Islamic Banking Bulletin

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Islamic Banking Department
State Bank of Pakistan

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Seminar on "Unlocking Islamic Finance Potential in China Pakistan Economic Corridor (CPEC) and Beyond"
Organized by Centre of Excellence in Islamic Finance Education (CEIFE) Institute of Business Administration (IBA)

Address by Mr. Saeed Ahmad,
Deputy Governor, State Bank of Pakistan
Institute of Business Administration (IBA), Karachi
January 17, 2017

Distinguished Guests, Ladies & Gentlemen,

Assalam-o-Alaikum

I am honored to be a part of this high level international forum and look forward to the discussions here today that are likely to be beneficial for Islamic finance stakeholders in the context of CPEC and beyond.

Ladies and Gentlemen;

The risk and reward sharing nature of Islamic finance and the greater probability of increased efficiency in allocating resources to the real sectors of the economy make it a more stable financial system that ensures sustainable growth. Owing to these characteristics, policy makers across the globe are looking towards Islamic finance as a route to boost equitable economic growth. In this backdrop, Islamic finance sector has experienced immense growth in the last few decades with presence in over 50 countries. Expansion in the Islamic banking sector continues to broadly outpace the conventional counterpart in most of the jurisdictions where Shariah compliant banking has been established. The current size of the global Islamic finance market is nearly USD 2 trillion with expectations of market size to be USD 3.4 trillion by end of 2018. Sukuk, the second largest segment of Islamic finance industry has also been growing considerably during the last one decade.

Several Islamic as well as non-Islamic jurisdictions such as United Kingdom, France, Germany, Japan, Luxembourg, Hong Kong, Central Asian Countries and South Africa etc. have successfully issued international Sukuk. The global market has also welcomed entry of African countries such as Senegal and Ivory Coast as issuers of Sukuk. Moreover, Khazana National Berhad Malaysia issued the first Islamic Exchangeable Sukuk that offers exposures into China's growing water utility sector. It is remarkable to see projects being financed by Shariah compliant instruments in England such as the 2012 Olympics village, the Shard (the tallest building in Europe), the London Gateway and other residential projects. Given the fact that Islamic finance is enjoying steady growth, the use of Sukuk in project financing can play a vital role in financing major projects of medium to long term nature.

The potential of Islamic finance lies in the fact that it is intrinsically linked with economic development and a number of Islamic financing modes can be conveniently tailored for financing infrastructure and industrial development projects. Pakistan, a relatively late entrant in the global Sukuk market is now in limelight with the issuance of third international US dollar Sukuk of 1 billion in October 2016. Through CPEC, Islamic banks have a chance to promote economic welfare in a more pronounced manner and address general misconceptions about the true spirit of Islamic banking.

Ladies and Gentlemen;

One of the most common forms of Islamic project finance structures for large sized, longer-term financing such as transport, infrastructure, energy, etc. is the combination of procurement (Istisna) and leasing (Ijara). I urge the Islamic banking institutions in Pakistan to develop financing structures in consultation with Shariah scholars to tap the potential of growth that is foreseeable with the full scale implementation of CPEC. I believe that three Centers of Excellence in Islamic Finance Education can join hands with the industry for impactful research and development. Pakistan, at present, is a land of opportunities and it is in the hands of the Islamic finance industry to take benefit of these favorable circumstances through active participation based on innovation. They need to come up with Shariah compliant product menu that is well suited to capitalize the gains in the financing arrangements of USD 51 billion worth of domestic infrastructure projects conceived in connection with CPEC.

According to a Harvard researcher, a critical area where Islamic project financing could make a decisive and perhaps even the greatest difference is in terms of adjusting the risk profile of projects. Islamic banks may be able to bear certain types of risks that commercial lenders are either unwilling or unable to assume because of their asset backed nature, financing projects on the basis of feasibility and risk sharing mechanisms.

SBP has always encouraged Islamic banking institutions to capitalize on their innate strengths of financing such economic transactions especially given their ample liquidity position. SBP in recent past has allowed delinking of KIBOR benchmark rate for pricing under financing provided on the basis of participatory (Musharakah & Mudarabah) and Wakalah (Agency) modes by Islamic banking institutions. Revolutionary step like this may lead to a beginning of a new business model of Islamic banking. We expect that this exemption would also address several perception related issues of Islamic banking industry.

Ladies & Gentlemen;

This will be unfair if I don't talk about determination of the present Government towards building Islamic finance on sustainable basis. Government has shown interest in Sukuk issuance for meeting various developmental and infrastructure needs of the country particularly those related to CPEC projects. Like always, I reiterate that it is the ripe time for Islamic finance players to take advantage of conducive environment when not only the Government is fully inclined towards building sound foundations of Shariah compliant financial system but there is increased economic activity complemented with an environment of increased synergy and co-ordination among all stakeholders.

Ladies and Gentlemen;

Infrastructure development has been known to trigger economic growth in countries and these cash intensive projects can be a valuable source of funds deployment for the Islamic banking institutions which are flushed with liquidity. The banking sector has to move out of its comfort zone to benefit from the opportunities presented by the CPEC. The agility of the Islamic banking industry, its scholars and product developers will be tested in coming years – the sector can carve its path to gain a mutually advantageous position. Signing of Memorandum of Understanding (MoU) between Meezan Bank Limited and Chinese consultants is a welcome initiative in this regard.

I am quite confident that deliberations in today's important gathering by experts from various segments of the industry will bring forward new ideas and strategies to stimulate the growth of Islamic finance industry. I encourage stakeholders of Islamic finance industry to make CPEC a win-win situation for all sectors of economy. We must all stride to capitalize on opportunities CPEC offers us and contribute towards next level of growth in Islamic finance.

Thank you.

Islamic Banking Industry - Progress & Market Share

Overview

Assets of Islamic Banking Industry (IBI) recorded growth of Rs. 65 billion during the quarter October-December, 2016 and reached to Rs. 1,853 billion compared to Rs. 1,788 billion in the previous quarter. Deposits of IBI also increased by Rs. 97 billon during the review quarter to reach Rs. 1,573 billion compared to Rs. 1,476 billion in the previous quarter. Market share of Islamic banking assets and deposits in overall banking industry stood at 11.7 percent and 13.3 percent, respectively by end December, 2016 (see **Table 1**). Profit after tax (PAT) of IBI was recorded at Rs. 11.8 billion at the end of the quarter under review. Among other profitability indicators, return on assets (ROA) and return on equity (ROE) were recorded at 0.7 percent and 10.6 percent, respectively.

Table 1: Industry Progress and Market Share

Particulars	Industry Progress			YoY Growth (in %)	Share in Overall Banking Industry (in %)		
	Dec-15	Sep-16	Dec-16	Dec-16	Dec-15	Sep-16	Dec-16
Total Assets (Rupees in billions)	1,610	1,788	1,853	15.1	11.4	11.8	11.7
Deposits (Rupees in billions)	1,375	1,476	1,573	14.4	13.2	13.3	13.3
Total Islamic Banking Institutions	22	22	21	_	_	_	_
Number of Islamic Banking Branches*	2,075	2,226	2,322	11.9	_	_	_
Source: Data submitted by banks under quarterly Reporting Chart of Account (RCOA)							
*****This number includes sub-branches							

Branch Network of Islamic Banking Industry

The network of IBI consisted of 21 Islamic Banking Institutions (IBIs); 5 full-fledged Islamic banks (IBs) and 16 conventional banks having standalone Islamic banking branches (IBBs) by end December, 2016. During the period under review, Burj Bank Limited merged into AlBaraka Bank (Pakistan) Limited. Branch network of IBI reached to 2,322 branches (spread across 112 districts) by end December, 2016. Province/ Region wise breakup of branches reveals that Punjab and Sindh jointly account for 77.3 percent share in overall IBI's branch network. The number of Islamic banking windows operated by conventional banks having Islamic banking branches stood at 1,220 by end December, 2016 (see **Annexure I** for details).

Table 2: Region Wise Branches (December 31, 2016)

Province/Region	Total Number	Share (%)
Punjab	1,092	47.0
Sindh	705	30.3
Khyber Pakhtoonkhawa	250	10.8
Baluchistan	99	4.3
Gilgit Baltistan	10	0.4
FATA	9	0.4
Federal Capital	121	5.2
AJK	36	1.6
Total	**2,322**	**100.0**

Asset and Liability Structure

Assets: Assets of IBI registered growth of Rs. 65 billion during the quarter October- December, 2016 to reach Rs. 1,853 billion compared to Rs. 1,788 billion in the previous quarter. This increase in assets was mainly contributed by financing that witnessed quarterly growth of 20.2 percent. On the other hand, investments decreased by 26.1 percent during the review quarter mainly due to maturity of Bai Muajjal of Sukuk transaction of IBIs with Government of Pakistan (GoP). The share of net financing and investments in total assets (net) of IBI was recorded at 44.3 percent and 26.4 percent, respectively at the end of the quarter under review (see section below on **Investments** and **Financing** for details).

Bifurcation of assets among IBs and IBBs reveals that assets of both IBs and IBBs increased by Rs. 57 billion and Rs. 8 billion, respectively during the review quarter. The share of IBs (61.9 percent) remained higher than that of IBBs (38.1 percent) in overall assets of IBI.

Investments

Investments (net) of IBI were recorded at Rs. 490 billion by end December, 2016 compared to Rs. 663 billion in the previous quarter. This decrease in investments was mainly attributed by maturity of Bai Muajjal of Sukuk transaction of IBIs with GoP. As a result, investments of IBs and IBBs decreased by Rs. 96 billion and Rs. 77 billion respectively during the review quarter.

Financing and Related Assets

Financing and related assets (net) of IBI registered increase of Rs. 138 billion during the review quarter and reached at Rs. 821 billion. Break up of financing among IBs and IBBs shows that financing of IBs and IBBs grew by Rs. 92 billion and Rs. 46 billion, respectively. As a result, financing to deposits ratio (FDR) of IBI recorded at 52.2 percent by end December, 2016 compared to 46.3 percent in the previous quarter. It is pertinent to mention here that overall banking industry's advances to deposits ratio (ADR) stood at 46.6 percent by end December, 2016.

Table 3: Financing Mix (% Share)

	Dec-15	Sep-16	Dec-16
Murabaha	24.5	16.9	15.8
Ijarah	6.6	7.8	6.8
Musharaka	14.0	12.0	15.6
Diminishing Musharaka (DM)	31.7	38.5	34.7
Salam	5.3	3.3	4.4
Istisna	8.6	7.0	8.4
Others	9.3	14.5	14.3
Total	**100.0**	**100.0**	**100.0**

Mode wise breakup of financing (gross) shows that Diminishing Musharaka remained the leading mode for financing during the review quarter. Like previous quarters, Murabaha and Musharaka remained other major modes in overall financing of IBI (see **Table 3**).

Table 4: Financing Concentration (% Share)

	Dec-15	Sep-16	Dec-16	Industry
Chemical and Pharmaceuticals	7.7	6.3	6.6	4.2
Agribusiness	5.8	3.4	3.9	9.1
Textile	18.0	14.9	15.7	14.2
Cement	1.8	1.9	1.9	1.2
Sugar	3.4	1.9	2.7	2.9

Shoes and leather garments	0.7	0.6	0.5	0.5
Automobile and transportation equipment	1.5	1.5	1.6	1.6
Financial	0.7	0.6	0.6	3.0
Electronics and electrical appliances	1.9	1.3	1.1	1.3
Production and transmission of energy	9.4	16.8	15.8	14.8
Individuals	10.9	13.4	12.1	9.2
Others	38.2	37.5	37.5	38.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

In terms of sector wise financing, production & transmission of energy and textile remained leading sectors and their share in overall financing of IBI recorded at 15.8 percent and 15.7 percent, respectively by end December, 2016 (see **Table 4**).

Review of client wise financing shows that corporate sector accounts for 77.5 percent share in overall financing of IBI followed by consumer financing having 10.5 percent share (see **Table 5**). Like previous quarters, financing extended by IBI to Small and Medium Enterprises (SMEs) and Agriculture remained lower compared to overall banking industry's averages.

Table 5: Client Wise Financing Portfolio (% Share)

	Dec-15	Sep-16	Dec-16	Industry
Corporate Sector	74.4	79.8	77.5	68.0
SMEs	3.1	3.2	3.4	7.1
Agriculture	0.6	0.7	0.8	5.3
Consumer Financing	10.0	11.8	10.5	6.5
Commodity Financing	8.6	2.8	5.6	11.1
Others	3.3	1.7	2.2	2.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Asset quality indicators of IBI, including non performing finances (NPFs) to financing (gross) and net NPFs to net-financing were better than those of overall banking industry's averages. Provisions to NPFs ratio was recorded at 84.7 percent by end December, 2016 (see **Table 6**).

Table 6: Assets Quality Ratios (%)

	Dec-15	Sep-16	Dec-16	Industry
NPFs to Financing (gross)	4.9	4.8	4.1	10.1
Net NPFs to Net Financing	0.2	0.6	0.7	1.6
Provisions to NPFs	95.6	88.1	84.7	85.0

Liabilities

Deposits of IBI witnessed a growth of Rs. 97 billion during the quarter ending December, 2016 and were recorded at Rs. 1,573 billion compared to Rs. 1,476 billion in the previous quarter (see **Table 7**). The category wise breakup of deposits shows that current (non-remunerative) and fixed deposits increased by Rs. 61 billion and Rs. 18 billion, respectively during the review quarter.

A further breakup of deposits reveals that Customers' deposits grew by Rs. 77 billion while financial institutions' deposits increased by Rs. 20 billion during the review quarter. Market share of IBI's deposits in overall banking industry's deposits were recorded at 13.3 percent by end December, 2016. Bifurcation of deposits among IBs and IBBs reveals that deposits of IBs and IBBs witnessed increase of Rs. 70 billion (7.8 percent) and Rs. 27 billion (4.7 percent), respectively. The share of IBs and IBBs in overall deposits of IBI stood at 61.5 percent and 38.5 percent, respectively by end December, 2016.

Table 7: Break up of Deposits					
	Rupees in billion			% Growth	
	Dec-15	**Sep-16**	**Dec-16**	**YoY**	**QoQ**
Deposits	**1,375**	**1,476**	**1,573**	**14.4**	**6.6**
Customers	**1,284**	**1,385**	**1,462**	**13.9**	**5.6**
Fixed Deposits	345	320	338	(2.0)	5.6
Saving Deposits	534	607	604	13.1	(0.5)
Current accounts - Remunerative	6	7	9	50.0	28.6
Current accounts - Non-remunerative	393	443	504	28.2	13.8
Others	6	8	7	16.7	(12.5)
Financial Institutions	**91**	**91**	**111**	**22.0**	**22.0**
Remunerative Deposits	90	89	109	21.0	22.5
Non-remunerative Deposits	1	2	2	100.0	-

Liquidity Ratios

Liquid Assets of IBI were recorded at Rs. 610 billion by end December, 2016. Liquid Assets to Total Assets and Liquid Assets to Deposits ratios were registered at 32.9 percent and 38.8 percent, respectively (see **Table 8**).

Table 8: Liquidity Ratios (%)				
	Dec-15	**Sep-16**	**Dec-16**	**Industry**
Liquid Assets (Rupees in billions)	566	747	610	8,506
Liquid Asset to Total Assets	35.1	41.8	32.9	53.7
Liquid Assets to Deposits	41.2	50.6	38.8	72.1

Capital

During the review quarter, the capital base of IBI increased by Rs. 14 billion and was recorded at Rs. 124 billion compared to Rs. 110 billion in the previous quarter. Capital to Total Assets and Capital minus Net Non Performing Assets (NPAs) to Total Assets ratios of IBI stood at 6.7 percent and 6.4 percent, respectively (see **Table 9**).

Table 9 : Capital Ratios (%)				
	Dec-15	**Sep-16**	**Dec-16**	**Industry**
Capital to Total Assets	6.6	6.1	6.7	8.5
(Capital-Net NPAs) to Total Assets	6.5	5.8	6.4	8.0

Profitability

Profit after tax (PAT) of IBI was recorded at Rs. 11.8 billion by end December, 2016. ROA and ROE of IBI were recorded at 0.7 percent and 10.6 percent, respectively during the review quarter (see **Table 10**). In line with general trend, Operating Expense to Gross Income of IBI remained higher than that of overall banking industry mainly.

Table 10: Profitability & Earning Ratios of IBI (%)				
	Dec-15	**Sep-16**	**Dec-16**	**Industry**
Return on Assets (ROA)	0.9	0.7	0.7	1.3
Return on Equity (ROE)	13.3	10.4	10.6	14.4
Operating Expense to Gross Income	70.0	76.6	75.1	53.1

Country Model: Kenya

Islamic banking started in Kenya in 2005 with Barclays launching Islamic banking products in December, 2005. Subsequently, two Islamic banks; the First Community Bank and Gulf African Bank started their Islamic banking operations in 2007 and 2008, respectively. Currently, some conventional banks are also offering Islamic banking products and services in the country through Islamic banking windows.

In last few years, the country has introduced several regulatory reforms to facilitate Islamic finance including rules for Islamic Real Estate Investments Trust (REIT) and rules creation of Takaful windows. Further, the country is in process of establishing an Islamic Finance Project Management Office (PMO) to develop an institutional, policy and regulatory framework for the Shariah compliant Islamic finance industry.

Legal & Regulatory Framework for Islamic Banks

The Central Bank of Kenya (CBK) regulates both conventional and Islamic banking institutions through a single regulatory framework and Islamic banking activities fall under framework of the Banking Act and the CBK Act. The CBK made some amendments in its Banking Act in 2008 and included provisions for banks to offer Islamic banking products through full-fledged Islamic banks or windows. The amendment also included a clause to recognize 'returns' as consideration for money lent/borrowed, as opposed to 'interest'. The CBK has also exempted Islamic banking institutions from provisions of the act that restrict trading/investment activities.

Way Forward

The country is making efforts to provide supportive environment for development of Islamic finance in the country. Hence, with an increased focus of Islamic banking and finance complemented with a sizeable Muslim population, Kenya has potential to create an important place for itself in the African Islamic banking and finance industry in the coming years.

Sources of Information

- Islamic Finance Advisory Assurance Services (IFAAS) http://uk.ifaas.com/
- Global Trade Review (GTR) http://www.gtreview.com/news/africa/kenya-takes-the-lead-islamic-finance/
- Global Islamic Finance Report (various editions), Edbiz Consulting Limited, UK
- Central Bank of Kenya website https://www.centralbank.go.ke/
- www.islamicfinancenews.com
- www.imf.org/external/pubs/ft/wp/2014

A Brief on IFSB 17: Islamic Financial Services Board (IFSB)'s Core Principles for Islamic Finance Regulation (Banking Segment) (CPIFR 14 to CPIFR 22)

In previous edition of Islamic Banking Bulletin (July-September, 2016), first 13 principles of CPIFR were discussed. In the present edition, the CPIFR 14 to CPIFR 22 are being discussed which relate to prudential regulations and requirements for institutions offering Islamic financial services (IIFS).

CPIFR 14- Treatment of investment account holders (IAHs): The supervisory authority determines how (IAHs are treated in its jurisdiction. The supervisory authority also determines the various implications (including the regulatory treatment, governance and disclosures, and capital adequacy and associated risk-absorbency features, etc.) relating to IAHs within its jurisdiction.

CPIFR 15- Corporate governance: The supervisory authority determines that IIFS demonstrate they have adequate corporate governance and address the relevant aspects of corporate governance from the perspective of IIFS. The supervisory authority also determines that IIFS and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the IIFS's BOD and senior management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the IIFS.

CPIFR 16- Shariah governance framework: The supervisory authority determines that IIFS have a robust Shariah governance system in order to ensure an effective independent oversight of Shariah compliance over various structures and processes within the organizational framework. The Shariah governance structure adopted by an IIFS is commensurate and proportionate with the size, complexity and nature of its business. The supervisory authority also determines the general approach to Shariah governance in its jurisdiction, and lays down key elements of the process.

CPIFR 17- Risk management process: The supervisory authority determines that IIFS have a comprehensive risk management process (including effective BOD and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. The process takes into account appropriate steps to comply with Shariah rules and principles and to ensure the adequacy of relevant risk reporting to the supervisory authority. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of an IIFS. The risk management process is commensurate with the risk profile and systemic importance of the IIFS.

CPIFR 18- Capital adequacy: The supervisory authority sets prudent and appropriate capital adequacy requirements for IIFS that reflect the risks undertaken by, and presented by, an IIFS in the context of the markets and macroeconomic conditions in which it operates. The supervisory authority defines the components of regulatory capital (which must comply with Shariah rules and principles), bearing in mind their ability to absorb losses. The supervisory authority requires IIFS to apply an appropriate capital adequacy approach that reflects the extent of risk-sharing between an IIFS's own capital (shareholders' funds) and that of its IAHs, and the resultant levels of DCR and the associated alpha factor.

CPIFR 19- Credit risk: The supervisory authority determines that IIFS have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk (including counterparty credit risk) on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the IIFS's financing and investment portfolios.

CPIFR 20- Problem assets, provisions and reserves: The supervisory authority determines that IIFS have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.

CPIFR 21- Concentration risk and large exposure limits: The supervisory authority determines that IIFS have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisory authorities set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.

CPIFR 22: Transactions with related parties: In order to prevent abuses arising in transactions with related parties and to address the risk of conflict of interest, the supervisory authority requires IIFS to enter into any transactions with related parties on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.

Source:

- IFSB website http://www.ifsb.org/

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

Training Programs on "Fundamentals of Islamic Banking Operations" (FIBO) held at Peshawar and Lahore

IBD in collaboration with NIBAF arranged two training programs titled "Fundamentals of Islamic Banking Operations" (FIBO), focusing on enhancing skills and knowledge base of field staff of Islamic banking institutions particularly Branch Managers (BMs), Operation Managers (OMs) and Relationship Managers (RMs). These programs were organized during the period November 21-25, 2016 and November 28- December 2, 2016 at Peshawar and Lahore, respectively. The training programs were also attended by academia and Shariah scholars of the respective regions.

Islamic Banking News and Views

Local News

SECP approves first license by a NBFC

The Securities and Exchange Commission of Pakistan (SECP) has approved the first-ever application filed by a non-banking finance company (NBFC) under the new Private Funds Regulations 2015, to undertake private equity and venture capital fund management services. According to the Business Recorder, the license has been granted to Lakson Investments which will allow it to launch private equity and venture capital funds as well as alternative funds. Lakson Investments manages the Lakson Islamic Tactical Fund.

www.islamicfinancenews.com

DIBPL signs up for PayPak

Dubai Islamic Bank Pakistan (DIBPL) has entered into an agreement with 1-LINK (Guarantee) to issue PayPak cards- a domestic payment scheme aiming to provide efficient, cost-effective and robust payment solutions to Pakistani citizens, the bank announced in a statement.

www.islamicfinancenews.com

SME financing by Islamic banks

A growing bias for Shariah-compliant borrowing among small and medium enterprises is helping Islamic banks and Islamic banking windows of conventional banks in targeting them. The conventional banking system has done little to satisfy the borrowing needs of SMEs, thereby making way for Islamic banks to fill the gap. But whereas fast expanding branch networks of IBIs and growing use of mobile and internet banking, make it easier for them to boost their lending to SMEs, or to other segments of borrowers for that matter, a couple of issues remain in place. Islamic banks have not been able to bring their cost of SME credit at par with that of conventional banks. Despite the bias for Shariah-compliant borrowing, SMEs are not aware of Islamic banking products, which is also a key impediment to growth in Islamic financing of SMEs.

http://www.dawn.com/news/1297587

Pakistan's National Savings planning Shariah products

The Central Directorate of National Savings is working to introduce Shariah compliant products, according to Radio Pakistan quoting the social security's director-general, Zafar Masood. Consultations on the Shariah products with the Ulema are underway to finalize the process as soon as possible.

www.islamicfinancenews.com

International News

Islamic project finance: A promising sector

Project funding is an increasingly popular sector in Islamic finance. The asset-backed nature of Islamic financing resonates with the financing of project developments, and could fill the gap left by conventional banks unwilling to invest in development projects.

www.islamicfinancenews.com

Strong calls for mandatory independent Shariah audit for Islamic financial institutions

The Islamic Finance Council UK (UKIFC) and International Shari'ah Research Academy for Islamic Finance (ISRA) are urging governments and Shariah financial institutions around the world to implement mandatory independent audit of Shariah compliance in Islamic finance, in the wake of louder calls for trust, transparency and accountability from financial market participants.

www.islamicfinancenews.com

ICD to play a greater financing role for food security in OIC countries

Food security issues around the world have highlighted the importance of agricultural development and the need for stability in food prices, especially in the least-developed countries. In this regard, the Islamic Corporation for the Development of the Private Sector (ICD) is taking on a proactive role in assisting OIC member countries to tackle the persisting dire situation, after the private sector arm of the IDB signed an MoU with the Islamic Organization for Food Security (IOFS) to explore the feasibility of establishing a viable financing platform and business model for mutual collaboration in the implementation of food security, agriculture and rural development projects and initiatives.

www.islamicfinancenews.com

Shariah banking: RBI proposes 'Islamic window' in banks

The Reserve Bank of India (RBI) has proposed opening of "Islamic window" in conventional banks for "gradual" introduction of Shariah-compliant or interest-free banking in the country. Both the Centre and RBI are exploring the possibility of introduction of Islamic banking for long to ensure financial inclusion of those sections of the society that remain excluded due to religious reasons. Experts opine that given the complexities of Islamic finance and various regulatory and supervisory challenges involved in the matter and also due to the fact that Indian banks have no experience in this field, Islamic banking may be introduced in India in a gradual manner.

http://www.hindustantimes.com/india-news/sharia-banking-rbi-proposes-islamic-window-in-banks/story-79EDVT779J9F3F9VFfvzYK.html

Islamic banks slowly embrace green finance – survey

Islamic banks are gradually embracing socially responsible finance, from renewable energy to microfinance efforts, helping unlock new funding sources for environmentally-friendly projects, an industry survey shows. The two sectors have developed separately from each other, but green projects could benefit from tapping Islamic banks in countries like the UAE and Malaysia, where they now hold a quarter of total banking assets. Moody's Investors Service estimates issuance of Islamic bonds, or sukuk, will reach $70 billion this year, compared to over $80 billion for green bonds. Green finance is increasingly important for Islamic banks seeking to differentiate themselves from their conventional peers. Islamic banks want to improve their contribution to local economies with job creation, infrastructure and SME financing as top priorities, a survey conducted by CIBAFI between May and August shows. The survey drew input from 86 Islamic finance institutions across 29 countries mainly from the Middle East and Southeast Asia, as well as Africa.

http://www.reuters.com/article/islamic-finance-environment-idUSL8N1DV0BB

Malta Stock Exchange vying for supremacy with Islamic finance as an asset class

In an attempt to grab a slice of dominance that Luxembourg and Ireland have held as major stock exchanges in Europe, Malta is stepping up its capital market activities to attract more foreign investors

into its growing economy with the launch of the National Capital Markets Strategic Plan, which includes introducing Islamic finance products to widen the offering of asset classes in the Mediterranean Republic. The Malta Stock Exchange (MSE), which introduced the MSE Shariah Equity Index in February this year, believes that Islamic finance products, together with exchange-traded funds (ETFs) and real estate investment funds (REITs), have the most potential in drawing in billions of euros in investments and unlocking new grounds, and is banking on the newly launched plan to put things into motion.
www.islamicfinancenews.com

Ethiopia looks to Islamic finance to tap domestic savings
Ethiopia's central bank aims to develop Islamic finance to help expand financial access and inclusion, part of wider government efforts to mobilize domestic resources to diversify its economy, a central bank official said. The landlocked country has one of the highest economic growth rates in Africa, but relies heavily on an agricultural sector that employs three-quarters of the workforce and contributes to around 80 percent of exports.
http://af.reuters.com/article/djiboutiNews/idAFL8N1D503I

Gold Standard approved for Islamic Finance, opening new market
Gold is acceptable for the first time as an investment in Islamic finance after the group that sets standards for the industry adopted Shariah-compliant rules for trading the metal. The rules approved Nov. 19 allow gold to be used in the $1.88 trillion Islamic finance business, the Accounting and Auditing Organization for Islamic Financial Institutions said in a statement. The AAOIFI developed the standards with help from the producer-funded World Gold Council, which has said the new rules could spur demand for "hundreds of tons" of gold.
https://www.bloomberg.com/news/articles/2016-12-05/gold-standard-approved-for-islamic-finance-opening-new-market-iwbytkoj

A shifting paradigm for Islamic debt capital markets
According to data by Dealogic, Malaysia leads Sukuk issuance globally over the last 12 months with a total deal value of US$22 billion, followed by the UAE (US$5.18 billion), Indonesia (US$2.61 billion), Saudi Arabia (US$2.54 billion) and Bahrain (US$2.2 billion). New Sukuk issuance volumes have remained subdued so far for the first half of 2016 at US$40 billion, and Moody's Investors Service noted that this has been driven by more challenging economic conditions in emerging markets and the GCC's desire to tap conventional liquidity from international investors, as quantitative easing has driven yields to zero or even negative rates in various markets.
www.islamicfinancenews.com

China and Hong Kong: OBOR to fuel Islamic finance developments
China has always been an interesting Islamic finance proposition due to the sheer size of its economy and Muslim population as well as impressive economic growth rates; and with its ambitious 'One Belt, One Road' (OBOR) initiative in place, the future for Shariah finance shines brighter than ever.
www.islamicfinancenews.com

Articles/Views

Islamic microfinance- an emerging frontier for the Shariah compliant finance industry

A concept that has come under considerable attention by the Islamic finance industry over the last few years, Shariah compliant microfinance has undoubtedly picked up pace, particularly across Asia, while growing interest is also sweeping across Africa.

www.islamicfinancenews.com

Safe innovation in Islamic Banking

Innovation in essence, is the ability to renew, excel and compete in markets. Innovation in the financial sector, including Islamic banks, means that banks can meet customers' demands and the constant changes to these demands, thus enabling banks to preserve their customer base and expand it. In particular, it means that Islamic banks are required to provide an added value to the economy as they are a partner in trade, investment and production, and that they do not merely aim to maximize profits without maximizing the production of tangible commodities and services, making the financial sector work in tandem with the overall economic activities.

http://gulfnews.com/business/sectors/banking/safe-innovation-in-islamic-banking-1.1947959

Islamic banks turn to digital to serve underbanked Asian markets

When the Shariah business unit of Bank OCBC NISP was coming up with a plan to increase market share in Indonesia and raise its competitiveness against traditional banks, it was convinced that doubling down on digitization was the best move. The bank developed a robust electronic channel facility to deliver services such as ATM, mobile banking and internet banking, and other Islamic banking executives are similarly viewing digitisation as the key to propel market growth in Indonesia and the rest of high-growth Southeast Asia.

http://asianbankingandfinance.net/islamic-banking/exclusive/islamic-banks-turn-digital-serve-underbanked-asian-markets

Islamic banks adapting to IFRS accounting rules

Reconciling accounting standards and religious principles is challenging Islamic banks and regulators as they adapt to new international book-keeping rules due to come into force in 2018. The new rules, known as IFRS 9, will leave their mark on all major products used by Islamic banks — from simple savings accounts to Islamic bonds — and impact their bottom-lines. Banks around the globe are gearing up to implement IFRS 9 from January 2018, posing a particular challenge for many Islamic finance contracts as they change the way financial assets are classified and measured, requiring lenders to book expected losses in advance.

http://www.arabnews.com/node/1016786/business-economy

Legal and Shariah issues and challenges in cross-border Financing

The choice of law and forum for the settlement of disputes and the possibility of double taxation are just some of the issues a financial institution has to consider when offering cross-border financing. Islamic financial institutions face the same issues. In fact, the issues will be more challenging for Islamic financial institutions as assets are usually required in Shariah compliant transactions either as the subject matter of the transaction or as an underlying asset to ensure compliance with Shariah.

www.islamicfinancenews.com

Sovereign Sukuk: Asian countries continue the momentum

Muslim-majority countries of Indonesia, Malaysia and Bangladesh kept the sovereign Sukuk space alive over the past week with its regular Islamic debt issuances, while Fitch Ratings expects GCC countries to regularly issue sovereign Sukuk on the back of lower oil prices over the long term.
www.islamicfinancenews.com

Shariah compliant trade financing

Shariah compliant trade finance has been highlighted as having the potential to provide new opportunities for emerging and frontier markets. The sector has benefited from both the perception of Islamic finance as performing more robustly than the conventional sector during financial crises, and from a growing global interest toward Shariah compliant banking.
www.islamicfinancenews.com

Advancements of regulations in Takaful – what are the implications

Globally, there have been many developments and increasing sophistication in the regulation of the insurance industry in various markets in recent years with the introduction of Solvency II in Europe as well as the emergence of IFRS accounting for insurers being two recent examples. Many Takaful markets around the world are also following similar movements, with the introduction of more robust regulatory frameworks in line with the trends observed in the conventional insurance industry.
www.islamicfinancenews.com

Shariah governance challenges: 2020 and beyond

In a capitalist economy, the main purpose of an enterprise is to make profit. In simple terms, the creation of business is purely to maximize shareholders' wealth. In general, the goal of corporate governance is to achieve the best overall welfare for all stakeholders and promote economic performance. The Islamic corporate governance model has its own unique characteristics and presents distinctive features in comparison with the western concept of the Anglo-Saxon and European models.
www.islamicfinancenews.com

Annexure: I

Islamic Banking Branch Network

(As of December 31, 2016)

Type	Name of Bank	No of Branches*	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited**	210	-
	BankIslami Pakistan Limited	203	-
	Dubai Islamic Bank Pakistan Limited	200	-
	Meezan Bank Limited	571	-
	MCB -Islamic Bank Limited	66	-
	Sub-Total	**1,250**	
Islamic Branches of Conventional Banks	Allied Bank Limited	77	-
	Askari Bank Limited	91	-
	Bank AL Habib Limited	41	87
	Bank Alfalah Limited	153	120
	Faysal Bank Limited	146	-
	Habib Bank Limited	45	494
	Habib Metropolitan Bank Limited	25	212
	National Bank of Pakistan	118	-
	Silkbank Limited	10	-
	Sindh Bank Liited	14	13
	Soneri Bank Limited	16	-
	Standard Chartered Bank (Pakistan) Limited	10	91
	Summit Bank Limited	13	23
	The Bank of Khyber	77	39
	The Bank of Punjab	48	-
	United Bank Limited	47	141
	Sub-Total	**931**	**1,220**
Sub Branches	AlBaraka Bank (Pakistan) Limited	14	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	118	-
	Faysal Bank Limited	1	-
	The Bank of Punjab	2	-
	Habib Bank Limited	2	-
	United Bank Limited	1	-
	Sub-Total	**141**	-
	Grand Total	**2,322**	-

* *Source: Banking Policy & Regulations Department, State Bank of Pakistan & Information/Data obtained from different banks*

*** Burj Bank Limited merged into Al Baraka Bank (Pakistan) Limited*

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of December 31, 2016)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited*	4	6	-	8	1	17	110	64	210
	BankIslami Pakistan Limited	3	12	-	9	2	17	90	70	203
	Dubai Islamic Bank Pakistan Limited	7	5	-	11		8	85	84	200
	Meezan Bank Limited	6	19	-	30	2	36	288	190	571
	MCB -Islamic Bank Limited		9	1	3		7	26	20	66
	Islamic Banks	**20**	**51**	**1**	**61**	**5**	**85**	**599**	**428**	**1,250**
Islamic Branches of Conventional Banks	Allied Bank Limited	1	4	-	6	-	8	43	15	77
	Askari Bank Limited	-	3	-	8	1	13	46	20	91
	Bank AL Habib Limited	-	2	-	1	-	3	12	23	41
	Bank Alfalah Limited	1	5	-	10		8	90	39	153
	Faysal Bank Limited	1	10	-	6	1	22	72	34	146
	Habib Bank Limited	2	1	1	4	-	4	23	10	45
	Habib Metropolitan Bank Limited	-	-	-	1	-	4	8	12	25
	National Bank of Pakistan	7	4	1	3	-	19	60	24	118
	Silkbank Limited	-	1	-	1	-	2	4	2	10
	Sindh Bank	1	1	-		-	2	7	3	14
	Soneri Bank Limited	-	1	-	2	1	2	6	4	16
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1		1	2	6	10
	Summit Bank Limited	-	1	-	1	2	1	2	6	13
	The Bank of Khyber	-	4	6	2	-	52	10	3	77
	The Bank of Punjab	1		-	4	-	6	37	-	48
	United Bank Limited	1	4	-	1	-	11	14	16	47
	Islamic Banking Branches Total	**15**	**41**	**8**	**51**	**5**	**158**	**436**	**217**	**931**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	1	-	-	12	1	14
	Askari Bank Limited	-	1	-		-	1	1		3
	BankIslami Pakistan Limited	1	6	-	8	-	5	41	57	118
	Faysal Bank Limited	-	-	-	-	-	-	1		1
	Habib Bank Limited	-	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	-	2		2
	United Bank Limited	-	-	-	-	-	1	-	-	1
	Sub Branches Total	**1**	**7**	**0**	**9**	**0**	**7**	**57**	**60**	**141**
	Grand Total	**36**	**99**	**9**	**121**	**10**	**250**	**1,092**	**705**	**2,322**

** Burj Bank Limited merged into AlBaraka Bank (Pakistan) Limited*

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of December 31, 2016)

S. No	Province	District	No of Branches		S. No	Province	District	No of Branches
1	Sindh	Badin	2		61	Khyber Pakhtunkhwa	Abbottabad	21
2		Dadu	4		62		Bannu	4
3		Daharki	1		63		Batkhela	1
4		Ghotki	2		64		Batagram	3
5		Hyderabad	47		65		Buner	2
6		Jacobabad	4		66		Charsadda	9
7		Jamshoro	2		67		Chitral	5
8		Karachi City	577		68		Dera Ismail Khan	10
9		Khairpur	2		69		Hangu	2
10		Larkana	5		70		Haripur	7
11		Matiari	2		71		Karak	1
12		Mirpurkhas	11		72		Kohat	7
13		Naushahro Feroze	2		73		Lakki Marwat	1
14		Shaheed Benazir Abad	11		74		Lower Dir	7
15		Sanghar	9		75		Malakand	8
16		Shahdadkot	1		76		Mansehra	12
17		Shikarpur	1		77		Mardan	18
18		Sukkur	14		78		Nowshera	16
19		Tando Allahyar	4		79		Peshawar	74
20		Tando Mohammad Khan	1		80		Shangla	2
21		Thatta	1		81		Swabi	6
22		Umer Kot	2		82		Swat	25
Sindh Total			**705**		83		Tank	1
23	Punjab	Attock	15		84		Upper Dir	8
24		Bahawalnagar	12		**Khyber Pakhtunkhwa Total**			**250**
25		Bhalwal	1		85	Gilgit-Baltistan	Skardu	1
26		Bahawalpur	19		86		Diamir	5
27		Bhakkar	1		87		Gilgit	4
28		Chakwal	12		**Gilgit-Baltistan Total**			**10**
29		Chiniot	3		88	FATA	Bajaur Agency	1
30		Dera Ghazi Khan	10		89		Khyber Agency	4
31		Faisalabad	94		90		Orakzai Agency	4
32		Gujranwala	50		**FATA Total**			**9**
33		Gujar Khan	1		91	Federal Capital	Islamabad	121
34		Gujrat	45					
35		Hafizabad	4		**Capital Total**			**121**
36		Jhang	10		92	Balochistan	Chaghi	1
37		Jhelum	14		93		Gawadar	3
38		Kasur	15		94		Harnai	1
39		Khanewal	17		95		Kech	1
40		Khushab	6		96		Khuzdar	2
41		Lahore City	364		97		Killa Abdullah	6
42		Layyah	6		98		Killa Saifullah	4
43		Lodhran	4		99		Lasbela	5
44		Mandi Bahauddin	11		100		Loralai	6
45		Mianwali	8		101		Pishin	4
46		Multan	61		102		Quetta	59
47		Muzaffargarh	7		103		Zhob	6
48		Nankana Sahib	3		104		Ziarat	1
49		Narowal	4		**Balochistan Total**			**99**
50		Okara	13		105	Azad Kashmir	Bagh	1
51		Pakpattan	7		106		Bhimber	1
52		Rahim Yar Khan	27		107		Dadyal	4
53		Rajanpur	2		108		Kotli	3
54		Rawalpindi	120		109		Mirpur	16
55		Sahiwal	21		110		Muzaffarabad	8
56		Sargodha	24		111		Hattian Bala	1
57		Sheikhupura	18		112		Poonch	2
58		Sialkot	38		**Azad Kashmir Total**			**36**
59		Toba Tek Singh	11					
60		Vehari	14					
Punjab Total			**1092**		**Grand Total**			**2,322**