

# ISLAMIC BANKING BULLETIN

OCTOBER-DECEMBER 2008



**Islamic Banking Department**  
**State Bank of Pakistan**

# ISLAMIC BANKING DEPARTMENT

## MISSION

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

## VISION

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

## 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](http://www.sbp.org.pk/about/history/h_moments.htm)

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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.

## IFSB WORKSHOP:

### CLOSING SPEECH OF DEPUTY GOVERNOR

First of all on behalf of State Bank of Pakistan I would like to thank the IFSB team for holding this important workshop in our country. IFSB as an international standard setting body is playing a significant role to help the Islamic financial services industry grow worldwide on a sound and stable footing. The hard work being put in for preparing various Standards wherein best international practices are developed through an exhaustive process involving thorough research, discussions, public hearings, workshops/seminars etc. is indeed laudable.

SBP has played a key role in providing an enabling environment and a level playing field to the Islamic banking industry through the provision of a facilitative regulatory and supervisory framework. Our Shariah compliance mechanism is the most comprehensive available in the world. Pakistan is the only country which has issued Guidelines on Islamic agriculture and microfinance. Similarly, SBP is the first central bank to have initiated Shariah-compliance inspection.

As a result, the industry has experienced robust growth. SBP's recent achievement of being ranked as the second best central bank in promoting Islamic banking is a reflection of this effort.

SBP's next five years strategy for development of Islamic banking industry envisages rolling out of various international prudential standards developed by IFSB as an important pillar. We have accordingly seized the opportunity by capitalising on IFSB's expertise through holding such workshops at this juncture. Banks in Pakistan have already adopted Basel II and adaptation of IFSB standards in Pakistan would enable Islamic banking institutions to perform on an equal footing with the conventional industry thereby achieving the ultimate objective of financial stability and soundness at the national level and smooth integration with the international financial infrastructure.

Just to mention the progress the Islamic banking industry has made, let me share with you that over a period of time, there is a healthy growth of Islamic banking industry of Pakistan. The financing and investment portfolio of local Islamic banks has reached Rs 185 billion in December 2008, compared with Rs 137.6 billion in December 2007. Market share of Islamic banks in the overall banking has been increased to 5 percent at

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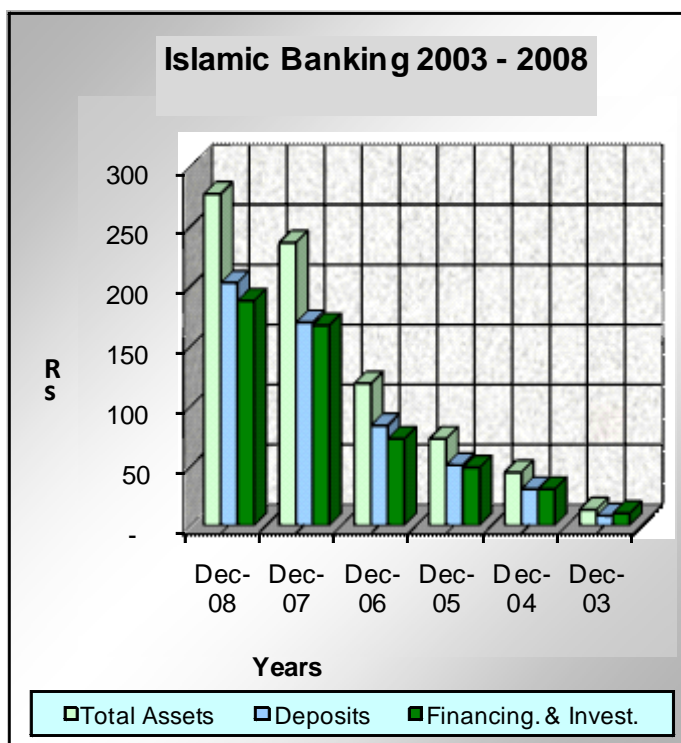
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## Industry Progress and Market Share

Islamic banking remained resilient during the quarter under review, despite some negative shocks witnessed by the banking sector in Pakistan—especially in October 2008. More specifically, the conventional banking industry remained surrounded by rumors at the start of October 2008, that culminated in pressure on rupee deposits with the conventional banks.

The QoQ growth in assets, deposits, financing & investment, and number of branches was 10, 18, 2.4 and 40 percent, respectively. Number of branches of Islamic banking institutions has crossed 500mark, which is indeed impressive. This growth is a continuation of growth momentum since CY02. In specific terms, Islamic banking grew at a yearly average of 37 percent. Despite the increase in size, the continuation of growth rate is commendable.

The rapid growth in Islamic banking is reflected in growing share of Islamic banking in assets, deposits and financing of banking industry. The respective share of Islamic banking assets and deposits are 4.9 and 4.8 percent of the banking sector. On the face, these look modest shares but given the smaller timeframe and other countries experiences this is really significant.



### Industry at Glance

(Rs. in billion)

Description	Sep 2008	Dec 2008 <sup>P</sup>	%Growth QoQ
Total Assets	251	276	10%
Deposits	171	202	18%
Financing. & Invest.	182	187	2.4%
No. of Branches	367	514	40%

Descriptions	Dec-08 <sup>P</sup>	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	276	206	119	72	44	13
% of Banking Industry	4.9%	4.0%	2.8%	2.0%	1.5%	0.5%
Deposits	202	147	84	50	30	8
% of Banking Industry	4.8%	3.8%	2.6%	1.8%	1.3%	0.4%
Financing. & Investment	187	138	73	48	30	10
% of Banking Industry	4.4%	3.5%	2.3%	1.7%	1.3%	0.5%
No. of Full Fledge Islamic Banks	6	6	4	2	2	1
No. of Conventional Banks with Islamic Banking Divisions	12	12	12	9	9	3
No. of Branches	514	289	150	70	48	17

P: Provisional Data



## Islamic Banking Sector

### Comparative Consolidated Balance Sheets of Islamic Banking Industry

Rs. in Million

#### Total Assets

Islamic banking assets grew at QoQ 10 percent. The assets mix have shown some interesting changes. The lower growth of financing contrast with substantial increase in *balance with other banks* and *due from financial institutions* category shows a greater degree of risk aversion. Moreover, there is a shift towards investments as well. These trends are not surprising as the conventional banks are showing similar trends in the aftermath of global financial crises.

#### Financing & Investments

The financing & investment mix have changed in favor of investments during Oct-Dec 2008. The increase Investments shows the increase in investment avenues arising from issuance of GoP Ijarah Sukuk. While slowdown in the financing, as discusses earlier, is a reflection of general risk aversion by banks.

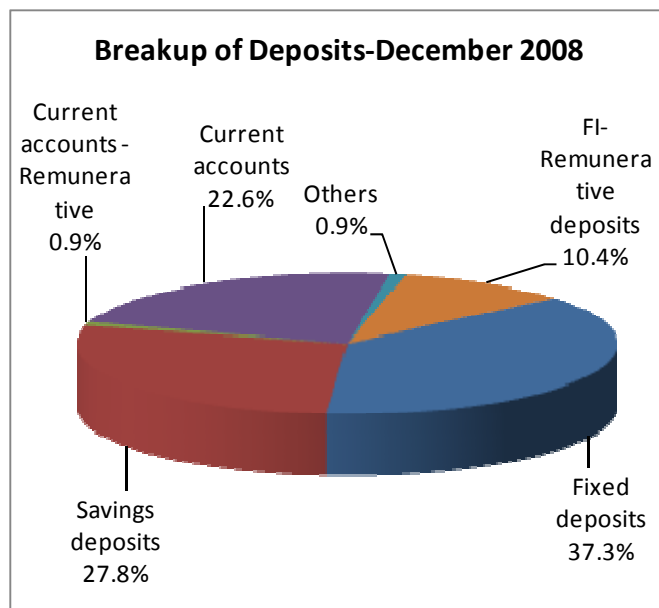
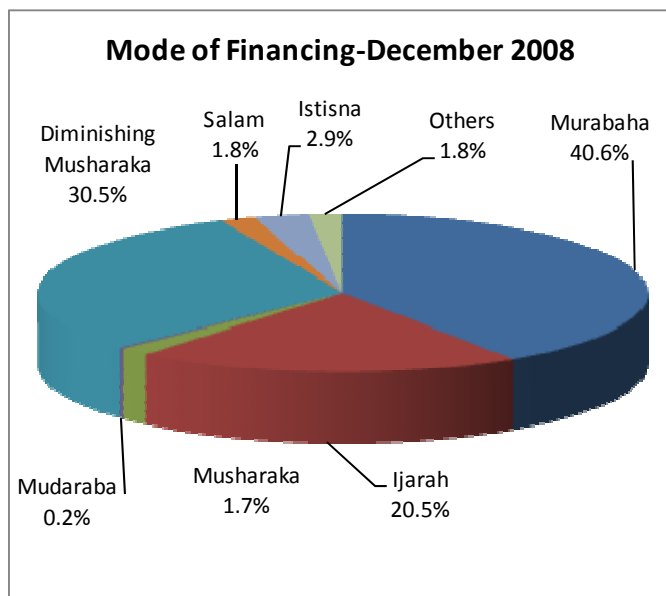
The breakup of financing activities remained almost same as the previous quarter with a concentration of financing activities in trade/sale based modes. The participatory modes remained sidelined with combined share of less than 2 percent in the overall financing. Specifically, Murabaha, Diminishing Musharaka and Ijarah are leading financing modes with shares of 40.6, 30.5, and 20.5 percent in total financing, respectively.

Descriptions	Sep - 2008	Dec - 2008 <sup>P</sup>	% Change
<b>ASSETS</b>			
Cash and balances with treasury banks	22,334	21,786	-2%
Balances with other banks	9,900	22,337	126%
Due from financial institutions	11,622	20,397	76%
Investments	40,274	42,172	5%
Financings	142,178	144,671	2%
Operating fixed assets	9,488	10,923	15%
Deferred tax assets	781	843	8%
Other assets	14,448	13,217	-9%
<b>Total Assets</b>	<b>251,025</b>	<b>276,346</b>	<b>10%</b>
<b>LIABILITIES</b>			
Bills payable	2,814	2,640	-6%
Due to financial institutions	12,525	17,447	39%
Deposits and other accounts	171,302	201,698	18%
Liabilities against assets subject to finance lease	318	77	-76%
Deferred tax liabilities	691	1,126	63%
Other liabilities	15,240	17,580	15%
<b>Total Liabilities</b>	<b>218,535</b>	<b>240,569</b>	<b>10%</b>
<b>NET ASSETS</b>	<b>32,489</b>	<b>35,777</b>	<b>10%</b>
REPRESENTED BY			
Paid-up capital/Head office capital account	29,423	31,962	9%
Reserves	1,004	1,913	90%
Un-appropriated/Un-remitted profit	1,641	1,818	11%
<b>Sub Total</b>	<b>32,068</b>	<b>35,693</b>	<b>11%</b>
Surplus /(Deficit) on revaluation of assets	422	84	-80%
<b>Equity</b>	<b>32,489</b>	<b>35,777</b>	<b>10%</b>

\* Exchange rate as of December , 2008 was Rs.80.59 USD

P: Provisional Data

## Analysis of the Consolidated Balance Sheet of Islamic Banking Institutions



The share of other modes, namely Mudaraba, Musharaka, Salam and Istisna remained dismal, at 0.2, 1.7, 1.8, 2.9 respectively.

### Deposits

The deposits' growth during the quarter remained strong at 18 percent. This seems impressive as the conventional banks' deposits grew only at less than 2 percent.

The deposits breakdown shows that bulk of the deposits are mobilized in fixed and saving accounts, which cumulatively account for around 65% of total deposits. This is increasing by around 18% besides healthy growth in financial institutions' deposits.

The Islamic banking windows at the end of the quarter were 46. The deposit mobilized by these windows stood at Rs 4.4 billion. The share of deposits of windows has increased substantially, despite the fact that conventional banks faced

### Breakup of Deposits

Rs. In Million

Description	Sept-08	Dec-08 <sup>P</sup>	%Change
<b>Deposits and Other Accounts</b>	171,302	201,698	18%
<b>Customers:</b>	161,739	180,664	12%
Fixed deposits	67,452	75,284	12%
Savings deposits	53,368	56,072	5%
Current Accounts Remunerative	104	167	60%
Current accounts N-Remunerative	38,293	47,269	23%
Others	2,522	1,871	-26%
<b>Financial Institutions' Deposits:</b>	9,563	21,034	120%
FI-Remunerative	9,526	20,946	120%
FI-Non Remunerative	37	88	138%

Deposits Mobilized by Islamic Banking Divisions through Islamic Banking Windows	
No of Islamic Banking Windows	46
Deposits mobilized through IBWs	Rs. 4.396 Billion
% of Islamic Banking Divisions' total Deposits	7.42 %

P: Provisional Data

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slowdown in deposits.

### Earning and Profitability

The earning and profitability ratios remained almost unchanged as from the previous quarter. The markup income remained the major contributor to the profitability with non-markup income contributor just a fraction. On the expense side, the markup and non-markup expenses are almost at the same level as well. The ROA and ROE of Islamic banks have shown a very slight decline.

The asset quality of the Islamic banking institutions also remained almost intact compared to the previous quarter. There are slight slippages in NPFs to financing, NPFs to net financing, and provisioning to NPFs ratios. Nonetheless, the Net NPF to Capital ratio has improved marginally.

<u>Earnings and Profitability Section*</u>	<u>Sep-08</u>	<u>Dec-08<sup>P</sup></u>
Mark-up Income to Total Assets	7.9%	7.9%
Mark-up Expense to Total Assets	4.0%	4.1%
Net Mark-up Income to Total Assets	3.9%	3.8%
Non-Mark-up Income to Total Assets	0.8%	0.8%
Non-Mark-up expense to Total Assets	3.5%	3.5%
ROE (Average Equity)	5.65%	5.31%
ROA (Average Assets)	0.75%	0.69%

<u>Assets Quality Ratio</u>	<u>Sep -08</u>	<u>Dec -08<sup>P</sup></u>
NPFs to Financing	2.2%	2.3%
Net NPFs to Net Financing	0.7%	0.8%
Net NPFs to Total Assets	0.4%	0.4%
Provisions to NPFs	65.9%	67.6%
Net NPFs to Total Capital	3.3%	3.1%

\*Annualized growth rates

### **Breakup of Financing (Rs. In Millions)**

<u>Description</u>	<u>Sep -08</u>	<u>Dec-08<sup>P</sup></u>	<u>%Change</u>
Murabaha	59,067	59,640	1%
Ijarah	30,656	30,173	-2%
Musharaka	2,421	2,469	2%
Mudarah	453	308	-32%
Diminishing Musharaka	43,434	44,812	3%
Salam	2,104	2,649	26%
Istisna	3,566	4,268	20%
Qarz-e-Hasna	-	-	0%
Others	2,535	2,650	5%
<b>Total</b>	<b>144,236</b>	<b>146,969</b>	<b>2%</b>
Amount of Non performing Financing	3,122	3,420	10%
Provision against NPFs	2,057	2,311	12%
Net NPF	<b>1,065</b>	<b>1,109</b>	<b>4%</b>

#### Important Note:

- The data used in this Bulletin is based on unaudited Quarterly accounts submitted by IBIs for the quarter of December, 2008. The figures may vary from the annual audited accounts of 2008 which provide full year coverage of the Islamic Banking Industry.

P: Provisional Data

## **Book Review**

### Islamic Finance: A guide for International Business and Investment

**Author:** Habiba Anwar and Roderick Millar

**Publisher :**Global Market Briefings (In association with the Institute of Islamic Banking and Insurance )

**Price :** \$115.00

**Pages :** 216 Paperback

**ISBN :** 9781846730788

**Publication Year:** November 2008

"This timely guide to Islamic financial practice is aimed at banking professionals and corporate investors worldwide. With similarities to 'ethical investment' in the West, Islamic investment is based on socially-responsible principles excluding areas such as gambling, alcohol, weapons and products that are high-risk / high-return. Islamic and conventional banking have converged in recent years and investors and asset managers have become increasingly attracted to financial products and the institutions that adhere to Shariah principles. This important book aims to support and inform investors by providing an accessible guide to the principles and current practice of Islamic banking and Shariah-compliant finance".

"Islamic Finance: A Guide for International Business and Investment serves as a comprehensive guide; be it to a novice wanting to learn the basics of Islamic finance or even to the experienced practitioner, who is looking for a refresher course. Written by the most notable practitioners from the top institutions in the industry, this guide has managed to cover the most crucial sectors in the industry such as Syndicated and Structured Finance, Capital Markets, Retail Banking, Commercial Real Estate and Project Financing and even Takaful (Islamic Insurance concept). The flow of each chapter, which begins with the introduction to Islamic Finance and ends with the Regulatory issues, is almost seamless, not only making it an easy read but providing an excellent insight into the fundamentals and the latest developments of Islamic finance."

Raphael Wong, editor of Islamic Finance news.

"Designed as a guide for global business and investment, this book aims to equip readers with a basic understanding of the principles and current practice of Islamic banking and Shariah-compliant finance. This Global Market Briefings publication has particular relevance in the current climate, with the failure of derivatives-based markets

tending to make Islamic financial instruments more widespread. This is a worthwhile reading for financial professionals and students alike". Securities & Investment Review, February 2009

This guide to Islamic finance covers the religious foundations that affect banking and lending practices, trade finance, working capital, credit, commercial real estate investment banking and regulatory issues so that financial professionals and global investors can be Shari'-a compliant. Editor Anwar (European and international commerce law, The College of Law, London) has enlisted the help of international bankers and analysts from firms such as the Bank of London and the Middle East, Credit Suisse and the Islamic Bank of Britain to explain the fundamentals of Shari'-a compliance, and how investors take advantage of banking products that do not pay interest and yet still offer low risk and high returns. Human resources and financial training for Islamic banking institutions is also discussed.

Mr. Mohammad A. Qayyum, Director General of the Institute of Islamic Banking and Insurance (IIBI) remarks:

"In the years to come, the growth in Islamic banking looks set to continue to make rapid progress as more and more, the great reserves of wealth of Muslims are diverted away from conventional banking practices. This book is invaluable in understanding how the principles of Islamic financing and investments are being practised in modern times."

While the global economy remains uncertain, Islamic Finance is steadily growing at an annual rate of 10-15 per cent, and is estimated to be currently worth \$800 billion. Although Islamic financial products do not pay interest they can often be as advantageous, or more so, than conventional products. And at a time when derivatives-based markets have failed, Islamic financial instruments, based on the firm establishment of underlying assets, are going to be ever more popular.

This new book provides accessible advice and up-to-date guidance for foreign investors helping them understand the principles and current practice of Islamic banking and Shariah-compliant finance:

- outlining the background to Islamic finance;
- examining Islamic financial products including loans, mortgages, trade finance, investment banking and Takaful;





**Book Review****Continued from previous page**

exploring important regulatory issues.

With contributions from leading industry experts including the Institute of Islamic Banking and Insurance, Denton Wilde Sapte LLP, State Bank of Pakistan, Al Rajhi Bank, the Islamic Bank of Britain, PricewaterhouseCoopers and the Bank of London and the Middle East, this new book is an essential resource for organizations engaged in business development, asset management, banking and finance in an Islamic context.

**About the Author**

Roderick Millar is an experienced author and editor. After gaining an MBA in Madrid he has specialized in finance, business start-ups, development economics and recently management education. He has edited several GMB titles, including "Doing Business with... France, Germany and India". He is the author of the Daily Express "Complete Guide to Family Finance" and "Start-up and Run Your Own Business". Currently he runs IEDP.info, the executive development website. Habiba is a graduate of Brunel University where she earned an LLM in European and International Commercial Law in addition to a Postgraduate Diploma in Legal Practice from The College of Law, London, before joining GMB Publishing as an Editor-Analyst. Bringing an array of legal experience from international internships, and a multicultural background coupled with fluency in South Asian languages, Habiba is involved in commissioning content for GMB Research, liaising with global contributors, and project managing a number of book publications.

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Book review taken from:  
[www.globalmarketbriefings.com/?id=2979](http://www.globalmarketbriefings.com/?id=2979) And  
[www.bi-me.com/main.php?id=31487&t=1&c=129&cg=4&mset=1011](http://www.bi-me.com/main.php?id=31487&t=1&c=129&cg=4&mset=1011)

**Biography from:**

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## **Bank in Focus**

# Dubai Islamic Bank Pakistan Limited (DIBPL)

### ***COMPANY INFORMATION***

Dubai Islamic Bank Pakistan Limited was incorporated in Pakistan as an unlisted public limited company on May 27, 2005 to carry out the business of an Islamic Commercial Bank and commenced its operations as a scheduled Islamic Commercial Bank on March 28, 2006.

### ***FOUNDING SHAREHOLDERS***

Dubai Islamic Bank Pakistan Limited (DIBPL) is a 100% owned subsidiary of Dubai Islamic Bank PJSC, UAE, which takes pride in being the first Islamic Bank of the world. As at December 31, 2008, the issued, subscribed and paid-up capital of DIBPL stood at Rs 6,017.780 million whereas the authorized capital was Rs. 8 billion.

### ***BRANCH NETWORK***

DIBPL has a branch network of 25 branches including 1 sub-branch spread over 10 cities, as of March 31, 2009. This network covers all 4 provinces of Pakistan. 12 more branches have been approved in the Annual Branch Expansion Plan. DIBPL has a deposit per branch ratio greater than Rs. 900 million per branch, which is the highest amongst all full fledged Islamic banks. The bank's strategy is to open up branches targeting greater value with a relatively smaller footprint.

### ***PRODUCT RANGE***

DIBPL offers a full suite of Shariah compliant banking products to meet the requirements of its customers. The product range includes the following:

#### ***Consumer Financing***

DIBPL is currently offering Home Finance and Auto Finance, based on the Diminishing Musharakah model. On the home finance side DIBPL offers three product variants:

- Home Purchase.
- Purchase of undivided share (Home Renovation).
- Purchase of undivided share of property at other bank (Balance Transfer).

Dubai Islamic Auto Finance offers a quick, convenient and fully Shariah compliant manner of financing a car. DIBPL has established itself as the market leader on a month-to-month acquisition basis in a very short span of time. The strength of DIBPL's consumer finance products

can also be judged by the fact that its delinquency rate is low as compare to other players in the market.

#### ***Consumer Wealth Management***

DIBPL offers a wide range of wealth management products including Current, Savings and Fixed deposits in local and foreign currencies. In addition, DIBPL was the first Islamic bank to introduce VISA debit card and Priority Banking services under the brand "Dubai Lounge" to its clients.

#### ***Corporate Banking***

DIBPL provides a wide range of services specifically designed to assist Pakistani businesses.

- Cash Management Services
- Trade Related Services
- Investment Banking Services
- Services for Small and Medium sized Enterprises

An ever expanding network of correspondent banks allows DIBPL clients to utilize the arrangement with numerous local and foreign commercial banks in meeting their collections and payments requirements.

#### ***Investment Banking***

With its team of hand-picked seasoned professionals, DIBPL has become the Investment Bank of choice for local and regional clients within a short span of time by leveraging a unique blend of regional expertise and local knowledge to create tailor-made solutions for its customers. Guided by Shariah principles, DIBPL Investment Banking offers the following services:

- Corporate Finance
- Project Finance
- Mergers & Acquisitions Advisory
- Privatization Advisory
- Real Estate Advisory
- Syndications (including equity)
- Balance Sheet Optimization Advisory

Capital Market Issuances (maily Sukuk)



## Bank in Focus

Continued from previous page

DIBPL takes great pride in being the banker of choice for major Sukuk arrangements in Pakistan, especially for the public sector. For instance, in 2008, DIBPL was selected as one of the two structuring banks for the inaugural local currency GOP Ijarah Sukuk program.

### OPERATING RESULTS AND OUTLOOK

Despite economic challenges owing due to the crunch on the national and international markets, DIBPL continues to navigate the bank on the course set for 2008. DIBPL financings have registered growth of 59.27% during 2008 and deposits growth by 57.99% during same period. The current losses incurred by the bank are on account of up-front investments in infrastructure, and are in line with financial projections.

### SHARIAH BOARD

To ensure that every transaction complies with Islamic Law, bank has in place a Shariah Board, comprising of experienced Scholars in the field of Islamic Jurisprudence, economics and banking. The 'Shariah Board' ranks above the Board of Directors and is empowered to issue 'Fatwas' on any matter proposed before it by the different business units of the Bank.

#### Brief Profile Of Shariah Advisor

Dr. Hussain Hamid Hassan is the Shariah Advisor of DIBPL. He is an internationally renowned figure in the field of Shariah, Law and Islamic Finance. He received his PhD from the Faculty of Shariah at Al-Azhar University in Cairo. He also holds a Masters degree in law from the International Institute of Comparative Law, University of New York and a degree in Law and Economics from Cairo University. He served as Assistant Professor, Associate Professor and Professor of Shariah in the Faculty of Law and Economics at Cairo University. He had been deputed by the Cairo University as Chairman of the Post Graduate Studies Department, at King Abdul Aziz University, Makkah Campus, Saudi Arabia.

Dr. Hassan served as General Director of the "Research and Reviving the Islamic Heritage Centre", King Abdul Aziz University at Makkah. In the year 1979, Dr. Hassan was deputed by the Cairo University to establish the International Islamic University at Islamabad where he remained the President of the said University for almost 20 years.

Some of the positions held by Dr. Hassan are as follows:

- ◆ Legal Advisor to the President of the Republic of Kazakhstan

	(Rs in Billion)	% of Islamic Banking Industry
Deposits	25.46	12.6%
Financing	18.07	12.5%
Total Assets	32.05	11.6%
Branch Network	25	4.9%
Position as of December 31 2008		

- ◆ Economical Advisor to the Prime Minister of the Republic of Kyrgestan.
- ◆ Advisor to Chancellor IIUI / the President of the Islamic Republic of Pakistan.
- ◆ Advisor to the General Secretary of the Muslim World League, Makkah, Saudi Arabia.
- ◆ Advisor to the President of the Islamic Conference of the Muslim World, Jeddah, Saudi Arabia.
- ◆ Legal Advisor of the Society of the Revival of National Heritage of the UAE.
- ◆ Chairman, Shariah Supervision Board of Liquidity Management Center, Bahrain.
- ◆ Chairman, Shariah Supervision Board, Islamic Bank of Sharjah.
- ◆ Chairman, Shariah Supervision Board, Dubai Islamic Insurance and reinsurance Company (AMAN), Dubai.
- ◆ Chairman, Shariah Supervision Board, Tamweel Finance Company
- ◆ Chairman, Shariah Supervision Board, SALAM BANK Bahrain
- ◆ Chairman, Shariah Supervision Board, Emirates & Sudan Bank
- ◆ Chairman, Shariah Supervision Board, First Gulf Bank
- ◆ Chairman, Shariah Supervision Board, National United Bank
- ◆ Member of the Shariah Supervision Board, Islamic Development Bank, Jeddah.
- ◆ Chairman of The Assembly of Muslim Jurists in America, Washington.
- ◆ Member for European Islamic Board for Research & Consultation, Dublin.

(The information provided by: Dubai Islamic Bank)

For further information please visit [www.dibpak.com](http://www.dibpak.com)



## Mode of Islamic Financing

### ISTISNA (استصناع)

There are three basic conditions for validity of a sale in Shariah:

- ✎ The traded commodity must be existing;
- ✎ The seller should have acquired the ownership of that commodity; and
- ✎ The commodity must be in the physical or constructive possession of the seller.

There are only two exceptions to this principle in Shariah. i.e. Salam and Istisna.

Istisna is primarily a deferred delivery sale contract similar to Salam. It is similar to conventional work-in-progress financing for a capital project. In practice, it is usually used for construction and trade finance such as pre-shipment export finance. It is a sale transaction where a commodity is transacted before it is manufactured. "It is an order to a manufacturer to manufacture a specific commodity for a purchaser." The manufacturer uses his own material to manufacture the required goods. In this mode of financing, price must be fixed with consent of all parties involved.

first contract) and agrees with the maker on the price and the date of delivery.

The seller puts himself under obligation to manufacture the specific commodity and to its delivery on the due date agreed upon.

#### 3. Delivery and receipt of the commodity

The seller delivers the manufactured commodity to the bank directly or to any party in the place decided by the bank in the contract.

The bank delivers the manufactured commodity directly by itself to the purchaser or authorizes any party to deliver the commodity satisfies the specification he has demanded in the contract. But still each party is responsible to the party it contracted with.

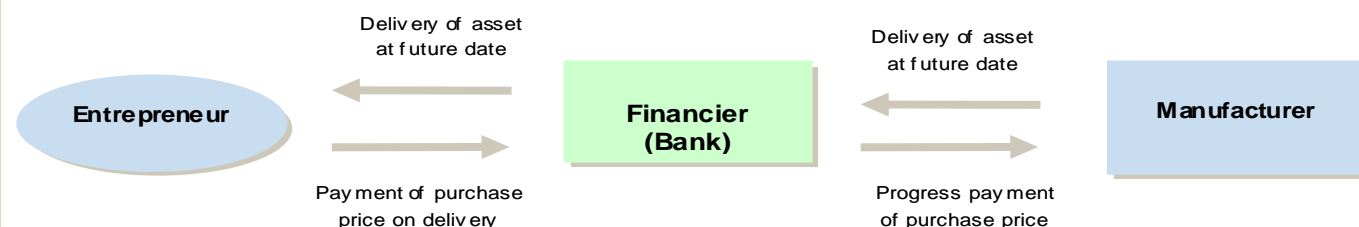
#### Istisna Based financial Products:

Istisna mode of financing may be used for following financial

#### Risks of Istisna

- ✎ Settlement Risk
- ✎ Price Risk
- ✎ Delivery Risk
- ✎ Possession Risk

#### FLOW OF ISTISNA TRANSACTION



#### 1. Istisna Sale Contract .

The buyer expresses his desire to buy a commodity and tables Istisna request to the bank with a specific price. The line of payment whether cash or deferred shall be subject to agreement.

The bank usually calculates what it will actually pay in parallel Istisna contact plus the profit it deems reasonable.

The bank puts itself under obligation to manufacture a certain commodity and to deliver it in a specific period subject to agreement (the bank puts into consideration that the due date is the same as or after the due date of its receipt to the commodity in the parallel contact).

#### 2. The parallel Istisna contact.

The bank expresses its desire in ordering the manufacture of the commodity it has undertaken to manufacture in the first Istisna contract (with the same specification as in the

products:

- ✎ Short term financing for manufacturers.
- ✎ Working capital and export financing.
- ✎ To finance construction industry such as apartment buildings, hospitals, schools and universities.
- ✎ Housing finance schemes.
- ✎ Financing of IT industry

Infrastructure financing

As a mode of investment, Istisna can play an important role in economic development by encouraging the demand of manufacturing goods and their financing which would help in stabilizing the prices of manufactured goods.

## Shariah Compliance Framework in Pakistan

### *Process for Standardization of Shariah Practices*

Shariah compliance is the most important aspect of Islamic banking and finance. The credibility of Islamic Banking Institutions (IBIs) not only depends on the financial health of the institution but also on its adherence to the Shariah. Under the current strategy for promotion and development of Islamic Banking as a parallel, viable and compatible banking system, State Bank of Pakistan has taken a number of steps to ensure Shariah compliance by IBIs and for standardization of Shariah practices.

To bring in harmony and standardization of Shariah practices, the State Bank has put together a comprehensive compliance /harmonization framework. This is based on a detailed analysis of international and local industry practices. The framework consists of multiple elements utilizing formal as well as informal forums. However, it is to mention here that a flexible approach has been adopted while devising the said Shariah compliance/ harmonization framework. This has been done to avoid revisiting the experience of 1980's where a rigid model was applied that resulted in a stalled process of product innovation and development. The aim this time is not to standardize each and every practice just for the sake of standardization only. Rather emphasis has been on a market based approach wherein the industry can on an on going basis provide Shariah compliant banking services through a parallel and compatible system.

The framework already put in place and new initiatives undertaken by SBP which either directly contributes to, or indirectly augments the process of Standardization of Shariah practices in the Islamic banking industry of Pakistan both in the local as well as global context.

### **Shariah Compliance Structure put in place by SBP**

This structure has the following salient features:

- ✎ Shariah Board at SBP
- ✎ Shariah Advisors as per Fit & Proper Criteria
- ✎ Essentials & Model Agreements of Islamic Modes of Financing

✎ Shariah Compliance Inspection

✎ Meetings of Shariah Advisors

### **1. Shariah Board at SBP:**

The Shariah Board of SBP advises on the procedures, laws and regulations pertaining to Islamic Banking in line with Shariah principles. All the instructions / guidelines pertaining to the Islamic banking Industry are issued with the approval of SBP Shariah Board. Conflict Resolution in Shariah Rulings is also managed through the Shariah Board of SBP as in case of any difference of opinion the decision of SBP Shariah Board is considered final.

### **2. Shariah Advisors as per Fit & Proper Criteria (prescribed by SBP) :**

Each Islamic banking institution (i.e. Islamic Bank and conventional bank having Islamic Banking Branches) is required to appoint a Shariah Advisor as per Fit and Proper Criteria prescribed by SBP. The requirement for Shariah Advisors to meet the said criteria ensures that they have adequate and relevant education, knowledge and experience, which in turn plays a vital role in harmonization of Shariah Practices in different Islamic banking institutions.

Shariah advisor of the bank is responsible to ensure that all the products and services, operations and documents of the bank are compliant / consistent with the Shariah Rules and Principles outlined for the respective modes of financing. Before launching any new products the banks are required to get formal approval from the Shariah Advisor regarding Shariah compliance of the product and its related documents.

### **3. Essentials & Model Agreements of Islamic Modes of Financing :**

*Essentials of Islamic modes of Financing* entail the basic principles of Islamic modes of financing that have to be observed by Islamic banking institutions while designing their product structures, manuals policies etc. These essentials ensure compliance with minimum Shariah Standards by the Islamic banking institutions.



*Model Agreements for Islamic Modes of Financing* has been introduced in order to facilitate the existing Islamic banks and the potential market players in developing Islamic banking products in a harmonized manner (without restricting the process of product innovation).

#### 4. Shariah Compliance Inspection:

SBP conducts Shariah Compliance Inspection on the basis of recently developed Shariah Compliance Inspection Manual for Islamic Banking Institutions. It helps in identifying variation in procedures adopted by different banks. The decisions on Shariah Inspection findings are also a source that helps in achieving the goal of having standardized procedures for Shariah practices in the Islamic banking industry.

#### 5. Meetings of Shariah Advisors:

When Shariah opinion is required regarding an Islamic banking issue of mutual/collective interest, the same is taken up in the meetings of Shariah advisors for discussion and possible resolution if so required.

In case the issue requires detailed study/clarification, a sub committee is formed from the panel of Shariah Advisors to do some research and submit/present their findings to SBP. In case of need the matter under consideration may be taken to the SBP Shariah Board for its final resolution.

Since some of the learned Shariah Advisors are based in other parts of the globe like Middle East, we also get feedback/views based on their global prospective/experience through their representatives.

#### New Initiatives for bringing in further Standardization in Shariah practices.

##### 1. Adoption / Adaptation of Shariah Standards developed by Accounting and Auditing Organization for the Islamic Financial Institutions (AAOIFI).

The introduction of international players in our Islamic banking industry has further necessitated the need to bring our industry at par with the global Shariah standards. Shariah Standards developed by Accounting and Auditing Organization for the Islamic Financial Institutions (AAOIFI) are an impor-

tant and effective source available for bringing in the desired standardization in the Shariah practices.

In order to bring our industry at par with the international standards and also achieve standardization of Shariah practices locally, a mechanism for adoption/adaptation of these Shariah standards has been developed by SBP. According to this mechanism the meetings of Shariah Advisors Forum of are being held with a view to thoroughly study the AAOIFI Shariah Standards one by one, for their possible adoption / adaptation in our market.

##### 2. Instructions & Guidelines for Shariah Compliance:

Instructions & Guidelines for Shariah Compliance have been issued vide IBD Circular No. 02 of 2008. Instructions for Shariah Compliance cover regulations in areas related to appointment, duties/ responsibilities and report of Shariah Advisor; conflict resolution in Shariah rulings; permissible modes of financing and investment; essentials of Islamic modes of financing; use of charity fund; introduction of new products & services and schedule of service charges.

Guidelines for Shariah Compliance cover areas like Internal Shariah compliance, Internal Shariah Audit; investment in shares; policy for profit distribution with PLS account holders and financial reporting & general disclosure requirements.

##### 3. IFSB Risk Management Guidelines

Islamic Financial Services Board (IFSB) promotes the development of a prudent and transparent Islamic financial services industry through introducing new or adapting existing international standards consistent with Islamic Shariah principles. It has issued standards/guidelines regarding Capital Adequacy, Risk Management and Corporate Governance for institutions offering Islamic financial services (other than Takaful). SBP has already adapted Risk Management Guidelines for Islamic Banking Institutions vide IBD Circular No. 01 of 2008. Some other Standards (Corporate Governance, Capital Adequacy, Transparency and Market Discipline and Supervisory Review process) are also in process of adaptations.

## FREQUENTLY ASKED QUESTIONS

### Q. 1 What is Islamic Banking?

Answer: Islamic banking is defined as banking system which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept denoting a number of banking instruments or operations which avoid interest. Islamic banking, the more general term, is based not only to avoid interest-based transactions prohibited in Islamic Shariah but also to avoid unethical and un-social practices. In practical sense, Islamic Banking is the transformation of conventional money lending into transactions based on tangible assets and real services. The model of Islamic banking system leads towards the achievement of a system which helps achieve economic prosperity.

### Q. 2 What is the philosophy of Islamic banking?

Answer: The philosophy of Islamic banking takes the lead from Islamic Shariah. According to Islamic Shariah, Islamic banking cannot deal in transactions involving interest/riba (an increase stipulated or sought over the principal of a loan or debt). Further, they cannot deal in the transactions having the element of Gharar<sup>1</sup> or Maiseer<sup>2</sup>. Moreover, they cannot deal in any transaction, the subject matter of which is invalid (haram in the eyes of Islam). Islamic banks focus on generating returns through investment tools which are Shariah compliant as well. Islamic Shariah links the gain on capital with its performance. Operating within the ambit of Shariah, the operations of Islamic banking are based on sharing the risk which may arise through trading and investment activities using contracts of various Islamic modes of finance. The prohibition of a risk free return and permission of trading, as enshrined in the Verse 2:275 of the Holy Quran, makes the financial activities asset-backed in an Islamic set-up with ability to cause 'value addition'.

### Q. 3 What is meant By Riba?

Answer: The word "Riba" means excess, increase or addition, which correctly interpreted according to Shariah terminology, implies any excess compensation without due consideration (consideration does not include time value of money). This definition of Riba is derived from the Quran and is unanimously accepted by all Islamic scholars.<sup>3</sup>

The meaning of Riba has been clarified in the following verses of Quran (Surah Al Baqarah 2:278-9)

"O those who believe; fear Allah and give up what still

remains of the Riba if you are believers. But if you do not do so, then be warned of war from Allah and His Messenger. If you repent even now, you have the right of the return of your principal; neither will you do wrong nor will you be wronged."

### Q. 4 What is interest? Is there any difference between interest and Riba?

Answer: The origination of term interest dates back to 17th century with the emergence of banking system at global level. Interest means giving and/or taking of any excess amount in exchange of a loan or on debt. Hence, it carries the same meaning/value as that of Riba as defined in the previous question. Further, it is narrated that "the loan that draws interest is Riba".<sup>4</sup> There is consensus among the Muslim scholars of all the fiqhs that interest is Riba in all its forms and manifestations.<sup>5</sup>

### Q. 5. What are different kinds of Riba?

Answer: There are two kinds of Riba:

1. Riba-An-Nasiyah/Riba-Al-Quran
  2. Riba-Al-Fadl
1. Riba An Nasiyah/Riba Al-Quran:

In the Holy Quran, Allah (SWT) says in Sura Al-Baqarah (2-279):

" .....And if you repent, yours is your principal"

It is reported by Harith ibe Abi Usamah in his Musnad that Sayyidna Ali Radi-Allahu Anhu reportedly referred that the Holy Prophet said:

"Every loan that derives a benefit (to the lender) is riba"<sup>6</sup>.

Example of Riba-al-Nasiyah/Interest: If Mr. A lends Rs.100 to Mr. B (a borrower) with a condition that Mr. B shall return him Rs.110 after one month. In this case, the extra amount of Rs. 10 is Riba or Interest.

2. Riba-al-Fadl:

Abu Said al Khudri Radi-Allahu anhu narrated that Holy Prophet (Peace be upon him) said:

"Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, like for like, payment made hand by hand. If anyone gives more or asks for more, he has dealt in riba. The receiver and giver are equally guilty"<sup>7</sup>

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Continued from previous page

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Based on aforesaid definition, it may be noted that economically speaking it would be irrational to exchange one kilogram of wheat with one and a half kilogram of wheat in a spot exchange. Therefore, some fuqaha have pointed out that Riba-al-Fadl has been prohibited because if it was left un-prohibited it could be used as a subterfuge for getting Riba-al-Nasiyah. Of the six commodities specified in the hadith, two (gold and silver) unmistakably represent commodity money used at that time. One of the basic characteristics of gold and silver is that they are monetary commodities. As a matter of fact, each of the six commodities mentioned in the hadith has been used as a medium of exchange at some time or the other.

During the dark ages, only the first form (Riba An Nasiyah) was considered to be Riba. However, the Holy Prophet (peace be upon him) also classified the second form (Riba-al-Fadl) also as Riba<sup>8</sup>.

#### Q. 6 What are the revelations/verses in Holy Quran regarding prohibition of Riba/interest?

Answer: There are four sets of revelations about Riba which were revealed on different occasions.

1. First Revelation: In Surah-Ar-Rum, verse 39, dealing in riba has been discouraged in the following words:

"And whatever riba you give so that it may increase in the wealth of the people, it does not increase with Allah." [Surah Ar-Rum 30:39]

2. Second Revelation: Muslims have been informed about the practice of taking riba by Jews in Surah An-Nisaa:

"And because of their charging riba while they were prohibited from it." [Surah An-Nisaa 4-161]

3. Third Revelation: Riba/Interest has been abolished in the third verse of Surah Al-

i-'Imran. The prohibition of riba is laid down in the following words:

"O those who believe do not eat up riba doubled and redoubled." [Surah Al-e-Imran 3- 130]

4. Fourth Revelation: In the fourth revelation, Riba has categorically been prohibited

in all its forms. The following set of verses is found in the Surah Al-Baqarah, verse

275-281 in the following words:

"Those who take interest will not stand but as stands whom the demon has driven crazy by his touch. That is

because they have said: 'Trading is but like riba'. And Allah has permitted trading and prohibited riba. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain for ever. Allah destroys riba and nourishes charities. And Allah does not like any sinful disbeliever. Surely those who believe and do good deeds, establish Salah and pay Zakah, have their reward with their Lord, and there is no fear for them, nor shall they grieve. O' those who believe, fear Allah and give up what still remains of the riba if you are believers. But if you do not, then listen to the declaration of war from Allah and His Messenger. And if you repent, yours is your principal. Neither you wrong, nor be wronged. And if there be one in misery, then deferment till ease. And that you leave

it as alms is far better for you, if you really know. And be fearful of a day when you

shall be returned to Allah, then everybody shall be paid, in full, what he has earned. And they shall not be wronged." [Surah Al-Baqarah 2:275-281]

To be continued.....

Excerpt from FAQs published by IBD, SBP and available at <http://www.sbp.org.pk/departments/ibd/FAQs.pdf>

#### Foot Notes/References

- 1 Excessive level of uncertainty or ambiguity created due to the lack of information or control in a contract.
- 2 Game of Chance
- 3 Dr. Muhammad Imran Ashraf Usmani (2002), Meezan Bank's Guide to Islamic banking, Darul Ishaat, Karachi, Pakistan, p 45
- 4 Dr. Muhammad Imran Ashraf Usmani (2002), Meezan Bank's Guide to Islamic banking, Darul Ishaat, Karachi, Pakistan, p 48
- 5 Dr. Muhammad Imran Ashraf Usmani (2002), Meezan-bank's Guide to Islamic Banking" Darul Ishaat, Karachi, Pakistan, p 45"
- 6 Al-Syuti, Al-Jame' al-Saghir V.2, P.94
- 7 Sahih Muslim, Karachi, V.2, P.25
- 8 Dr. Muhammad Imran Ashraf Usmani (2002), Meezan-bank's Guide to Islamic Banking" Darul Ishaat, Karachi, Pakistan, p 45"

## Developments at Islamic Banking Department, State Bank of Pakistan

### Implementation of IFSB Standards

Impact study on IFSB Standard of Capital Adequacy was completed and it is in process of implementation in Islamic Banking Industry of Pakistan.

A draft on standard of Corporate Governance was sent to all stakeholders for their feedback and comments/suggestions.

Initial drafts on Standards of "Transparency and Market Discipline" and "Supervisory Review Process" are sent to various stakeholders for comments.

Exposure Drafts on "Guiding Principles on Shariah Governance System" and "Conduct of Business for Institutions offering Islamic Financial Services" are sent to all IBIs for their feedback.

### Study on Pool Management and Profit Distribution Mechanism in IBIs.

Currently, IBIs are following different practices of pool management & profit distribution. So there is a need to standardize and align these practices with the best international practices. Accordingly, IBD has initiated a study on Pool Management Practices in IBIs. It is hoped that the study will result in improvement and standardization of Pool Management and Profit Distribution Mechanism. The study is likely to be finalized by end of Jun-09.

### Development of "Draft Guidelines for Conversion of Conventional Branches to Islamic Banking Branches"

SBP had evolved a three pronged strategy for promotion of Islamic Banking which is to allow, i.e., (1) new full fledged Islamic banks in the private sector, (2) the conventional banks to set up Islamic banking subsidiaries and (3) the existing conventional banks to open Stand-alone Islamic banking branches. However, Conventional Banks are much inclined towards conversion of existing conventional branches to Islamic branches. SBP has allowed conversion of few conventional branches on a case to case basis. Therefore, it was deemed necessary to develop guidelines for conversion of existing conventional

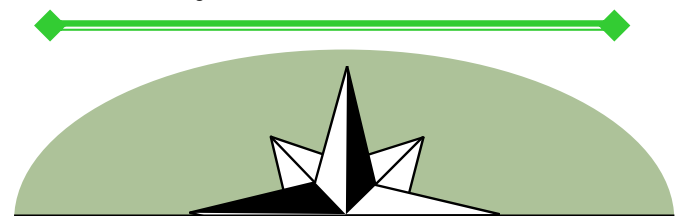
branches into Islamic Banking branches. In this regard, the draft parameters / guidelines will be circulated among the stakeholders for their feedback.

### Product Development Manual for Islamic Microfinance

IBD is currently working on the Product Development Manuals for Islamic Microfinance and Islamic SME financing with an objective to provide industry with detailed procedures and guidelines for providing Shariah compliant solutions for these sectors.

### Issuance of Circular No. 1 of January, 2009 regarding Implementation of Islamic Financial Accounting Standard for Ijarah (IFAS 2)

Keeping in view of the representation of PBA Sub Committee on Islamic Banking regarding practical issues in implementation of this standard for the reporting year ending December 31, 2008, all IBIs were directed to allow implementation of this standard w.e.f January 01, 2009 through IBD Circular No. 1 of January, 2009.



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

.....Nothing of his brother is lawful for a Muslim except what he himself gives willingly. So do not wrong yourselves. O' People! Every Muslim is the brother of every other Muslim, and all the Muslims form one brotherhood. And your slaves; see that you feed them with such food as you eat yourselves, and clothe them with the clothes that you yourselves wear. Take heed not to go astray after me and strike one another's necks. He who (amongst you) has any trust with him, he must return it to its owner.....

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

## Local News

### SBP to launch special project for improved access to agri credit'

[http://www.dailytimes.com.pk/default.asp?page=2009%5C03%5C07%5Cstory\\_7-3-2009\\_pg5\\_2](http://www.dailytimes.com.pk/default.asp?page=2009%5C03%5C07%5Cstory_7-3-2009_pg5_2)

The State Bank of Pakistan is launching a Special Pilot Project in Sindh from the current Kharif season to improve the availability of agricultural credit to the farmers on fast track basis.

Disclosing this while presiding over the mid-term review meeting of the Agricultural Credit Advisory Committee (ACAC) at SBP the State Bank Governor, Syed Salim Raza said that the project would initially be launched in seven agri. intensive districts of Sindh including Hyderabad, Tando Allahyar, Mirpurkhas, Larkana, Sanghar, Nawabshah and Khairpur. He said that the project, which is being launched from 15th March, would be participated by 13 different banks having agri designated branches in these districts. He said that SBP's pilot project will help to increase outreach of agri. credit to underserved areas of Sindh and added that the banks are meeting 47 percent of the total credit requirement of farmers. The rest is being met through informal resources.

The meeting was informed that the State Bank has issued guidelines for Islamic Agricultural Credit and in this regard products are being developed for implementation through Islamic Banking Institutions. Besides, steps are being taken to increase the outreach of micro agri Credit for small and marginalized farmers through microfinance banks.

Banks assured the committee that they will try their utmost to meet the annual agricultural credit disbursement target indicated by the central bank. Some participants of the meeting highlighted various bottlenecks that are hampering growth of agri. credit disbursement. While responding to these points, the SBP Governor said that a smaller group should be constituted which will meet on quarterly basis to devise a meaningful strategy to resolve these issues.

### 89pc adults not using banking services: survey

<http://www.thenews.com.pk/print1.asp?id=168153>

March 20, 2009

The country's 89 per cent adults are not using any banking services and Baluchistan is the most severely affected province in terms of financial exclusion compared to three other federating units, a survey sponsored by the World Bank and UK-based DFID revealed.

Access to Finance Survey (A2FS) has been jointly funded by the Department for International Development of UK (DFID), the World Bank (WB) and the Swiss Agency for Development and Cooperation (SDC), at the request of the ministry of finance. There are 71 per cent adult Pakistanis who think that they can easily live their life without a bank account. Only 11 per cent of the adult population is banked but almost a quarter of these people say that they withdraw funds immediately, the survey states.

More than half of the adult population that is financially excluded comprises predominantly of housewives and students. Moreover, across all educational levels there are large groups of people who are financially excluded. Amazingly, even among the postgraduate people 13 per cent have not heard and do not understand what is a PLS/Savings account. Awareness and understanding about relatively more sophisticated formal financial terms is even lower. This trend is visible even among the graduate and postgraduate people. For example only about 50 per cent of the graduate respondents have heard about and understand what is meant by credit and ATM cards,

Awareness and understanding about Islamic banking is also low across education groups. For example, only about half of the population with over graduate and postgraduate education have heard and understood it. Overall, only 12 per cent understand what is meant by the Islamic banking.



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Local News

### Unicorn Bank to make further investment of \$12.9m in Dawood Islamic Bank

<http://www.onlinenews.com.pk/details.php?id=142527>

Dawood Islamic Bank Limited has received Rs. 1 billion (US\$ 12.9 Million) investment from Unicorn Investment Bank Limited, based in Bahrain, this was stated in a statement issued from Bank's head office in Karachi on Tuesday.

Unicorn already had a 22.2% equity stake in Dawood Islamic Bank prior to the current investment. With the new investment the equity of Unicorn Investment Bank, in Dawood Islamic Bank has increased to 37% percent

Aamir Khan Managing Director and Head Global Private Equity of Unicorn Investment Bank and a founder Director of Dawood Islamic Bank said that the decision to invest in Dawood Islamic Bank, at a time when the global confidence in financial institutions is at its lowest ebb in Pakistan, is based on excellent opportunities that are available in the Islamic banking sector of Pakistan. The stake in Dawood Islamic Bank provides Unicorn with access to the Pakistan market with its 160 million inhabitants, 97 percent of whom are Muslims, he added.

The investment by Unicorn Investment Bank, would further boost the ability of the Dawood Islamic Bank to provide support to trade and industry through its various Riba free banking products Said Rafique Dawood, Chairman Dawood Islamic Bank.

The interest of Unicorn in DIBL reflects the strength of the Islamic Banking System of Pakistan which has withstood the current turmoil in the global financial markets proving to the world that Shariah compliant financing is more transparent and trust worthy. Islamic deposits represented 4 percent of total deposits in Pakistan in 2008, but this figure is projected to reach 10 percent of total deposits, or approximately US\$13 billion, by 2014.

Dawood Islamic Bank, launched in 2007 with an initial paid-up capital of Rs. 3 billion, is being operated

strictly in compliance with the principles of Shariah and all its products are subject to the approval of its Shariah board headed by the renowned Islamic scholar Professor Mufti Muneeb Ur Rehman.

Dawood Islamic Bank is focusing on the growing segment of importers and exporters that are reluctant to utilize bank financing with the fear of breaching Islamic laws as defined in the Qur'an and Sunnah.

The Dawood Islamic bank has a branch network of 21 branches spread over the major cities of Pakistan, including Karachi, Lahore, Islamabad, Faisalabad, Multan, Sialkot, Iqbalabad and Joharab

### Al-Huda-CIBE plans to hold road show on Islamic banking, Takaful

[http://www.brecorder.com/index.php?](http://www.brecorder.com/index.php?id=5289&currPageNo=1&query=&search=&term=&supDate=)

[id=5289&currPageNo=1&query=&search=&term=&supDate=](http://www.brecorder.com/index.php?id=5289&currPageNo=1&query=&search=&term=&supDate=)

March 12, 2009

Al-Huda-CIBE organized a national Road Show by conducting over 300 awareness interactive programmes in Islamic Banking and Takaful, covering 100 cities throughout Pakistan starting on 25th March, 2009 from Khyber spread over a whole month to be concluded in Karachi on April 25th 2009.

The prime objective of this programme was to promote logical awareness in Islamic Banking and Takaful to the businessmen and industrialists. This caravan of Islamic Financial Road Show will include 35 chambers of commerce and industry, over 40 private and public sector universities, 20 press clubs, over 25 trade and business associations and over 200 public awareness meetings at different Islamic Banking Branches of the Islamic Banks.

In addition five hundred thousand information leaflets on basic learning in Islamic finance and Takaful will be distributed to the participants of all the programs and indirectly almost five million people will be attached in this programme.

The road show will include a fleet of vehicles and passing through NWFP, Federal Capital, AJ&K, Punjab and Sindh provinces. The Road Show will com-

## International News

### Vatican Paper Supports Islamic Finance.

<http://www.brusselsjournal.com/node/3819>

March 12, 2009

In yet another act of conciliation on the part of Western religions towards Islam, the Vatican newspaper *Osservatore Romano* has voiced its approval of Islamic finance. The Vatican paper wrote that banks should look at the rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis. "The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," the *Osservatore Romano* said. "Western banks could use tools such as the Islamic bonds, known as sukuk, as collateral". Sukuk may be used to fund the "car industry or the next Olympic Games in London," the article says.

The Vatican article is only one of many articles that have recently appeared on the acceptance by Western governments and bankers of an Islamic financing system. More than accepting it, they seem to be welcoming it, though they are certainly being pressured into this by unnamed forces bowing to the dictates of Islam.

Last December, the French Senate looked at ways to eliminate legal hurdles, particularly levies, for Islamic financial services and products in France and the potential for listing companies on the Paris Stock Exchange. Senate sources said that this area of the financial market is worth from 500 to 600 billion dollars and could grow by an average 11 percent a year.

French Finance Minister Christine Lagarde has announced France's intention to make Paris "the capital of Islamic finance" and announced several Islamic banks would open branches in the French capital in 2009.

November 27, 2008 provides the following information, in addition to the facts presented above:

*A revolution in the banking world. After London,*

*where the first Islamic bank opened its doors in September 2004, France could authorize banks respecting Shariah law to open in 2009 (...) Hervé de Charette, president of the Franco-Arab Chamber of Commerce emphasizes that "importing Islamic banking into France would help the integration process". The main obstacle: "Islamic banking arouses fear because it is associated, wrongly, with religious fundamentalism, even with the financing of terrorism," deploras Elyès Jouini, professor of economics at the University of Paris. (...)*

*The world economic crisis has changed the ball game. From New York to Hong Kong, all the financial centers on the planet are grabbing the billions of dollars amassed by the oil-rich monarchies of the Gulf. To tap into this manna (...) is the stated goal of Christine Lagarde. "We are determined to make of Paris a great center for Islamic finance," declared the Finance Minister as she inaugurated the second French forum on Islamic banking.*

### Crisis presents 'golden opportunity' for Islamic finance

<http://www.themalaysianinsider.com/index.php/business/18436-crisis-presents-golden-opportunity-for-islamic-finance>

February 17 2009

The global economic crisis has handed the proponents of Islamic finance a "golden opportunity" to show that it is a better alternative to Western-style capitalism. That, at least, was what Malaysian Deputy Prime Minister Najib Razak told participants at an Islamic economic conference in Kuala Lumpur last month.

Islamic finance, argued Datuk Seri Najib, could become a model for change because it prohibits many of the risky activities that triggered the current crisis. He may have a point.

Islamic banking complies with syariah (Islamic) law by using returns on assets to pay investors instead of

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International News

interest.

Most Islamic scholars also agree that derivatives and hedge funds are haram (forbidden), as is short-selling and speculation. As a result, argue its supporters, the US\$1 trillion (S\$1.49 trillion) global Islamic banking industry has emerged largely unscathed in the credit crunch.

Whether this will result in further growth in the industry as Western capitalism declines, however, is another matter entirely. The rapid growth of retail Islamic banking and services in Asia is still limited by a variety of regulatory impediments. Arabic terms such as Mudharabah (profit sharing) and Wahdiah (safekeeping) are also unfamiliar to most Asians, including many Muslims.

Some believe that all this is about to change. Celent, a Boston-based financial research and consulting firm, released a report last month on the Islamic banking industry in the Asia-Pacific region that suggested that the global financial crisis had made the Asia-Pacific region seem far more attractive to Middle Eastern investors than the West.

With assets valued at US\$43 billion by the end of 2007, Malaysia already has the third biggest Islamic banking market in the world after Iran and Saudi Arabia. Investors from Saudi Arabia, United Arab Emirates, Bahrain and Qatar, said the Celent study, were beginning to channel their funds to developing countries like China, India, and Indonesia. The report identified Pakistan, Bangladesh, and Indonesia as having particularly good potential for growth.

Interestingly, non-Muslim majority nations in the region have already begun to recognise the potential significance of Islamic financial instruments. Singapore, for example, launched its first Islamic bond programme last month.

Similar plans to sell Islamic debt have been announced by Thailand and Japan. The Hong Kong government has also expressed an interest in promoting the territory as an Islamic finance hub. And financial institutions in South Korea have reportedly been lobbying the government to adopt the necessary legal and regulatory framework to enable Islamic financial

transactions in the country.

But to suggest that Islamic banking is set to grow strongly despite the global financial crisis may be stretching things a little too far. Last year's credit crunch hit Islamic bonds much harder than other forms of debt as sharply lower international oil prices deprived oil-rich Middle Eastern investors of cash.

According to rating agency S&P, corporate and government sales of sukuk (syariah compliant bonds) reached US\$30.8 billion in 2007, but plunged 56 per cent last year to just US\$13.6 billion. By comparison, conventional international bonds and emerging-market debt dropped 5 per cent and 15 per cent, respectively

Not surprisingly, Indonesia delayed its first sukuk sale twice last year.

Targeting mostly local investors, it eventually issued the bonds in January. Japan is also holding back on its plans, while Thailand has yet to set a date. As in the case of Singapore, the Indonesian move is probably best seen as an indication of the fact that the sukuk market is still active rather than ready for a resurgence.

That said, the fact that many governments are trying to spend their way out of the current economic downturn suggests that interest in Islamic finance will remain strong for some time. This is because tight global credit markets are forcing cash-strapped regional governments to seek out alternative sources of funding.

The new global order that emerges from the current economic downturn is unlikely to involve the wholesale replacement of Western financial systems with Islamic ones. But historical watersheds such as the one we are now entering do tend to be accompanied by important systemic changes.

If the new dispensation to emerge from the current crisis involves fresh ways of discouraging speculation and attempts to tie the global financial system more closely to the real economy, Najib may perhaps regard himself as at least partly vindicated. – The Straits Times

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International News

### MMA no obstruction to Islamic Banking in Maldives - Governor

<http://miadhu.com.mv/news.php?id=9427>

27 February 2009

Maldives Monetary Authority (MMA) will not obstruct any attempt to open Islamic Banks in Maldives by suitable parties and that despite interested parties being asked to submit formal applications for bank operating licenses, no submission has yet been made, MMA Governor Fazeel Najeeb has said.

Speaking to Miadhu Daily, Fazeel expressed as Islamic Banking is a new concept to Maldives, work on establishing necessary regulatory system is underway.

He said even though the regulatory system is not set up, once a formal application is received, every effort to issue license, with the consultation and approval of MMA Board, will be made. He said there is no political agenda to delay the introduction of Islamic banking to Maldives.

He also said as all works of MMA are very well organized and carried out in a responsible manner there is simply no chance of deviating or violating the authority's rules and regulations. He further said he had no intention of responding to criticisms from government institutions or other bodies through the media and such responses will be only given to government institutions directly.

Briefing the media, Governor designated to Maldives by Islamic Development Bank Sheikh Mohamed Shaheem Ali Saeed said that he has received information the MMA is posing obstacles to the path of establishing and introduction of Islamic Banking in Maldives. Expressing his concern over the matter, IDB Governor to Maldives Shiekh Shaheem said that he intends to consult with the President on the matter and that he will brief the media following the consultations with the President.

### Future of Shariah banking in Indonesia

<http://www.thejakartapost.com/news/2009/03/02/sby-future-sharia-banking-indonesia.html>

March 3, 2009

The Shariah banking system can offer Indonesia hope in the midst of the current global economic slowdown because Islamic banking has not been affected, the President said at the opening of the World Islamic Economic Forum (WIEF) in Jakarta on Monday.

"Islamic banking should take a front seat because it has not been affected by the crisis," President Susilo Bambang Yudhoyono said.

Yudhoyono added that recently many countries in the West had warmed to Shariah banking because it does not incorporate dubious assets in investments and is risk-free.

"In the West, Shariah banks have a mission because countries are increasingly welcoming them," Yudhoyono said, as quoted by *kompas.com*.

The domestic Shariah banking industry has shown promising growth results, which have been increasing from year to year, he said.

"We hope in future Indonesia will serve as a Shariah economic hub. We invite investors to develop this sector."

According to data at Bank Indonesia, the amount of financing provided by the country's Islamic banking institutions had grown from a mere Rp 5.53 trillion in 2003 to Rp 27.94 trillion in 2007 and Rp 38.19 trillion in 2008.

The 2008 figure constituted about 3 percent of the total amount of national bank financing.

The amount of assets managed by the country's Shariah banks also rose from 1.4 percent of the country's national bank assets in 2005, to 1.6 percent in 2006, 1.8 percent in 2007 and 1.8 percent, or about Rp 50 trillion in 2008.

Continued from previous page International News

The central bank said there were currently 1,470 Shariah bank offices across the country, and that they had disbursed Rp 326 billion in loans for micro- and small-scale firms as of the end of 2008.

Islamic banks urged to show the way

[http://www.ft.com/cms/s/0/0f74e17a-0757-11de-9294-000077b07658.html?nclick\\_check=1](http://www.ft.com/cms/s/0/0f74e17a-0757-11de-9294-000077b07658.html?nclick_check=1)

March 2 2009

Muslim presidents, prime ministers and princes on Monday called on the world to adopt Islamic financial practices to overcome the global crisis and urged Islamic banks to undertake "missionary work" in the west to promote Shariah banking.

Almost every speaker at the opening of the fifth World Islamic Economic Forum (WIEF) in Jakarta lambasted the excesses of "irresponsible, unregulated western financial markets" for triggering the crisis, and touted Shariah banking as a framework for a more stable global financial system.

But while Islamic banking could play a useful role, it would not be a "silver bullet" for the crisis. Bankers at the conference said greater standardization of structures, improved transparency and more innovative products were needed for the industry to develop.

Islamic financial institutions do not pay interest and require transactions to be backed by real assets. Their assets comprise only a few per cent of the global banking industry but they have suffered less than their conventional counterparts because they did not

deal in subprime mortgages or complex structured products.

But some, particularly in the Gulf, are starting to struggle as values of their underlying assets, notably property, start to tumble and liquidity tightens.

The politicians were extremely bullish in Jakarta. Musa Hitam, WIEF chairman said: "Our [conventional] gurus have failed us in theory and in practice. We need a new approach."

Susilo Bambang Yudhoyono, the Indonesian president, told the 1,550 delegates from 36 countries that Islamic banking "should now be able to take a leadership role". "Islamic bankers should therefore do some missionary work in the western world to promote the concept of Shariah banking, for which many in the west are more than ready now."

Mr Yudhoyono also proposed the creation of an Islamic World Expenditure Support Fund to help the many least developed Muslim-majority countries.

Standard & Poor's, the rating agency, said last week that while Islamic financial institutions had strong long-term prospects, the immediate future was uncertain.

Mukhtar Hussain, global chief executive of HSBC Amanah, agreed that Shariah banking had "an important role to play" and "should seek to become more mainstream", but said growth was hampered by its immaturity and size.

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

**COVER STORY****CONTINUED FROM P 3**

the end of December 2008, compared with 4 percent at end of December 2007. Similarly, branch network of Islamic banks has crossed 500 branches in December 2008, compared with 289 branches in December 2007 whereas total assets of Islamic banking has reached Rs 271.1 billion in December 2008 compared with Rs 205.2 billion in December 2007.

I would like to congratulate the participants from Islamic banking industry as well as SBP for having availed the opportunity to interact with experts from IFSB. This

exercise will surely facilitate the implementation of the standards developed by IFSB.

(Speech of deputy Governor on closing ceremony of lecture series "**Programmes for Facilitating the Implementation of the IFSB Standards, held from 23 to 25 February 2009, at LRC, SBP, Karachi**" arranged by SBP in coordination with Islamic Financial Services Board, Malaysia)





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Local News

plete its journey on April 25, 2009 in a very special convention at Karachi. The road show will also distribute memorial shields to 300 prominent Islamic Bankers and 200 corporate clients of Islamic Banking and Takaful to acknowledge of their services to the cause of Islamic banking and finance.

Another special aspect of this road show is that over 20 programmes in this process have been organised at different Press clubs and Media centres, so that special feature of Islamic banking and Takaful are brought to the journalists community for the first time at their doorstep which will ultimately promote general awareness on the subject in a more convenient way.

### FPCCI chief opposes interest-based banking

<http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/local/hyderabad-fpcci-chief-opposes-interestbased-banking>

April 19, 2009

Addressing at a reception hosted by the Hyderabad Chamber of Commerce and Industry president Shafiq Ahmed Qureshi, Mr Chawla said that the country's economy could improve only if the interest based banking was abolished.

He said that there is stagnation in economy due to interest rate and people don't have job opportunities. He pointed out that cost of borrowing and cost of production are increasing. He said that it was all due to poor pace of supplies and not due to increase in demand. "There is no change in demand but certainly there is stagnation in supply", he said. He stated that government's policy of deficit financing had led to problems of consumers.

"Unless our economy gets rid of interest-based system, its health will not improve. The mark-up system had destroyed our economy and it never promoted it", he said. Besides cost of borrowing, shortage of energy and increasing tariffs of electricity, gas and water also caused problems for economy. He said that these were essential for our economy and slow pace of their supply had led to insurmountable problems.

## Islamic Banking Branch Network

As of March, 2009\*\*

Type	Name of Bank	Branches
Full Fledge Islamic Banks	AlBaraka Islamic Bank	30
	BankIslami Pakistan Limited	70
	Dawood Islamic Bank Limited	15
	Dubai Islamic Bank Pakistan Ltd	23
	Emirates Global Islamic Bank	42
	Meezan Bank Ltd	127
	<b>Sub Total</b>	<b>307</b>
Islamic Branches of Conventional Banks	Askari Bank Limited	18
	Bank Alfalah Ltd	48
	Bank Al Habib	6
	Habib Bank Ltd	1
	Habib Metropolitan Bank	4
	MCB Bank Ltd	11
	National Bank of Pakistan	4
	Soneri Bank Ltd	6
	Standard Chartered Bank	11
	The Bank of Khyber	16
	The Royal Bank of Scotland	3
United Bank Ltd	5	
	<b>Sub Total</b>	<b>133</b>
Sub Branches	Askari Bank Limited	2
	BankIslami Pakistan Limited	32
	Dawood Islamic Bank Limited	6
	Dubai Islamic Bank Pakistan Ltd	2
	Meezan Bank Ltd	33
	<b>Sub Total</b>	<b>75</b>
	<b>Grand Total</b>	<b>515</b>

\*\*Provisional data

## Province wise Break-up of Islamic Banking Branch Network\*\*

(As of March, 2009)

Bank Name	Azad Kashmir	Balochistan	Federal Capital	FAA	NWFP	Punjab	Sind	Grand Total
Al Baraka Islamic Bank B.S.C.	1		3		3	15	8	30
BankIslami Pakistan Limited	1	8	2	1	5	29	24	70
Dawood Islamic Bank Limited			1			6	8	15
Dubai Islamic Bank Pakistan Limited		1	2		1	12	7	23
Emirates Global Islamic Bank Limited		1	2		5	20	14	42
Meezan Bank Limited	1	3	7		12	55	49	127
<b>Sub-Total</b>	<b>3</b>	<b>13</b>	<b>17</b>	<b>1</b>	<b>26</b>	<b>137</b>	<b>110</b>	<b>307</b>
<b>Islamic Banking Divisions of Conventional Banks</b>								
Askari Bank Limited		1	1		2	9	5	18
Bank AL Habib Limited		1			1	2	2	6
Bank Alfalah Limited		1	3		3	29	12	48
Habib Bank Limited							1	1
Habib Metropolitan Bank Lit						1	3	4
MCB Bank Limited		1	1		1	5	3	11
National Bank of Pakistan					1	2	1	4
Soneri Bank Limited		1	1		1	1	2	6
Standard Chartered Bank		1	1		3	3	3	11
The Bank of Khyber		1			10	3	2	16
The Royal Bank of Scotland						1	2	3
United Bank Limited					1	3	1	5
<b>Sub-Total</b>		<b>7</b>	<b>7</b>		<b>24</b>	<b>59</b>	<b>37</b>	<b>133</b>
<b>Sub-Branches</b>								
Askari Bank Limited			1				1	2
BankIslami Pakistan Limited	1	2	3		2	9	14	32
Dawood Islamic Bank Limited						3	3	6
Dubai Islamic Bank Pakistan Limited					1		1	2
Meezan Bank Limited		1	1		4	14	13	33
<b>Sub-Total</b>	<b>1</b>	<b>3</b>	<b>5</b>		<b>7</b>	<b>26</b>	<b>32</b>	<b>75</b>
<b>Grand Total</b>	<b>4</b>	<b>23</b>	<b>29</b>	<b>1</b>	<b>57</b>	<b>223</b>	<b>179</b>	<b>515</b>

\*\*Provisional data

## Islamic Banking Department's Publications

(These publications are also available in SBP Library)

S. No	Publications	Web Address
1	SBP Governor's Speeches on Islamic Finance	<a href="http://www.sbp.org.pk/ibd/speeches.htm">http://www.sbp.org.pk/ibd/speeches.htm</a>
2	Strategic Plan for Islamic Banking Industry	<a href="http://www.sbp.org.pk/departments/pdf/StrategicPlanPDF/Strategy%20Paper-Final.pdf">http://www.sbp.org.pk/departments/pdf/StrategicPlanPDF/Strategy%20Paper-Final.pdf</a>
3	Frequently Asked Questions (FAQs)	<a href="http://www.sbp.org.pk/departments/ibd/FAQs.pdf">http://www.sbp.org.pk/departments/ibd/FAQs.pdf</a>
4	Risk Management Guidelines for IBIs	<a href="http://www.sbp.org.pk/ibd/2008/Annex-c1.pdf">http://www.sbp.org.pk/ibd/2008/Annex-c1.pdf</a>
5	Pakistan's Islamic Banking Sector Review 2003-07	<a href="http://www.sbp.org.pk/ibd/Islamic-Bkg-Review-03-07.pdf">http://www.sbp.org.pk/ibd/Islamic-Bkg-Review-03-07.pdf</a>
6	Islamic Banking Bulletin	<a href="http://www.sbp.org.pk/ibd/bulletin/Bulletin.asp">http://www.sbp.org.pk/ibd/bulletin/Bulletin.asp</a>

## Cities-wise breakup of Islamic Banking Branches\*\*

(As of March, 2009)

S. No	Province	City	No of Br.
1	Balochistan	Quetta	14
2		Muslim Bagh	1
3		Qilla Saifullah	1
4		Chaman	1
5		Pishin	1
6		Zhob	1
7		Loralai	1
8		Kuchlack	1
9		Gawadar	1
10		Loralai	1
	<b>Total</b>	<b>10 Cities</b>	<b>23</b>
1	Federal Capital	Islamabad	29
	<b>Total</b>	<b>01 City</b>	<b>29</b>
1	NWFP	Abottabad	6
2		Banu	1
3		Nowshera	1
4		Peshawar	24
5		Tank	1
6		Hangu	1
7		Mansehra	6
8		Batkhela	1
9		Charsadda	1
10		Dera Ismail Khan	3
11		Kohat	1
12		Mardan	3
13		Mingora	1
14		Timergara	1
15		Haripur	3
16		Chitral	1
17		Swabi	1
	<b>Total</b>	<b>17 Cities</b>	<b>56</b>
1	Punjab	Dera Ghazi Khan	2
2		Faisalabad	24
3		Gujranwala	8
4		Kasur	1
5		Lahore City	92
6		Multan	18
7		Rahim Yar Khan	5
8		Rawalpindi	20
9		Sahiwal	3
10		Sargodha	5
11		Sialkot	10
12		Gujrat	4

S. No	Province	City	No of Br.	
13	Punjab	Wah Cantt	2	
14		Bahawalpur	2	
15		Mandi Bahauddin	1	
16		Sheikhupur	1	
17		Okara	2	
18		Gujar Khan	1	
19		Sadiqabad	2	
20		Khushab	2	
21		Kamoki	1	
22		Chakwal	2	
23		Texila	1	
24		Mian Channu	1	
25		Jhang	1	
26		Jhelum	1	
27		Mianwali	1	
28		Gojra	1	
29		Khanewal	1	
30		Jaranwala	2	
31		Hafizabad	1	
32		Arifwala	1	
33		Vehari	1	
34		Sheikhupura	1	
35		Pindi Ghaib	1	
36		Attock	1	
		<b>Total</b>	<b>36 Cities</b>	<b>223</b>
1		Sind	Hyderabad	12
2			Karachi City	152
3			Sukkur	4
4			Mirpur Khas	1
5			Tando Allahyar	2
6			Larkana	1
7			Nawabshah	3
8			Tando Adam	2
9			Sakrand	1
10			Sanghar	1
		<b>Total</b>	<b>10 Cities</b>	<b>179</b>
1	Azad Kashmir	Mirpur AJK	3	
2		Muzaffarabad	1	
	<b>Total</b>	<b>2 Cities</b>	<b>4</b>	
1	Federally Adminis-tered Area	Gilgit	1	
	<b>Total</b>	<b>01 City</b>	<b>1</b>	
	<b>Grand Total</b>	<b>77 Cities</b>	<b>515</b>	

\*\*Provisional data

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