reach it should, a significant and logical driving force for the lack of take up among the public could lie in the marketing and packaging of the brand to the masses.
http://www.islamicfinancenews.com

Islamic economy solution to all financial crisis: IIUI President

The International Islamic University Islamabad (IIUI) president has said that capitalism and socialism were the causes of prevailing economic crisis in the world, while Islamic economic system was the solution of global financial crisis and elimination of poverty.

http://www.dailytimes.com.pk/islamabad/11-Feb-2014/islamic-economy-solution-to-all-financial-crisis-iiui-president

Annexure: I

Islamic Banking Branch Network

(As of March 31, 2014)

Type	Name of Bank	No of Branches*
Islamic Banks	AlBaraka Bank (Pakistan) Limited	108
	BankIslami Pakistan Limited	112
	Burj Bank Limited	74
	Dubai Islamic Bank Pakistan Limited	124
	Meezan Bank Limited	349
		767
Islamic Branches of Conventional Banks	Askari Bank Limited	39
	Bank AL Habib Limited	17
	Bank Alfalah Limited	140
	Faysal Bank Limited	53
	Habib Bank Limited	38
	Habib Metropolitan Bank Limited	6
	MCB Bank Limited	27
	National Bank of Pakistan	22
	Silkbank Limited	10
	Soneri Bank Limited	15
	Standard Chartered Bank (Pakistan) Limited	10
	Summit Bank Limited	1
	The Bank of Khyber	44
	The Bank of Punjab	7
	United Bank Limited	22
		451
Sub Branches	AlBaraka Bank (Pakistan) Limited	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	89
	Habib Bank Limited	2
	United Bank Limited	1
		96
		1314

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

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of March 31, 2014)

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	1	11	58	30	108
	BankIslami Pakistan Limited	1	10	1	5	2	13	42	38	112
	Burj Bank Limited	1	2		4		3	32	32	74
	Dubai Islamic Bank Pakistan Limited	1	5		7		6	53	52	124
	Meezan Bank Limited	5	11		16		30	165	122	349
	IB. Total	**9**	**31**	**1**	**36**	**3**	**63**	**350**	**274**	**767**
Islamic Branches of Conventional Banks	Askari Bank Limited		2		2	1	6	19	9	39
	Bank AL Habib Limited		1				1	3	12	17
	Bank Alfalah Limited	1	5		8		8	78	40	140
	Faysal Bank Limited		2		3		14	22	12	53
	Habib Bank Limited	2	1	1	3		4	16	11	38
	Habib Metropolitan Bank Limited				1			1	4	6
	MCB Bank Limited		1		2		2	13	9	27
	National Bank of Pakistan	1			1		2	10	8	22
	Silkbank Limited		1		1		2	4	2	10
	Soneri Bank Limited		1		2	1	1	6	4	15
	Standard Chartered Bank (Pakistan) Limited				1		1	2	6	10
	Summit Bank Limited								1	1
	The Bank of Khyber		2	2	1		29	7	3	44
	The Bank of Punjab						4	3		7
	United Bank Limited	1	2		1		4	8	6	22
	SAIBBs Total	**5**	**18**	**3**	**26**	**2**	**78**	**192**	**127**	**451**
Sub Branches	AlBaraka Bank (Pakistan) Limited				1				1	2
	Askari Bank Limited				1				1	2
	BankIslami Pakistan Limited	1	6		8		4	32	38	89
	Habib Bank Limited								2	2
	United Bank Limited						1			1
Sub Branches Total		**1**	**6**	**-**	**10**	**-**	**5**	**32**	**42**	**96**
Grand Total		**15**	**55**	**4**	**72**	**5**	**146**	**574**	**443**	**1,314**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of March 31, 2014)

S. No	Province	District	No of Branches
1	Sindh	Badin	3
2		Dadu	3
3		Ghotki	1
4		Hyderabad	27
5		Jacobabad	1
6		Jamshoro	1
7		Karachi City	368
8		Larkana	3
9		Matiari	1
10		Mirpurkhas	6
11		Naushero Feroze	1
12		Nawabshah	6
13		Sanghar	6
14		Sukkur	10
15		Tando Allahyar	4
16		Tando Mohammad Khan	1
17		Umer Kot	1
Sindh Total			**443**
18	Punjab	Attock	12
19		Bahawalnagar	7
20		Bahawalpur	4
21		Chakwal	6
22		Dera Ghazi Khan	6
23		Faisalabad	53
24		Gujranwala	23
25		Gujrat	19
26		Hafizabad	2
27		Jhang	5
28		Jhelum	8
29		Kasur	4
30		Khanewal	9
31		Khushab	5
32		Lahore City	211
33		Layyah	1
34		Lodhran	1
35		Mandi Bahauddin	1
36		Mianwali	2
37		Multan	39
38		Muzaffargarh	5
39		Okara	8
40		Pakpattan	3
41		Rahim Yar Khan	13
42		Rawalpindi	68
43		Sahiwal	6
44		Sargodha	13
45		Sheikhupura	9
46		Sialkot	20
47		Toba Tek Singh	4
48		Vehari	7
Punjab Total			**574**

S. No	Province	District	No of Branches
49	Khyber Pakhtunkhwa	Abottabad	12
50		Banu	4
51		Batagram	3
52		Buner	1
53		Charsadda	5
54		Chitral	3
55		Dera Ismail Khan	6
56		Hangu	2
57		Haripur	6
58		Kohat	5
59		Lower Dir	1
60		Malakand	1
61		Mansehra	12
62		Mardan	10
63		Nowshera	5
64		Peshawar	49
65		Shangla	1
66		Swabi	5
67		Swat	9
68		Tank	1
69		Upper Dir	5
KP Total			**146**
70	Gilgit-Baltistan	Baltistan	1
71		Diamir	3
72		Gilgit	1
	GB Total		**5**
73	**FATA**	Khyber Agency	1
74		Orakzai Agency	3
FATA Total			**4**
75	**Capital**	Islamabad	72
	Capital		**72**
76	Balochistan	Chagi	1
77		Gawadar	1
78		Kila Abdullah	4
79		Killa Saifullah	3
80		Lasbela	2
81		Loralai	5
82		Pishin	1
83		Quetta	37
84		Zhob	1
Balochistan Total			**55**
85	**Azad Kashmir**	Mirpur	11
86		Muzaffarabad	3
87		Poonch	1
AJK Total			**15**
Grand Total			**1314**