

Islamic Banking Bulletin

Apr-Jun 2008



Islamic Banking Department
State Bank of Pakistan

ISLAMIC BANKING DEPARTMENT

MISSION

Promote And Regulate Islamic Banking Industry in line with Best International Practices, Ensuring Shariah Compliance And Transparency

VISION

Make Islamic Banking the banking of first choice for the providers and users of financial services

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For Soft copy and previous issues please visit :

<http://www.sbp.org.pk/ibd/Bulletin/Bulletin.asp>

Islamic Banking Bulletin gives an overview of the Islamic Banking Industry of Pakistan and provides information regarding the developments taking place in the industry locally and internationally.

SBP Governor's View

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".....Good news is that the Islamic Finance (IF) industry has generally remained insulated from the recent episode in financial markets. This is because Islamic banks' transactions are backed by real economic assets and risk management, benefiting from the application of and compliance with Shariah principles and guidelines, wherein the banks and investors have to share the profit and losses in accordance with the risks taken. While in conventional finance, risk-free capital encouraged over-leveraging and overexposures by transferring transactions to off-balance sheets conduits. IF services drive their inherent strengths from the Shariah guidelines and principles. Notwithstanding, IF services, like all businesses, could be impacted if the global slowdown deepens.

.....Globalization of IF will magnify along with its growing acceptance as a viable alternative financing mechanism as it illustrates its capacity to co-exist and compete with conventional finance. Internationalization of IF is growing but this is happening in a number of ways which will in due course set the stage for deepening the dynamics and interface between financial globalization and the IF industry. ...

.....The large global financial players have been instrumental in fostering linkages and product innovation. This is largely because the investor community worldwide is being attracted by the 'risk-return' and other innovative features of Islamic products, the product range IF offers, and the ethical investment

philosophy and governance structure it promotes. Worldwide demand for Islamic financing is also gaining momentum as IF conforms itself to conventional finance by adopting proper regulatory and supervisory frameworks. Recognizing the implications of financial globalization on IF and IF's implications for global finance, Multilateral Development Institutions have been supporting the Islamic Financial Services Board (IFSB) to ensure effective alignment in the regulatory frameworks, while accommodating modifications and refinements of the special features and modalities of IF.

.....Although currently the size of IF is small relative to the global financial system, it has promising growth prospects. Well-developed and integrated Islamic money, capital, and foreign exchange markets will not only be beneficial for borrowers and institutional investors, they can also further enhance the stability of IF institutions, providing them with improved portfolio, liquidity and risk management tools. The challenge for the industry is to consolidate itself to be able to better compete with global players."

Excerpts from: Key Note Address delivered by the Governor SBP, Dr. Shamshad Akhtar at 5th Annual Summit of Islamic Financial Services Board on May 13th 2008, Jordan. The full text of the speech can be accessed at:

<http://www.sbp.org.pk/about/speech/Governors/Dr.Shamshad/2008/Jordan-15-May-08.pdf>

For viewing the speeches of the Governor SBP on subject of Islamic Banking & Finance please visit

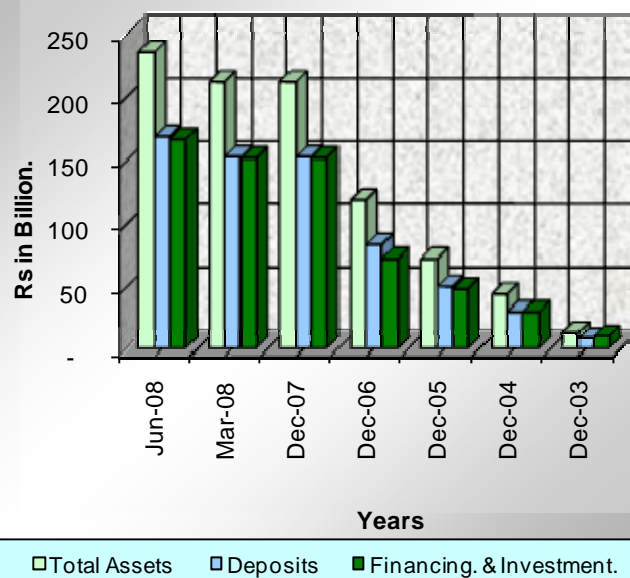
SBP Governor's Speeches on Islamic Finance
(<http://www.sbp.org.pk/ibd/speeches.htm>)

Industry Progress and Market Share

The Islamic banking industry continued its progress during the quarter March-June 2008. This has resulted in increasing their share of assets in the overall banking system by 0.2 percentage points (pp) to 4.3% during the quarter. The growth in IBIs is also reflected in increased share of Islamic banking deposits, and financing & investment that stood at 4.0% and 4.1% respectively at the end of quarter. Given the small base the progress seems quite impressive.

The Islamic banks have also continued their efforts to extend the outreach of Islamic banking. Specifically, the number of branches reached 326 from 289 branches since December 2007. Though the pace of branch extension seems impressive, IBIs have largely failed to penetrate in the rural areas. The agreement on extension of rural branch network and increasing focus on SME and Microfinance is available in the form of Islamic Banking Strategic Plan that was chalked out by taking extensive feedback and buy-in from the IBIs. Now IBIs should work on extending rural branch network and catering to the needs of financially excluded segments of the economy, there is no real efforts made by IBIs in this direction.

Islamic Banking- 2003 - 2008



Deposit Mobilized by Islamic Banking Divisions through Is-

Islamic Banking Windows	71
Deposits mobilized through IBWs	3.39 Billion
% of total Deposits of Islamic Banking Divisions	7.0 %

(Rs. in billion)

Descriptions	June-08	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	235	206	119	72	44	13
% of Banking Industry	4.3%	4.0%	2.8%	2.0%	1.5%	0.5%
Deposits	169	147	84	50	30	8
% of Banking Industry	4.0%	3.8%	2.6%	1.8%	1.3%	0.4%
Financing. & Investment.	166	138	73	48	30	10
% of Banking Industry	4.1%	3.5%	2.3%	1.7%	1.3%	0.5%
Full Fledge Islamic Banks	6	6	4	2	2	1
Conventional Banks with Islamic Banking Branches	12	12	12	9	9	3
No. of Branches	326	289	150	70	48	17

Islamic Banking Sector

Comparative Consolidated Balance Sheets of Islamic Banking Industry

Rs. in Million

Deposits

The deposits of IBIs as on June 30, 2008 stood at Rs 168.9 billion reflecting an impressive Quarter on Quarter (QoQ) increase of 11%. The share of Savings, Fixed and Current Accounts of customers' deposits in overall deposits remained largely unchanged during the quarter. This reflects that there is a lack of efforts/need from IBIs to diversify their deposits' portfolio. In specific terms, shares of Savings, Fixed and Current Accounts of customers' deposits were 31%, 38% and 23% respectively.

Investments

Investment position of IBIs as on June 30, 2008 stood at Rs 34.9 billion which showed a QoQ increase of 9%. The increase in investments reflects the new investment in Sukuk. The investments will get a further boost in next quarter (Jul-Sep 2008) due largely to recently issued GoP Ijara Sukuk worth Rs 6.5 billion in September 2008.

Financing

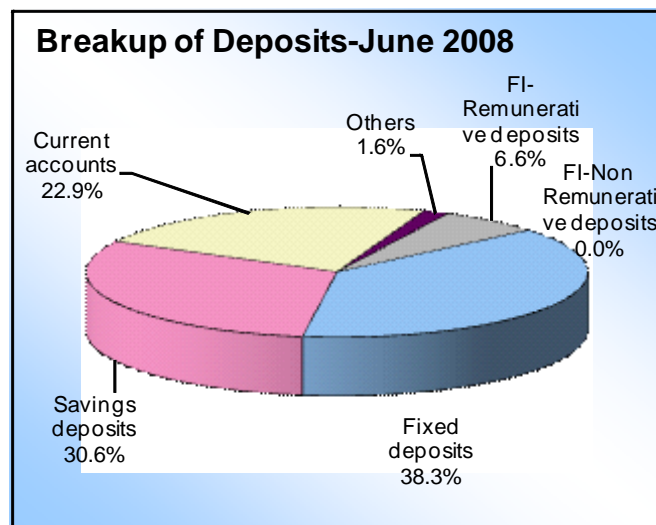
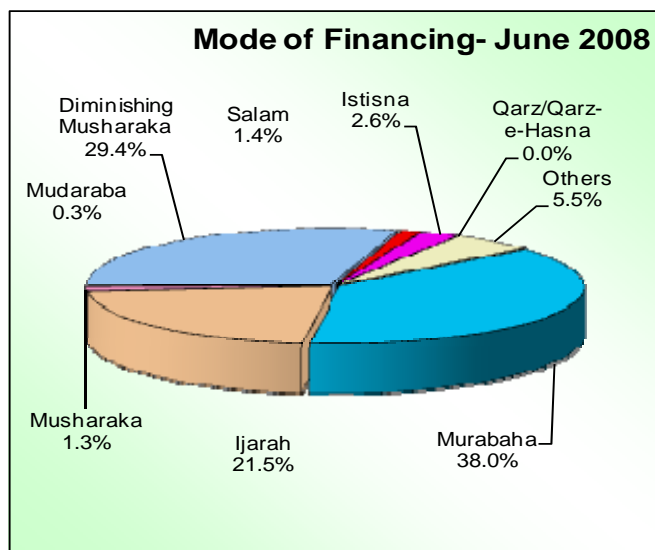
Islamic Banking Industry in Pakistan depicts financing (net of provisions) of Rs. 131.5 billion at end June 2008, reflecting a QoQ increase of 10%. There is hardly any change in the mode-wise financing mix during the quarter.

More specifically, still around 90% of financing comes through three modes of financing; that is, Murabaha 38%, Ijarah 21.5% and Diminishing Musharaka (DM) 29.4% respectively. However, within these three modes the share of DM is increasing. Interestingly, during last quarter (i.e., Jan-

Descriptions	March 2008	June 2008	% Change
ASSETS			
Cash and balances with treasury banks	19,294	23,909	24%
Balances with other banks	13,978	12,877	-8%
Due from financial institutions	9,611	11,279	17%
Investments	31,903	34,917	9%
Financings	119,747	131,485	10%
Operating fixed assets	7,825	8,625	10%
Deferred tax assets	678	739	9%
Other assets	9,303	11,512	24%
Total Assets	212,338	235,343	11%
LIABILITIES			
Bills payable	2,908	2,400	-17%
Due to financial institutions	5,346	5,885	10%
Due to Head office	7,979	11,090	39%
Deposits and other accounts	152,462	168,886	11%
Liabilities against assets subject to finance lease	55		
Deferred tax liabilities	818	69	26%
Other liabilities	11,588	865	6%
Total Liabilities	181,156	13,973	21%
NET ASSETS	31,182	203,168	12%
REPRESENTED BY			
Paid-up capital/Head office capital account	28,707	29,137	1%
Reserves	788	829	5%
Un-appropriated/Un-remitted profit	1,119	1,679	50%
Sub Total	30,613	31,644	3%
Surplus /(Deficit) on revaluation of assets	568	531	-7%
Equity	31,182	32,175	3%

* For Islamic Banking Divisions of Conventional Banks

Analysis of the Consolidated Balance Sheet of Islamic Banking Institutions



Mar 2008) DM share increased at the expense of Ijara, this quarter it is Murabaha. More specifically, DM share in financing increased by around 5 pp while that of Murabaha decreased by around 6 pp with share of Ijara remaining at around 22%.

Total Assets

Total Assets of IBIs stood at Rs 235 billion showing an impressive increase of 11% during Apr-Jun 2008. On a YoY basis the share of Islamic Banking Industry assets in the banking system of Pakistan has increased by almost 1 pp. Apparently this growth seems impressive but given the envisaged 12% share of IBIs in overall banking sector by year 2012, the growth is far from satisfactory. In effect, Islamic Banking Industry have to grow at a pace that ensures a gain in share by around 3 pp on a yearly basis.

Earning and Profitability

Mark-up income has decreased during the quarter reflected by around 1 percentage point decrease in ratio of net Mark-up income to Total Assets from 8.08% to 7.7%. However, the mark-up income has increased by annualized 12%.

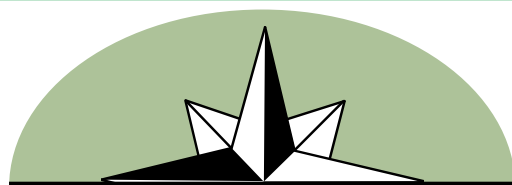
Description	Mar-08	Jun-08	% Change
Deposits and Other Accounts	152,462	168,886	11%
Customers	140,201	157,719	12%
Fixed deposits	59,378	64,685	9%
Savings deposits	47,771	51,610	8%
Current Accounts Remunerative	-	45	-
Current accounts Non Remunerative	31,359	38,607	23%
Others	1,693	2,772	64%
Financial Institutions	12,260	11,168	-9%
FI-Remunerative deposits	12,233	11,122	-9%
FI-Non Remunerative deposits	27	45	66%

Description	June 2008	March 2008	%Growth QoQ
Total Assets	124	212	11%
Deposits	169	152	11%
Financing. & Invest.	166	152	9%
No. of Branches	326	313	4%

[...Continued from previous page](#)

The major income contributors to the non-mark-up income are dividend income and income from forex dealing that increased by impressive by 912%, and 67%, respectively. However, there is a considerable decline of 117% in other income. On the expense side, administrative expenses have increased by 9% that is comparatively much lower than the previous quarter.

The asset quality of Islamic banks has worsened substantially during Apr-Jun 2008. Both NPF to financing and net-NPF to net-financing and total assets ratios have increased by 0.6 pp. The Net NPF to capital ratio has also deteriorated a lot as well by 2.3 %. The increase in provisioning is much lower than the increase in NPFs. In specific terms, NPF have increased from Rs 1.8 billion to Rs 2.8 billion, while provisioning has increased from Rs 1.5 billion to Rs 1.7 billion. This shows that against a 52% growth in NPFs, provisioning has only increased by 12%.



Sayings of Holy Prophet (P.B.U.H)

O' people! Verily your blood, your property and your honor are sacred and inviolable until you appear before your Lord, as the sacred inviolability of this day of yours, this month of yours and this very town (of yours). Verily you will soon meet your Lord and you will be held answerable for your actions.

Source: The Last Sermon of The Holy Prophet (P.B.U.H) (Khutbat-ul-Hajjatul Wida, Seerat Ibne Hesham)

Earnings and Profitability Section*	Mar-08	Jun-08
Mark-up Income to Total Assets	8.08%	7.7%
Mark-up Expense to Total Assets	4.02%	3.9%
Net Mark-up Income to Total Assets	4.06%	3.9%
Non-Mark-up Income to Total Assets	0.99%	1.0%
Non-Mark-up expense to Total Assets	3.76%	3.6%
ROE (Average Equity)	5.40%	6.4%
ROA (Average Assets)	0.78%	0.9%

Assets Quality Ratio	Mar-08	Jun - 08
NPFs to Financing	1.5%	2.1%
Net NPFs to Net Financing	0.2%	0.8%
Net NPFs to Total Assets	0.1%	0.4%
Provisions to NPFs	84.2%	62.2%
Net NPFs to Total Capital	0.92%	3.3%

*Annualized growth rates

Breakup of Financing (Rs. In Millions)

Description	Mar-08	Jun-08	% Change
Murabaha	52,756	50,659	-4%
Ijarah	27,213	28,604	5%
Musharaka	2,298	1,737	-24%
Mudabah	413	394	-5%
Diminishing Musharaka	30,843	39,141	27%
Salam	1,918	1,820	-5%
Istisna	3,162	3,483	10%
Qarz-e-Hasna	-	-	-
Others	2,679	7,371	175%
Total	121,281	133,208	10%
Amount of Non performing Financing	1,822	2,772	52%
Provision against NPFs	1,534	1,723	12%
Net NPF	288	1,049	265%

Book Review

Understanding Islamic Finance

Author: Mr. Muhammad Ayub

Publisher : John Wiley and Sons, 2007

Price : £30.99 / €41.90 Hardcover

Pages : 516 pages

ISBN : 978-0-470-03069-1

This book is available in SBP Library

In Understanding Islamic Finance the author introduces all the essential elements of this growing market by providing an in-depth background to the subject and clear descriptions of all the major products and processes associated with Islamic finance.

Key features include:

- Discussion of the principles of Islamic finance;
- Introduction to the key products and procedures that International Financial Institutions are using or may adopt to fund a variety of clients ensuring Shariah compliance;
- Discussion of the role Islamic finance can play in the development of the financial system and of economies;

Practical and operational examples that cover deposit and fund management by banks involving financing of various sectors of the economy, risk management, accounting treatment, and working of Islamic financial markets and instruments.

About Author

MUHAMMAD AYUB is Director Training, Development and Shariah Aspects at IIBI, London. Formerly, he was with the State Bank of Pakistan, where he headed the Islamic Economics Division and Shariah Compliance Division as Senior Joint Director in the Research and Islamic Banking Departments. He also served as Head of Islamic Banking at NIBAF, the training wing of SBP. Besides contributing a large amount of material, he has been serving as Master Trainer on theory and practice of Islamic finance.

For last two decades, he has been involved in R&D for facilitating I.B. Industry, Products Development, IB Prudential Regulations, Risk Management and Shariah related controls and audit of Islamic banking institutions. This, along with his association with various Commissions set up

from time to time on application of Islamic banking system, has lent him a pragmatic and balanced approach, a prerequisite for presenting such a book

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PART I - FUNDAMENTALS.

- 1 Introduction.
- 2 Distinguishing Features of the Islamic Economic System.
- 3 The Main Prohibitions and Business Ethics in Islamic Economics and Finance.
- 4 The Philosophy and Features of Islamic Finance.

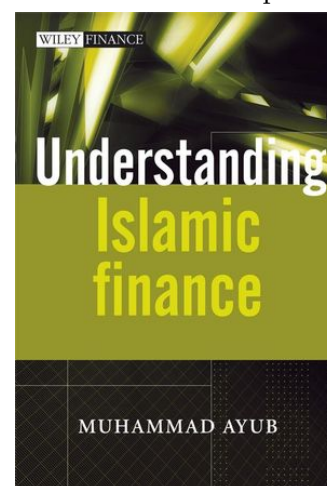
PART II - CONTRACTUAL BASES IN ISLAMIC FINANCE.

- 5 Islamic Law of Contracts and Business Transactions.
- 6 .Trading in Islamic Commercial Law.
- 7 Loan and Debt in Islamic Commercial Law.

PART III - ISLAMIC FINANCE – PRODUCTS AND PROCEDURES.

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- 18 The Way Forward.

Source: <http://eu.wiley.com/WileyCDA/>



Bank in Focus

Emirates Global Islamic Bank Limited

Emirates Global Islamic Bank Limited (EGIBL) is a dedicated Islamic commercial bank, incorporated in Pakistan and sponsored by leading investors from the United Arab Emirates and Saudi Arabia. The bank was incorporated in Pakistan on December 20, 2004 as a public limited company and commenced its commercial operations on February 16, 2007.

EGIBL has setup a state of-the art information technology infrastructure to effectively serve its customers around the clock, anywhere in Pakistan. EGIBL was the first organization in the country to opt for Siebel CRM, the international standard solution for customer relationship, for its 24/7 Call Centre.

The core banking system of the bank is designed by AutoSoft Dynamics, rated by the International Business System Journal as a Tier 1 service provider.

SPONSORING SHAREHOLDERS

The sponsoring shareholder of the bank is **Emirates Financial Holdings (EFH)** of Sharjah, UAE, a leading investment company with strategic investments in Middle East and Asia Pacific regions. The other major shareholder is the **Al Rajhi** family of Saudi Arabia.

BRANCH NETWORK

Emirates Global Islamic bank has 27 branches in 13 cities of Pakistan. It is expected to grow to a 40 branch network by the end of 2008.

PRODUCT RANGE

The bank is presently offering products catering to the retail, SME and corporate sectors.

Consumer Financing products include Auto Ijarah, Al Bait (Housing) Financing and Rahnuma Travel Services.

Retail Banking products include Current Account, Saving Account & Term Deposit.

Corporate Banking products and services include Local Purchase Murabaha, Murabaha Financing

	(PKR in Bn)	% of Islamic Banking Industry
Deposits	7.247	4.3%
Financing	7.348	5.6%
Total Assets	13.330	5.7%
Branch Network	24	7.4%
As of June 30, 2008		

against Imported Merchandise (FIM), Murabaha financing against Trust Receipt (MRT), Export Murabaha (Pre-shipment), Direct Ijarah & Sales and lease back Ijarah.

Investment Banking product and services include Advisory as well as Asset and Investment Management services.

ALTERNATE DISTRIBUTION CHANNELS

- Biometric Automated Teller Machine (ATM) / Debit card
- Phone Banking.
- SMS Banking
- eStatement

SHARIAH Advisor

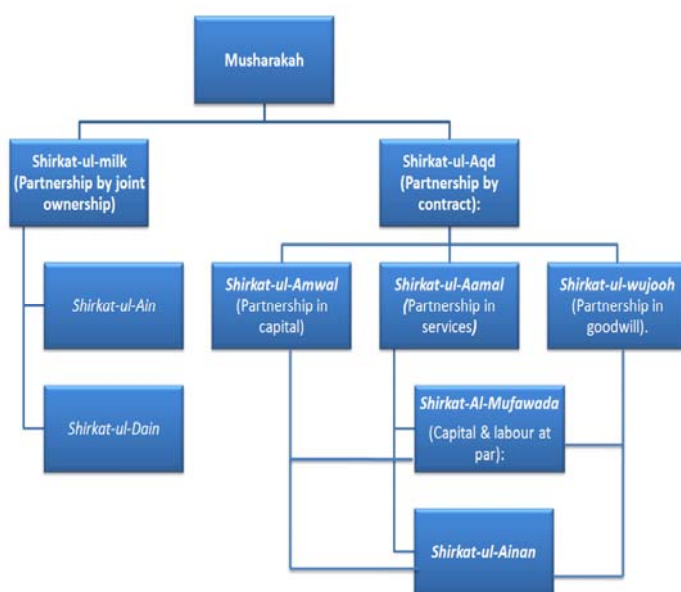
Emirates Global Islamic Bank has **Justice (Retd) Khalil-ur-Rehman Khan** as the Bank's **Shariah Advisor**, who has served as Chairman on the Shariat Appellate Bench of the Supreme Court of Pakistan, Rector of the International Islamic University, Islamabad, Chief Justice of the Lahore High Court and Chairman of the Religious Board for Mudarabas. He also authored the landmark judgment on Riba in 1999. The Bank's Shariah Advisor is assisted by Mufti Abdullah Siddiqi from Dar-ul-uloom Karachi and Mufti Ehsan Waqar.

For further details please visit www.egibl.com



Mode of Islamic Financing in Focus: Musharakah (مشاركه)

The literal meaning of Musharakah is sharing. The root of the word "Musharakah" in Arabic is Shirkah, which means being a partner. It is used in the same context as the term "shirk" meaning partner to Allah. Under Islamic jurisprudence, Musharakah means relationship established under a contract by the mutual consent of the parties for sharing of the profit according to a specific ratio while the loss is shared according to the ratio of the contribution. It is an ideal alternative for the interest based financing with far reaching effects on both production and distribution. The connotation of this term is little limited than the term "Shirkah" more commonly used in the Islamic jurisprudence. For the purpose of clarity in the basic concepts, it is pertinent at the outset to explain the meaning of each term, as



distinguished from the other. "Shirkah" means "Sharing" and in the terminology of Islamic Fiqh, it has been divided into two kinds:

1. **Shirkat-ul-Milk** (Partnership by joint ownership): It means joint ownership of two or more persons in a particular property.
2. **Shirkat-ul-Aqd** (Partnership by contract): it means, "a partnership effected by a mutual contract". For the purpose of brevity it may also be translated as "joint commercial enterprise."

The basic rules of Musharakah

Musharakah or Shirkat-ul-amwal is a relationship established by the parties through a mutual contract. Therefore, it goes without saying that all the necessary

Hadees-e-Qudsi

"Allah Subhan-o-Tallah has declared that He will become a partner in a business between two partners until they indulge in cheating or breach of trust (Khayanah)."

ingredients of a valid contract must be present here also. For example, the parties should be capable of entering into a contract; the contract must take place with free consent of the parties without any duress, fraud or misrepresentation, etc.

But there are certain ingredients, which are peculiar to the contract of "Musharakah". They are summarized here:

Basic rules of Capital:

The capital in a Musharakah agreement should be:

- a) Quantified (Ma'loom): Meaning how much etc.
- b) Specified (Muta'aiyan): Meaning specified currency etc.
- c) Not necessarily be merged: The mixing of capital is not required.
- d) Not necessarily be in liquid form: Capital share may be contributed either in cash/liquid or in the form of commodities. In case of a commodity, the market value of the commodity shall determine the share of the partner in the capital.

Basic rules of distribution of Profit

All scholars are unanimous on the principle of loss sharing in Shariah based on the saying of Syedna Ali ibn Talib (R.A) that is as follows:

"Loss is distributed exactly according to the ratio of investment and the profit is divided according to the agreement of the partners."

Therefore the loss is always subject to the ratio of investment e.g. if 'A' has invested 40% of the capital and 'B' 60%, they must suffer the loss in the same ratio, not more, not less. Any condition contrary to this principle shall render the contract invalid.

Profit would be distributed by keeping the following Shariah boundaries in mind

1. The ratio of profit for each partner must be determined in proportion to the actual profit accrued to the business and not in proportion to the capital invested by him. e.g. if it is agreed between them

Musharakah (مشاركه) – Continued from previous page

- that 'A' will get 1% of his investment, the contract is not valid.
2. It is not allowed to fix a lump sum amount for any one of the partners or any rate of profit tied up with his investment. Therefore if 'A' & 'B' enter into a partnership and it is agreed between them that 'A' shall be given Rs.10,000/- per month as his share in the profit and the rest will go to 'B', the partnership is invalid.
 3. If both partners agree that each will get percentage of profit based on his capital percentage, whether both work or not, it is allowed.
 4. It is also allowed that if an investor is working, his profit share (%) could be more than his capital base (%) irrespective whether the other partner is working or not. e.g. if 'A' & 'B' have invested Rs.1000/- each in a business and it is agreed that only 'A' will work and will get 2/3rd of the profit while 'B' will get 1/3rd. Similarly if the condition of work is also imposed on 'B' in the agreement, then also the proportion of profit for 'A' can be more than his investment.
 5. If a partner has put an express condition in the agreement that he will not work for the Musharakah and will remain a sleeping partner throughout the term of Musharakah, then his share of profit cannot be more than the ratio of his investment. However, Hanbali school of thought considers fixing the sleeping partners share more than his investment to be permissible.
 6. If both are working partners, the share of profit can differ from the ratio of investment. e.g. Zaid & Bakar both have invested Rs.1000/- each. However Zaid gets 1/3rd of the total profit and Bakar 2/3rd, this is allowed. This opinion of Imam Abu Hanifa is based on the fact that capital is not the only factor for profit but also labour and work. Therefore although the investment of two partners is the same but in some cases quantity and quality of work might differ.
 7. If only a few partners are active and others are only sleeping partners, then the share in the profit of the active partner could be fixed at higher than his ratio of investment eg. 'A' & 'B' put in Rs.100 each and it is agreed that only 'A' will work, then 'A' can take more than 50% of the profit as his share. The excess he receives over his investment will be compensation for his services

Saying of Holy Prophet Muhammad (P.B.U.H)
“All the conditions agreed upon by the Muslims are upheld, except a condition which allows what is prohibited or prohibits what is lawful.”

Uses of Musharakah:

At present Musharakah is not much utilized mode of financing as its share limited to just over 1 % in total Islamic financing by IBIs due to few practical problems like, the tenure of Musharakah, redemption in Musharakah and the mixing of capital in conducting Musharakah etc. The mode has the potential and can be utilized in the following areas (or can replace them according to Shariah rules).

Asset Side Financing

- Short/medium/long-term financing
- Project financing
- Small & medium enterprises setup financing
- Large enterprise financing
- Import financing
- Import bills drawn under import letters of credit
- Inland bills drawn under inland letters of credit
- Bridge financing
- LC with margin
- Export financing (Pre-shipment financing)
- Working capital Financing
- Running accounts financing / short term advances

Liability Side

- For current/ saving/ investment accounts (deposit giving profit based on Musharakah/Mudabah – with predetermined ratio)
- Inter-Bank lending / borrowing
- Term Finance Certificates & Certificate of Investment
- T-Bill and Federal Investment Bonds / Debenture.
- Securitization for large projects (based on Musharakah)
- Islamic Musharakah bonds (based on projects requiring large amounts – profit based on the return from the project)

Source: [Guide to Islamic Banking by Dr. Muhammad Imran Ashraf Usmani](#)

Introduction of SBP Shariah Board Member

Mr. Ebrahim Y. Sidat

Mr. Ebrahim Sidat is the country managing partner and chief executive of Ford Rhodes Sidat Hyder - a member of Ernst & Young International. He assisted the Supreme Court of Pakistan in connection with its famous Judgment on Riba,/Interest. He has also served as a Member of the Commission for Transformation of Economy, Government of Pakistan.

Mr. Ebrahim Sidat is a Fellow member of the Institute of Chartered Accountants of Pakistan (ICAP) having qualified Chartered Accountancy in 1969. Mr. Sidat was elected twice as President of the Institute of Chartered Accountants of Pakistan (1989-90 and 1990-91) and was a member of the Institute's National Council from 1975 to 1993. He has been actively involved with the work of its various committees and has served as the first Chairman of the Accounting and Auditing Practices Committee. He has been the President of the South Asian Federation of Accountants (SAFA) for the 1994 term. SAFA is a Federation of SAARC Accountancy Bodies.

He was involved in advising the Government of Pakistan on various issues related to the privatization and disinvestment of public sector enterprises in Pakistan. Mr. Sidat regularly makes presentations in Conferences and Seminars on the subject of corporate finance, corporate laws, corporate governance, taxation, accounting and auditing, interest free financing and various other subjects of professional interest.

He has been appointed by State Bank of Pakistan on its Shari'ah board since its inception till now; where he has contributed well with his excellent expertise in the subject of Islamic Banking & finance and its allied fields. He is currently a member of Accounting and Auditing Standards Board of Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), Mr. Ebrahim is the chairman of the said board's auditing standards committee.

He has served as a member of:

- The Experts' Committee on Demutualization and Integration of Stock Exchanges in Pakistan set up by the SECP.
- Resource Mobilization and Tax Reforms Commis-

sion, Government of Pakistan and has been the Chairman of a Committee of the Tax Reforms Commission on Direct Taxation.

- Corporate Laws Commission Government of Pakistan.
- The Commission on Islamization of Economy, Government of Pakistan since inception until 1997

He has also served on:

- Committee of the Ministry of Finance/Corporate Law Authority, for review of the Companies Ordinance, 1984
- Committee of the Ministry of Finance/Corporate Law Authority, for review of the Securities and Exchange Ordinance, 1969
- Task force on the restructuring of the Corporate Law Authority
- Steering Committee of the Commission on Higher Education, appointed by the President of Pakistan

Chairman

- Institute of Chartered Accountants of Pakistan

President

- Institute of Chartered Accountants of Pakistan
- South Asian Federation of Accountants
- ICAP Council

Board Memberships and Affiliations

- Fellow Member: ICAP
- Fellow Member: Institute of Chartered Accountants of Pakistan
- Board Member: Accounting and Auditing Standards Board of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Chairman of a Committee: Tax Reforms Commission on Direct Taxation



Developments at Islamic Banking Department, State Bank of Pakistan

Strategic Plan for Islamic Banking Industry in Pakistan

In the last three decades, Islamic Finance industry has made significant progress at the global front. Pakistan is no exception to this phenomenon and Islamic banking here too is witnessing unprecedented growth. SBP has been playing a leading role towards promotion and development of Islamic banking in the country. SBP's drive to promote Islamic banking as a parallel system, operating at a level playing field with commercial banking, is aimed at building a broad based financial system in the country to enable all segments of the population to access financial services and play their due role in the overall economic development.

Keeping in view the current status of the industry and the challenges and opportunities faced by it both in the local and global context it has been considered imperative that a "Strategic Plan" be developed to chart out future strategies for the development of the industry.

The main objectives of this strategy are as follows:

1. Achieve a market share of 12% of deposits and assets
2. Expand and extend the outreach of Islamic banking products in existing Consumer and Corporate sectors as well as introduce it in the Micro Finance, Agriculture and SME and other sectors.
3. Strengthen Shari'ah Compliance framework
4. Strengthen Regulatory framework in line with global best practices
5. Establish a specialized institution to develop Human Resource for the industry
6. Integrate all elements of Islamic Financial Services Industry
7. Be part of the international Islamic banking community, appropriately positioned to attract Foreign direct investment

The strategic Plan is based on following five pillars:

1. Extension of outreach
2. Shari'ah Compliance Mechanism
3. Strengthening of Regulatory Framework
4. Capacity Building
5. Internal and External Relations

The full text of strategic plan is available at

<http://www.sbp.org.pk/departments/pdf/StrategicPlanPDF/Strategy%20Paper-Final.pdf>

Seminar on Risk Management Guidelines

Islamic banking in Pakistan has shown a tremendous growth and keeping in view the peculiar nature of Shariah-compliant transactions and need State Bank of Pakistan has developed and issued financial risk management techniques and methodologies known as "Risk Management Guidelines Islamic Banking Institutions."

A seminar on these recently issued Risk Management Framework for Islamic Banking Institutions was organized by IBD at Learning Resource Centre, on September 01, 2008. The seminar, in which senior officers from SBP and Islamic banking industry participated, was held to discuss Risk Management Framework rolled out by the State Bank recently on the basis of Risk Management Standard issued by the Islamic Financial Services Board.

The risk management guidelines are in addition to various risks management guidelines issued by the State Bank from time-to-time and IBIs are required to comply with both the sets of guidelines. The Risk Management Guidelines for Islamic Banking Institutions (IBIs) have been developed by tailoring the IFSB guiding principles on Risk Management to Pakistan's market conditions. Among others, who spoke at the seminar included Javaid Hussain Siddiqui of Bank Alfalah and Mujeeb Beig of Dawood Islamic Bank besides Mahmood Shafqat of Islamic Banking Department and Rizwan Chughtai of Banking Surveillance Department of the State Bank. They highlighted the

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areas where Islamic banks could face risks, in conjunction with Basel II regime, and discussed the risk mitigation techniques. The participants appreciated SBP's efforts in conducting such seminars and urged the central bank to hold seminars/workshops on other important topics.

Presentations made during the seminar are available at <http://www.sbp.org.pk/ibd/Presentations.htm>

Development of Courses / Modules on Islamic Banking and Finance

Islamic Banking Industry in particular and Islamic Finance in general are growing all around the world. Many countries, irrespective of religions, are trying to get most of it. Pakistan is not an exception to this phenomenon. One of the reasons for failure of previous efforts was lack of proper knowledge sharing/training of front-end personnel. Now industry is growing day by day and demand of properly trained quality human resource is also increasing. No. of high caliber human resources is far less as compared to demand of industry.

At present very few academic institutions are offering courses on Islamic Banking and these institutions are situated in big cities like Karachi, Lahore and Islamabad. There is no proper linkage among these institutions which leads to the lack of standardization/coordination of Islamic banking and Finance courses being offered.

Keeping in view the above position Islamic Banking Department has taken the initiative to develop a model course outline for Islamic banking and finance; which would serve as guideline for those institutions that are either offering or planning to offer Islamic Banking and Finance Course at various levels like Certificate, Diploma etc.

The Course outline is divided in to four categories using block building approach:

- Certificate Course

- Diploma
- Post Graduate Diploma
- Masters Degree

While preparing the requisite document, outline of in-house training was collected from all Islamic Banking Institutions, which served the basic foundation to develop proposed model course outline. The first draft of the model course outline prepared after internal deliberations; was reviewed by the officers of the Islamic Banking Department. The draft course outline was then circulated among various stakeholders like Islamic bankers, industry practitioners, and academicians etc. The course outline has now been sent to Higher Education Commission for their consideration and circulating the same to member institutions. HEC appreciated the efforts of SBP and they plan to present the proposed course outline in next meeting of National Curriculum Revision Committee.

Lecture on Takaful

Takaful is an emerging field in Pakistan, however it is relatively new concept for many people. On 28th October 2008 Islamic Banking Department conducted a half-day program for SBP Employees, on "Takaful" at LRC to create better understanding of subject. More than 40 officers from various departments of State Bank of Pakistan attended the program.

Capt. Jamil Akhtar Khan, CEO Takaful Pakistan Limited and Mr. Pervaiz Ahmad, CEO Pak-Qatar Family Takaful Limited were invited as speakers who delivered presentations on general and life "Takaful". Capt. Jamil Akhtar Khan talked about origin, meaning, and history of Takaful, its Shariah rationale according to Quran and Hadith and other important aspects of General Takaful. He also viewed that the idea of Takaful had not been derived from insurance rather Takaful is the original concept.

Mr. Perviaz Ahmad elucidated family Takaful, regulatory frame work of Takaful and its different models. Mufti

[...Continued from previous page](#)

Ismatullah member Shariah Board of Pak-Qatar Family Takaful Limited was also present on the occasion. He responded to the questions of the participants related to Shariah aspects of Takaful.

Director, Islamic Banking Department Mr. Pervez Said in his concluding remarks while thanking the guest speakers said that the Islamic finance industry was growing with impressive returns and had gained a significant role as a source of global capital and destination for innovative products and structure. This continued growth and increasingly important role has made Islamic finance one of the most lucrative financial systems of the world. He said that Islamic banks are unaffected by the financial crisis; rather many non-Muslims are turning to Islamic banking as customers spooked by turmoil in the Western banking system feeling Islamic banks as a safe haven because these are immune against such crisis due to inherent business ethics and controls. Furthermore he emphasized that Islamic Financial Institutions, including “Takaful Operators” should work hard on the marketing side of their well-designed products.

[“FAQs on Islamic Banking”](#)

The Islamic Banking Department of State Bank of Pakistan aims at developing and promoting the Islamic banking industry as a parallel and competitive banking system in Pakistan. Besides providing Shariah compliant regulatory and supervisory framework, SBP is also striving to create greater awareness about Islamic Banking in general public. As a part of this awareness campaign, SBP has issued a detailed document titled as “FAQs on Islamic Banking”. The document addresses the basic queries pertaining to various aspects of Islamic banking. The document also underscores as to how Islamic banking can effectively meet out the banking needs of the customers through a Shariah compliant manner. The benefits of Islamic financial system to an economy are also briefly discussed in this document.

The document is prepared by taking extensive feedback from various stakeholders that include local Islamic banking industry, SBP Shariah Board and some international Islamic financial institutions. The FAQs are available at following address

<http://www.sbp.org.pk/departments/ibd/FAQs.pdf>

[Extract From Quaid-e-Azam’s Speech](#)

.....“I shall watch with keenness the work of your Research Organization in evolving banking practices compatible with Islamic ideas of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is not facing the world. The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind.”

Source: Quaid-i-Azam's Speech On the occasion of the Opening Ceremony of The State Bank of Pakistan on 1st July, 1948 available at http://www.sbp.org.pk/about/history/h_moments.htm

Local News

[KSE to Launch First Co-Branded Islamic Index](#)

<http://www.thenews.com.pk/updates.asp?id=53871>

September 02, 2008

The Karachi Stock Exchange (KSE) and Al Meezan Investment Management Limited signed a Memorandum of Understanding (MoU) to launch Pakistan's first co-branded Islamic Index KSE & Meezan Index (KMI).

According to the agreement, Al Meezan Investments will provide its Shariah expertise, guidelines skills and stocks screening towards the activities with regard to the launching and continuation process of the index. The KSE will provide maintenance and dissemination support for the index, a press statement said.

The KMI comprises 30 companies which will qualify the KMI Shariah screening criteria and are weighted by float adjusted market capitalization subject to a 12 per cent cap on weights of individual securities. The KMI will measure the performance of these 30 companies traded on the Karachi Stock Exchange with periodic balancing and adjustments to ensure utmost Shariah compliance and benchmark stability. Therefore, the KSE Meezan Index will provide investors a suitable benchmark for comparing the returns on their Shariah compliant equity investments.

[FBR Discusses Islamic Financial System](#)

<http://thepost.com.pk/BizNewsT.aspx?dtlid=178393&catid=7>

Tuesday, August 19, 2008

The Federal Board of Revenue (FBR) discussed Islamic taxation and financial system. "Islamic Finance has gripped the world with a strong fervour and passion", Mumtaz Ahmad, Member (Legal), FBR said. Inaugurating the session, Ahmed said the world was recognizing the significance of Islamic Finance and it had also been

deliberated in 2nd and 3rd session of UN committee of experts for international cooperation in tax matters in their annual meeting held at Geneva.

He said the Asian Development Bank (ADB) had also introduced it as an agenda item in its meeting scheduled to be held in October 2008 at Tokyo (Japan). It will also be discussed in the 5th ATAIC Technical Conference. The FBR also invited well known scholars of international repute Professor Mufti Munibur Rahman and Mujeeb Baig to enlighten the senior tax officials of the direct taxes wing on the tax treatment of Islamic financial instruments".

The guest speakers made a presentation on the Islamic financial instruments and enlightened the audience on the basic concept of the 'riba' free instrument. The session was followed by questions / answers, which lasted for one hour and certain future steps to be taken in this regard as to the tax treatment of the Islamic financial instrument were noted down by the income tax policy section for examination and necessary action at the appropriate time.

[Sharp Rise in Sukuk Issuance](#)

www.dawn.com/2008/08/08/ebr4.htm

August 08, 08

International Monetary Fund (IMF) has noted rapid growth of the Islamic finance sector in recent years, saying that a surge has been witnessed in the issuance of Islamic capital market securities (Sukuk) by corporate and public sector entities, amid greater demand for alternative investments.

In a policy paper, discussing the 'Islamic Bond Issuance', IMF said that as the Sukuk market continues to develop, new challenges and opportunities for debt managers arise as structured finance instruments are receiving increasing attention owing largely to ena-

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bling capital market regulations and financial innovation, amid an establishing greater inclusiveness of Shariah compliance.

The paper says the sovereign Sukuk are likely to gain popularity as more governments in both Muslim and non-Muslim countries explore options to diversify their traditional debt portfolios. The latest examples of this trend are efforts in the UK, Japan and Thailand to establish a Sukuk issuance programme and Indonesia's bill on Islamic debt financing, which will enable the government to fund large parts of its budget deficit by issuing Sukuk.

The Islamic finance industry has grown by about 15 per cent on average over the last three years in response to a profusion of investment products, which has been fuelled by an increasing demand for investments that comply with Islamic law. Currently, more than 800 billion dollars are lodged in Islamic banks, mutual funds, insurance schemes (Takaful), and Islamic branches of conventional banks. The most popular form of Islamic finance is commonly referred to as Sukuk, which are wholesale, asset-based capital market securities.

The sovereign Sukuk market has witnessed considerable institutional and geographical diversity since the first sovereign issue in 2002. Malaysia, Qatar, Bahrain, and Pakistan are the most prolific national issuers. Also quasi-sovereign entities, international financial institutions (IFIs), such as Islamic Development Bank, World Bank, and its private sector arm, International Finance Corporation, publicly-listed corporates, privately-owned companies and religious councils, such as the Singapore Islamic Religious Council (MUIS), have issued Sukuk.

The report says the primary Sukuk market is dominated by corporates, which have accounted for over 86 per cent of total historic issuance through end-2007.

Corporate issuance - both public and private - has expanded rapidly, doubling both between 2004-05 (from 5.7 billion dollars to 11.3 billion dollars) and 2005-06 (from 11.3 billion dollars to 24.8 billion dollars) to reach almost 32 billion dollars in 2007. The largest proportion of corporate Sukuk was issued in the financial services sector, accounting for 31 per cent of total volume, followed by real estate, with 25 per cent and utilities with 12 per cent. While Asia, specifically Malaysia, accounted for the bulk of all issues in 2004 (close to 90 per cent), issuance activity in the GCC has picked up rapidly and now accounts for more than 43 per cent of all issues (by number).

While Sukuk continues to evolve, a select few still dominate the market. Musharaka contracts continued to be the largest Sukuk issued in 2007, accounting for more than 12 billion dollars of issuance, although lease-based transactions are the most common. Other Islamic finance contracts, such as Murabaha, where the financier provides funds at a premium in return for the temporary transfer of a contractual asset for a specified period of time, 'istasna' or 'salam' only play a minor role. Growing demand for convertible Sukuk also demonstrates strong demand for structures with an opportunity to benefit from the recent gains in local equity markets.

The IMF report says although the current level of Sukuk issuance remains a fraction of the global issuance of conventional bonds and asset-backed securities (ABS), the market for Sukuk has been growing rapidly despite the global financial crisis triggered by the collapse of the US subprime market. At the end of 2007, outstanding Sukuk globally exceeded \$90 billion. Gross issuance of Islamic structured securities has quadrupled over the past two years, rising from \$7.2 billion in 2004 to close to \$39 billion by the end of 2007.



International News

Islamic Banking is in Its Golden Period of Growth

http://www.gulfnews.com/Business/Comment_and_Analysis/10237704.html

August 17, 2008

Moody's Investors Services published an exceptional report about Islamic banking industry. Entitled, "Frequently Asked Questions: Notable Trends in Global Islamic Finance", the report revealed some valuable insights into the potential of Islamic banking.

Amongst others, the report claims that the Gulf Cooperation Council (GCC) countries do not want the private sector dominating the realm of Islamic banking. Accordingly, the GCC governments are increasingly entering as strategic investors in Islamic financial institutions (IFIs). Cases in point are Dubai government owning a controlling stake at Noor Islamic Bank (NIB). Set up 2007, NIB aims at becoming the largest IFI in the world within the next five years. Also, state pension funds own 30 per cent of Alinma Bank in Saudi Arabia. Set up in 2006, Alinma sold 70 per cent of shares through initial public offers earlier in the year. Likewise, the Qatari government partly owns Masraf Al Rayan.

The report suggests that government ownership should help making IFIs only more acceptable. "If governments have an increasing share of ownership in IFIs, the risk of consumers perceiving an IFI as insufficiently compliant with sharia is somewhat mitigated," it said. However, existing IFIs are not suffering from a reputation of being overtly commercial. In reality what makes existing IFIs acceptable is endorsement granted by Islamic scholars. Some IFIs publish paid interviews with scholars if deemed necessary to win public acceptance for innovative products. Nevertheless, ensuring the availability of sharia scholars with knowledge of conventional and Islamic finance is a key challenge facing Islamic banking.

Yet, it is probable that authorities want to have a piece of profitability pie of IFIs, which are not known for reporting sustained growth in net income. For instance, Bahrain-based Ithmaar Bank saw its profit for the first half of this year surging 115 per cent to a record \$141.9 million, up from \$65.9 million for the

same period last year.

One such additional evidence that Islamic banking has extraordinary potential relates to rivalry between London and Paris in dominating the industry in Europe. To be sure, the UK is relatively ahead of France in embracing the concept. In fact, the UK has modified its financial regulations to accommodate Islamic Sharia. In fact, it is suggested that the UK government is contemplating issuing Sukuk. Yet, France is eagerly attempting to entice Islamic banking by virtue of hosting the largest Muslim community in Western Europe. Chances are that France could score some success through President Nicolas Sarkozy, who has developed a reputation of crisscrossing the world ever since assuming power in 2007.

The report put a sizable figure on the monetary value of Islamic banking. The suggested amount of \$700 billion is considerably higher than previously assumed. Still, the report asserts that the figure could reach as high as \$4 trillion in the too distant future. Other researches have put value of total assets of some 300 IFIs at \$500 billion. Report stressed that expansion of the Islamic financial industry should lead to further diversification. In essence, benefits are expected to be extracted from increasing sophistication and further innovation as well as from growing operating and geographic diversification. Undoubtedly, Islamic banking is growing through its golden period.

CIMA Becomes First Accountancy Body With Islamic Finance Certificate

http://www.iiif-inc.com/iiif/news_26.php

September 04, 2008

The Chartered Institute of Management Accountants (CIMA) becomes the first chartered accountancy body to launch a global qualification for Islamic finance. According to CIMA's director of education Robert Jelly, the qualification is co-developed with the International Institute of Islamic Finance (IIIF) in order to address the needs of employers in the fast-growing Islamic finance industry. "CIMA has identified that there is considerable demand from the global business community to develop the knowledge and skills required to service this increasingly important market,"

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No doubt the Islamic finance industry is growing surpassing the growth of the available pool of talents in this field. "Islamic finance is now a global phenomenon. It goes without saying that the education and training to support knowledge development in Islamic finance must be equally global," said Dr Mohd Daud Bakar, president and CEO of IIIF.

The Certificate in Islamic Finance from CIMA is the first truly global qualification of its kind to be offered by a professional accountancy body and is offered in collaboration with the International Institute of Islamic Finance (IIIF) in Kuala Lumpur, Malaysia - a leading provider of Islamic educational products.

"The challenge now is to identify a cost-efficient as well as a time-effective way to develop the essential human capital assets that will support and escalate Islamic finance to greater heights," he added. "Financial centres across the globe who possess any aspiration of becoming the lead Islamic Financial Centre would have already inscribed human capital as integral to their strategic development plans," he said, adding that the number of Islamic financial institutions worldwide has grown to over 300 today in more than 75 countries.

CIMA's new qualification comprises four modules: Islamic commercial law; Islamic banking and Takaful; Islamic capital markets and instruments; and accounting for Islamic financial institutions.

CBB: Islamic Banks Warned Against Cloning Models

<http://www.allvoices.com/news/831304-bahrain-cloning>

July 9, 2008

Islamic financial institutions have been warned against product copycats to better survive any economic downturns. Institutions have long focussed on real estate and asset finance which may not provide them a steady source of bread and butter revenue should the project driven products are not sustainable in times of difficulty.

Central Bank of Bahrain calls for a greater diversity of business models, more diverse and stable income sources, and more rigorous risk management and stress testing techniques to assess institutions preparedness to deal with any downturn in economic activity. This is to avoid exposure to the same economic and industrial

sectors.

Newer entrants to the industry have merely tended to copy the strategies they see being successfully pursued by their more established rivals, Rasheed Al Maraj (Governor, CCB) warned delegates at the Euro World Islamic Banking Conference (Euro WIBC) in London. "If I may say so, there is a high degree of cloning of business models," he said. "As a result, a very high percentage of Islamic banks have a strategy that is heavily weighted towards real estate and asset finance. He said that asset-based business models favoured by many Islamic banks have not been tested in a downturn. "We need to remember that a business model which looks robust in conditions of rising asset values and abundant liquidity may not be so when the economic environment changes," he warned.

"The industry needs to respond to these challenges by developing a greater diversity of business models, more diverse and stable income sources, and more rigorous risk management and stress testing techniques to assess its preparedness to deal with any downturn in economic activity. "As a central banker, I am inevitably preoccupied by risk, especially when it could potentially impact on a significant sector of the financial industry."

He said the asset base of Islamic finance contrasted with that of conventional banks with their extensive loan books, overdraft and credit card facilities which provide steady revenue to cover their overheads even in today's challenging markets.

"The Islamic banking sector as a whole is highly exposed to the property sector - real estate, commercial property and construction - and as events in the advanced markets have recently reminded us, this sector can and does experience significant cycles of activity."

He said that in spite of these challenges, the Islamic financial industry continued to offer enormous opportunities for both Muslims and non-Muslims alike.

"We at the CBB have a continuing commitment to facilitating the development of the Islamic financial services industry," he added.

"We will continue to ensure that all financial institutions in Bahrain adhere to the very highest international standards. Where necessary we will play our

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part in adapting those standards to the needs of the Islamic financial services industry,” he said.

MasterCard Creates an Islamic Debit Card

www.asianinvestor.net

August 10, 2008

MasterCard collaborated with Eoncap Islamic Bank to launch the world’s first Islamic debit MasterCard. It is a Shariah compliant debit card with ATM functions as well and works on PayPass systems which enables a person to swipe it on a terminal without the card leaving the cardholder’s hand.

MasterCard Worldwide and EonCap Islamic Bank (a member of Malaysia’s Eon Bank Group) have jointly launched what they are billing as the world’s first Islamic debit MasterCard - the EonCap Islamic Debit MasterCard.

The EonCap Islamic Debit MasterCard is basically a debit card with ATM functions as well. It also works on PayPass systems, which enables a person to swipe it on a terminal without the card leaving the cardholder’s hand. It is referred to as blending traditional purchasing power with modern technology and is Shari’ah compliant.

“It is designed to appeal to both Muslim and non-Muslim individuals who prefer better financial control as the card ensures that purchases are automatically deducted from the cardholder’s account and approved only if enough funds exist within the account. It helps track spending, comes with worldwide acceptance at more than 26 million locations and can be used at an ATM for e-banking,” says Fozia Amanulla, chief executive officer of Eoncap Islamic Bank.

“MasterCard is pleased to collaborate with Eoncap Islamic Bank in order to introduce this card to Malaysian consumers. The EonCap Islamic Debit MasterCard card is designed for individuals who prefer to spend what they have in their accounts, yet seek the same functionality and assurances of a credit card,” said Shuan Ghaidan, head of product sales and delivery, Asia-Pacific at MasterCard Worldwide.

According to a MasterCard survey on payment habits and perceptions of consumers conducted in 2007, the

convenience factor was perceived as the biggest benefit by consumers to using contactless payments such as PayPass (47%), followed by the additional security features contactless cards provide (39%).

Hong Kong: Setting The Right Islamic Finance Framework Priorities

<http://islamicfinanceupdates.wordpress.com/hong-kong-setting-the-right-islamic-finance-framework-priorities/>

12 August 2008

.Hong Kong has indisputably what it takes to be an Islamic financial centre. It is already an established international financial centre. Like Singapore, its progression to Islamic finance is a natural completion of the existing financial components. However, judging from the developments of Islamic finance in Hong Kong, the city has indeed a long and challenging journey to accomplish to. Notwithstanding, Hong Kong has been on a consistent strategic approach vis-a-vis Islamic finance since 2006 or may be earlier prior to its announcement of a full adoption of Islamic finance in 2007.

Today, Hong Kong looks set to commit itself with Islamic finance by actively engaging prominent Islamic finance stakeholders via a series of mutual cooperation and human capital as well as product developments. The memorandum of understanding inked between Hong Kong’s regulatory and supervisory authorities and United Arab Emirates’ Dubai Financial Services Authority and Dubai International Financial Centre Authority manifest Hong Kong’s strategic move to create a ready pool of talents and leverage on the existing expertise in the industry. This will rapidly steer Hong Kong for a dynamic embrace of Islamic finance.

Membership with an international standard setting body for Islamic finance will lend credibility to Hong Kong’s bid to become an Islamic financial centre. The Hong Kong Monetary Authority and Securities Futures Commission joined the Islamic Financial Services Board (IFSB) in 2006 and 2007, respectively. At present, there are 175 members of the IFSB comprising 42 regulatory and supervisory authorities, 6 international inter-governmental institutions and 127 participants of the Islamic financial services. All of these institutions originate from 34 different countries. This will provide easy access for Hong Kong authorities to forge business

[.Continued from previous page](#) **International News**

networking and foster knowledge sharing with the Islamic financial services stakeholders who are fellow members of the IFSB.

The rolling out of Islamic investment products and the listing of USD 550 million convertible Sukuk on the Stock Exchange of Hong Kong sets the right ambience for Islamic finance in Hong Kong. However one cannot help but notice that Hong Kong has been embarking on a marketing and promotional trip without substantial infrastructures in tow. Not much is known about Hong Kong's legislative plans to accommodate Islamic finance in the former British colony. If there is any consolation, Hong Kong has recently announced that it is reviewing the tax law to induce a fair tax treatment for Shariah compliant products relative to its conventional counterparts. Under the same development, the Secretary for Financial Services and the Treasury, Chan Ka Cheung has declared that the Government will waive certain taxes on Hong Kong's first Islamic bond which would be issued by Hong Kong Airport Authority. The proposed issuance date is not yet announced.

The main Islamic finance legislation, notwithstanding its type of business, will set out common provisions, among others, to validate the conduct of Islamic finance business in Hong Kong and impose unique features for the regulation and supervision of Islamic finance. The legislation will also provide for the Shariah compliance requirements. The industry related dispute resolutions mechanism is also part of the game. All these features form the crux of Islamic finance system which an Islamic financial centre cannot afford to be without.

Hong Kong is on its way to become a significant Islamic financial centre. Considering its shift towards Islamic finance only started last two years, it has done a remarkable effort to have Islamic finance gaining ground in Hong Kong within such a short period of time. Definitely, the substantial legislative efforts will be next to watch.

Disclaimer: The news section of Islamic Banking Bulletin is based on information obtained from local and international print and electronic media.

Islamic Banking Branch Network

As of September 30, 2008

Type	Name of Bank	Branches
Full Fledge Islamic Banks	Meezan Bank Ltd	117
	AlBaraka Islamic Bank	20
	Dubai Islamic Bank Pakistan Ltd	21
	BankIslami Pakistan Limited	40
	Emirates Global Islamic Bank Ltd	25
	Dawood Islamic Bank Limited	14
	Sub Total	237
Islamic Branches of Conventional Banks	Bank Alfalah Ltd	35
	MCB Bank Ltd	8
	Bank of Khyber	17
	Habib Metropolitan Bank	4
	Habib Bank Ltd	1
	Standard Chartered Bank	8
	Bank Al Habib	4
	Soneri Bank Ltd	4
	Askari Bank Limited	14
	National Bank of Pakistan	3
	United Bank Ltd	5
	The Royal Bank of Scotland	3
Sub Total	106	
Sub Branches	BankIslami Pakistan Limited	10
	Dawood Islamic Bank Limited	1
	Dubai Islamic Bank Pakistan Ltd	2
	Meezan Bank Ltd	11
Sub Total	24	
Grand Total	367	

Province wise Break-up of Islamic Banking Branch Network

(As of September 30, 2008)

Bank Name	Azad						Grand Total
	Kashmir	Balochistan	Federal Capital	NWFP	Punjab	Sindh	
Al Baraka Islamic Bank B.S.C. (E.C.)	1		1	3	10	5	20
BankIslami Pakistan Limited	1	5	1	3	10	20	40
Dawood Islamic Bank Limited			1		6	7	14
Dubai Islamic Bank Pakistan Limited			2	1	11	7	21
Emirates Global Islamic Bank Limited		1	2	2	11	9	25
Meezan Bank Limited	1	3	6	12	54	41	117
Sub-Total	3	9	13	21	102	89	237
Islamic Banking Divisions of Conventional Banks							
Askari Bank Limited		1	1	1	8	3	14
Bank AL Habib Limited		1			2	1	4
Bank Alfalah Limited			3	2	20	10	35
Habib Bank Limited						1	1
Habib Metropolitan Bank Limited					1	3	4
MCB Bank Limited			1		4	3	8
National Bank of Pakistan				1	1	1	3
Soneri Bank Limited			1		1	2	4
Standard Chartered Bank (Pakistan)			1	1	3	3	8
The Bank of Khyber		1		11	3	2	17
The Royal Bank of Scotland					1	2	3
United Bank Limited				1	3	1	5
Sub-Total		3	7	17	47	32	106
Sub-Branches							
BankIslami Pakistan Limited	1		2		2	5	10
Dawood Islamic Bank Limited						1	1
Dubai Islamic Bank Pakistan Limited				1		1	2
Meezan Bank Limited				2	4	5	11
Sub-Total	1		2	3	6	12	24
Grand Total	4	12	22	41	155	133	367

Allah Accepts and Answers Dua

"Call on your Lord humbly and secretly; surely He does not love those who exceed the limits."

"And call on Him fearing and hoping; surely the mercy of Allah is nigh to those who do good (to others)."

{Ayah 55-56}

"And remember your Lord within yourself humbly and fearing and in a voice not loud in the morning and the evening and be not of the heedless ones."

{Ayah 205}

[Surah Al-Ar'af]

Dua of Hazrat Ayub (Alaihi Salaam)

"And Ayub, when he cried to his Lord, (saying): Harm has afflicted me, and Thou art the most Merciful of the merciful."

"Therefore We responded to him and took off what harm he had, and We gave him his family and the like of them with them: a mercy from Us and a reminder to the worshippers."

{Ayahs 83-84}

Source: <http://www.alquranic.com/mp3quran/Dua/>

Cities-wise breakup of Islamic Banking Branches

As of September 30, 2008

S. No	Name of City	No of Branches	S. No	Name of City	No of Branches
1	Abottabad	5	28	Mingora	1
2	Bahawalpur	1	29	Mirpur AJK	3
3	Banu	1	30	Mirpur Khas	1
4	Batkhela	1	31	Multan	12
5	Chakwal	1	32	Muslim Bagh	1
6	Chaman	1	33	Muzaffarabad	1
7	Charsadda	1	34	Nawabshah	2
8	Dera Ghazi Khan	1	35	Nowshera	1
9	Dera Ismail Khan	2	36	Okara	1
10	Faisalabad	18	37	Peshawar	20
11	Gujar Khan	1	38	Pishin	1
12	Gujranwala	8	39	Qilla Saifullah	1
13	Gujrat	2	40	Quetta	8
14	Hangu	1	41	Rahim Yar Khan	4
15	Haripur	1	42	Rawalpindi	16
16	Hyderabad	8	43	Sadiqabad	1
17	Islamabad	22	44	Sahiwal	1
18	Kamoki	1	45	Sargodha	2
19	Karachi City	117	46	Sheikhupuar	1
20	Kasur	1	47	Sialkot	8
21	Khushab	1	48	Sukkur	2
22	Kohat	1	49	Tando Allahyar	2
23	Lahore City	71	50	Tank	1
24	Larkana	1	51	Texila	1
25	Mandi Bahauddin	1	52	Timergara	1
26	Mansehra	3	53	Wah Cantt	1
27	Mardan	1		Grand Total	367

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