

ISLAMIC BANKING BULLETIN

JANUARY - MARCH 2009



**Islamic Banking Department
State Bank of Pakistan**

ISLAMIC BANKING DEPARTMENT

VISION

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

MISSION

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

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

For any query please contact:

<i>Mr. Pervez Said</i>	<i>pervez.said@sbp.org.pk</i>
<i>Mr. Imran Ahmad</i>	<i>imran.ahmad@sbp.org.pk</i>
<i>Ms. Fatima Javaid</i>	<i>fatima.javaid@sbp.org.pk</i>
<i>Mr. Sarfraz Ahmed</i>	<i>ahmed.sarfraz@sbp.org.pk</i>

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<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.



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Plenty of Promise in Pakistan

The current global economic turmoil may have forced many major economies to cut back on their development plans but for Pakistan, this seems like an opportune time to step up measures that could further beef up its financial sector particularly Islamic finance.

Pervez Said, Director of Islamic banking at the State Bank of Pakistan (SBP), said the local Islamic finance industry has shown tremendous progress over the last six years and because of that, it would be wise to keep the momentum going, even during these trying times. Besides, looking at the goals set by the central bank, he feels that much more needs to be done and, therefore, they cannot afford to take it slow.

“It is true that times are hard. However, we can’t afford to put on hold the plans that we have already lined up. We need to keep going as we want to make sure that we have laid down the necessary foundation once the economy recovers,” said Pervez, who is also advisor to the SBP Governor.

Last year, the market share of Islamic banks in Pakistan grew tenfold to 5% from a mere 0.5% in 2003. With the execution of various expansion measures laid out for the industry, the central

bank wants to see the market share increase further to 12% by 2012.

Dubbed the architect of Pakistan’s Islamic finance industry, Pervez explained that the expansion strategy rests on five pillars: extension of outreach, Shariah compliance mechanism, strengthening of regulatory framework, capacity building, and beefing up internal and external relations.

He said in addition to the current urban consumers and corporate market, the outreach extension plans aim to cover new segments particularly in Islamic microfinance, agriculture financing, and small and medium-sized enterprise (SME) financing, which will account for 0.3%, 3% and 20% of Islamic banks’ financing portfolios, respectively.

Similarly, further enhancements to its Shariah compliance mechanism and regulatory framework would help promote innovation and growth of the industry.

Islamic finance in Pakistan: Then and now Regarded as one of the industry pioneers, Pakistan has been exposed to Islamic banking since the 1970s. However, compared to other markets, the development of

COVER STORY**CONTINUED FROM PREVIOUS PAGE**

this sector has been less impressive. It was only after 2003 that Islamic banking began making an impact.

Pervez said the earlier lackluster growth was probably due to the failure of an earlier initiative in the 1980s to Islamize the nation's financial system. Although the initiative is regarded as a significant step in the evolution of Pakistan's Islamic banking system, and became an important point of reference for other countries, it has failed to achieve its objective.

This is mainly due to four basic issues failure to recognize the process as evolutionary, lack of flexibility to cater to the changing needs of dynamic markets, no appropriate mechanism to monitor Shariah compliance, and stakeholders and regulators lacking the capacity to play their respective roles.

To put things right, Pervez said, the Pakistan central bank re-launched initiatives in 2003 to develop its Islamic banking industry. This time, the approach was market driven, yet governed under an umbrella Shariah body, rather than for religious and legal necessity.

The approach under this was focused on two areas: developing a sound regulatory framework in line with best international practices in collaboration with the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Islamic Financial Market (IIFM); as well as an evolving Shariah compliance mechanism that is acceptable to stakeholders, both local and international.

"I think we have got the formula right this time," Pervez said confidently. "That is why, post-2003, Pakistan's Islamic banking industry has been experiencing tremendous growth even higher than that in the major markets."

Opportunities ahead. Being strategically located between Asia and the Middle East (which is currently seen as a major source of funding) certainly is an added advantage for Pakistan. Pervez said the country intends to leverage on this to further boost its Islamic finance sector.

He pointed out the huge potential especially in infrastructure, real estate, telecommunication and agriculture — that investors from Asia and the Middle East can explore.

"There is massive opportunity for Islamic foreign direct investment here, particularly in infrastructure and real estate investment trusts (REITs). In addition, Islamic banking and finance in itself is an investment avenue

with attractive return prospects," he said.

On Pakistan's finance and banking scene, Pervez noted that the local market is still underserved, with less than 20% of its population of 170 million having a bank account thereby giving Islamic banks ample room for growth.

In order to address this situation, as well as to help increase public awareness of Islamic banking, SBP aims to double the number of Islamic bank branches from the current 519. On top of that, the Central Bank is prepared to issue licenses to foreign Islamic banks that are keen to set up operations in the country, as long as they meet the criteria.

"We welcome any foreign Islamic bank (that wishes) to apply for a license to operate here. However, they must first meet our capital requirements and business expectations and their model must also complement the industry here."

In line with this, Pervez said, the Central Bank would also want to see more innovative Islamic finance products that are comparable to those offered by conventional banks.

"There are so many Islamic finance products that the players can offer, from project financing to investment products. The main issue that we are looking at right now is how to manage the short-term liquidity of the banks," he elaborated.

Interview of Mr. Pervez Said, Director Islamic Banking Department, State Bank of Pakistan published in Islamic Finance Asia of April/May, available at

http://www.islamicfinanceasia.com/5_pak-int.php

Bank in Focus**Continued from Page. 11**

- ◆ Full time lecturer and Mufti at Darrul Uloom Amjadia, Karachi.
- ◆ Principle at Madarsa Waqaria Qadria Karachi.
- ◆ Faculty member of Al Muneeb Shariah Academy, Karachi.
- ◆ Member of Board of Shariah consultants, Al Muneeb Shraiah consultants, Karachi.
- ◆ He also wrote some books and articles on the various topics.

(Information provided by Soneri Bank Limited)

Industry Progress and Market Share

Islamic banking industry (IBI) depicted a persistent growth towards outreach program. The branch network has increased by seven and thus total number of branches stood at 522 as of March 2009.

In terms of market share the total assets, financing & investment and deposits are 4.8% and 4.3% and 4.9% respectively in the quarter ending March 2009, while the comparable share in previous quarter portrays the corresponding numbers 4.9%, 4.8% and 4.3%. The share of assets of Islamic banking has decreased relative to conventional banking. However, in absolute terms it showed an increase from Rs. 276 billion to Rs. 278 billion.

The aftermath of global financial crisis also affecting Pakistani financial system and seems slowing down the growth of Islamic banking industry due to its systemic linkages. The impediments due to such indirect implications are expected transitory. Apparently it seems that Islamic Banking Industry for the first time since its inception has slow down a little bit, and its share in terms of total assets has been reduces as compared to December 2008 position. However, it is hoped that Islamic banking Industry will reverse the situation and gain its momentum once again in coming few quarters. On the positive side share of Islamic Banking Industry's deposit has increased by point one percentage point during quarter.

Figure 1: IBI - 2003 to 2009

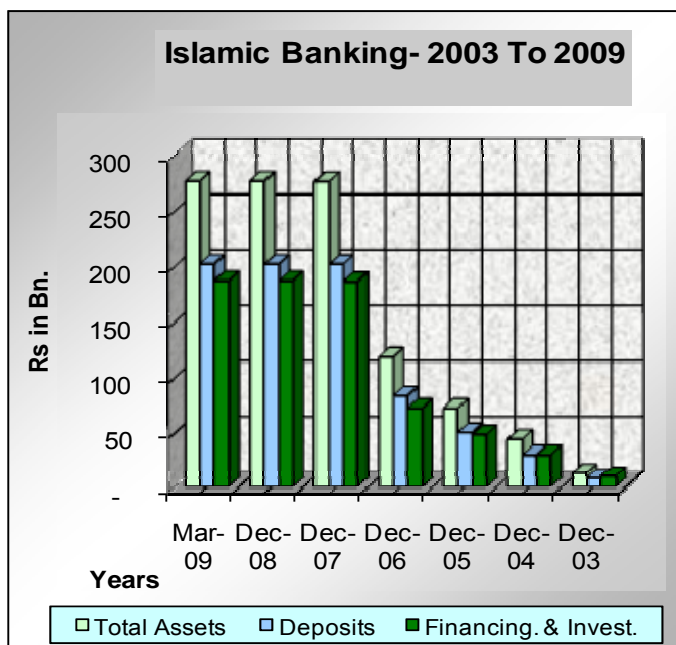


Table 1: Industry at Glance

(Rs. in billion)

Description	Dec 2008	March 2009	%Growth QoQ
Total Assets	276	278	1%
Deposits	202	206	2.3%
Financing. & Invest.	186	185	1%
No. of Branches	515	524	2%

Table 2: Industry Progress

(Rs. in billion)

Descriptions	Mar-09	Dec-08	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	278	276	206	119	72	44	13
% of Banking Industry	4.8%	4.9%	4.0%	2.8%	2.0%	1.5%	0.5%
Deposits	206	202	147	84	50	30	8
% of Banking Industry	4.9%	4.8%	3.8%	2.6%	1.8%	1.3%	0.4%
Financing. & Investment	185	186	138	73	48	30	10
% of Banking Industry	4.3%	4.3%	3.5%	2.3%	1.7%	1.3%	0.5%
No. of Full Fledge Islamic Banks	6	6	6	4	2	2	1
No. of Conventional Banks with Islamic Banking Divisions	12	12	12	12	9	9	3
No. of Branches	524	515	289	150	70	48	17

Islamic Banking Sector

Total Assets

Islamic banking industry right from its inception has expanded at a significantly greater pace than the overall banking system. However, during the current quarter, overall assets of Islamic banking, in contrast to previous Quarter on Quarter (QoQ)'s healthy growth, has increase marginally by just 0.8% For the first time, Islamic Banking Industry (IBI) growth rate of total assets was even lower than conventional banking industry (at 1.6%.) Due to slower growth, share of IBIs' Total Assets in overall banking industry decreased during the quarter to 4.8 percent from 4.9 percent in December 2008. This might be temporary as banks might be conscious in aftermath of current crisis

Financing & Investments

The Investment and Financing mix have shown some interesting changes. Historically Investment as compare to Financing being the weaker link (due to insufficient availability of Shariah compliant securities/avenues of investment) of IBIs has increased at rapid rate than Financing. In fact there was a substantial decrease in Financing by Rs. 7.68 billion (from 143.859 billion to 136.18 billion) and this share was taken by investment, which increased by Rs. 7 billion during the quarter. Increase in investment is due to availability of GOP Ijarah Sukuk. During this quarter one issue of Rs. 15.325 billion was offered, making the total GOP Ijarah Sukuk size Rs.27.848 billion.

Table 3: Comparative Consolidated Balance Sheets of Islamic Banking Industry
(Rs. in Million)

Descriptions	Dec - 2008	March 2009	% Change
ASSETS			
Cash and balances with treasury banks	21,786	21,351	-2.0%
Balances with other banks	22,455	24,820	10.5%
Due from financial institutions	20,073	21,879	9.0%
Investments	41,954	48,970	16.7%
Financings	143,859	136,184	-5.3%
Operating fixed assets	10,923	11,234	2.8%
Deferred tax assets	1,017	1,062	4.4%
Other assets	13,906	12,887	-7.3%
Total Assets	275,972	278,388	0.9%
LIABILITIES			
Bills payable	2,633	2,759	4.8%
Due to financial institutions	10,168	13,588	33.6%
Deposits and other accounts	201,598	206,240	2.3%
Liabilities against assets subject to finance lease	77	70	-9.8%
Deferred tax liabilities	595	306	-48.7%
Other liabilities	25,202	19,007	-24.6%
Total Liabilities	240,274	241,970	0.7%
NET ASSETS	35,698	36,418	2.0%
REPRESENTED BY			
Paid-up capital/Head office capital account	32,962	34,411	4.4%
Reserves	866	924	6.6%
Un-appropriated/Un-remitted profit	1,530	509	-66.7%
<i>Sub Total</i>	<i>35,358</i>	<i>35,844</i>	<i>1.4%</i>
Surplus /(Deficit) on revaluation of assets	340	574	68.8%
Equity	35,698	36,418	2.02%

* Exchange rate as of March, 2009 was Rs.80.41USD

Analysis of the Consolidated Balance Sheet of Islamic Banking Institutions

Figure: 2

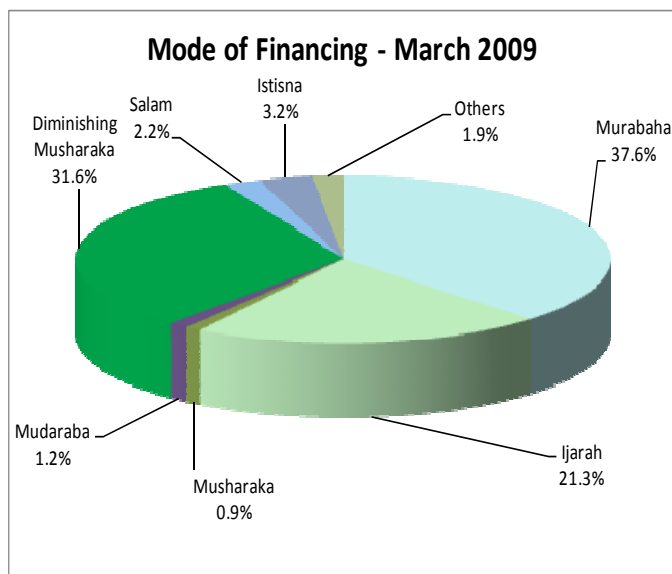
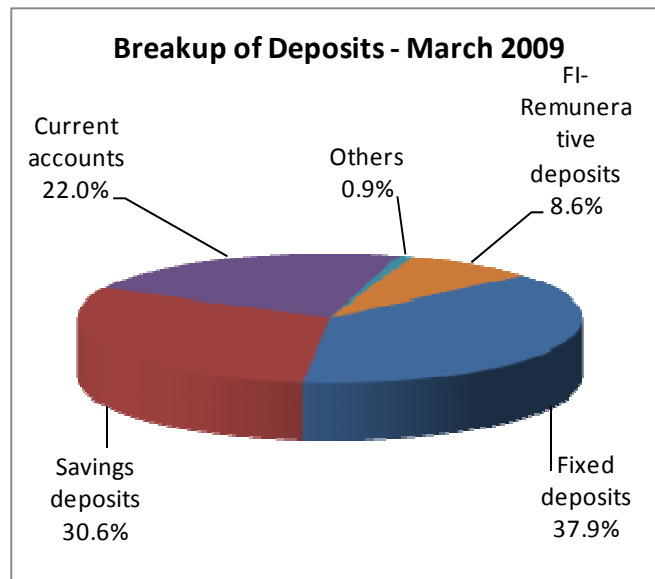


Figure: 3



The breakup of financing activities remained almost the same as the previous quarter, except for Ijarah, with a concentration of financing activities in trade/sale based modes. Specifically, Diminishing Musharaka and Murabaha are leading financing modes with shares of 32 and 38 percent in total financing, respectively.

Decrease in financing is significant due to shifting of Ijarah portfolio from financing to other assets in accordance with Islamic Financial Accounting Standard (IFAS) -2 Ijarah; which is applicable from January 2009; in terms of which going forward Ijarah would be classified in other assets instead of Financing.

Another possible reason behind this decrease in financing phenomenon was increasing trend of non performing financing which increased by 46 percent during the quarter from 4.3 billion to 6.3 billion. Resulting in higher infection ratio as compare to previous quarter; Non Performing Financing (NPF) to Financing ratio increased from 2.3 percent to 4.5 percent. However, it is still better than the Conventional Banking Industry which

Table 4: Breakup of Deposits

Description	Dec-08	March 2009	%Change
Deposits and Other Accounts	201,598	206,240	2%
Customers:	180,490	188,501	4%
Fixed deposits	75,219	78,164	4%
Savings deposits	55,962	63,119	13%
Current Accounts Remunerative	166		-100%
Current accounts N-Remunerative	47,316	45,406	-4%
Others	1,827	1,812	-1%
Financial Institutions' Deposits:	21,109	17,739	-16%
FI-Remunerative	21,021	17,695	-16%
FI-Non Remunerative	88	45	-49%

Table 5 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	7.4 %

has NPL to Advances ratio of 11.5 percent. These decreasing trends in total Assets and financing are not surprising as the conventional banks are showing similar trends in the aftermath of global financial crises.

Deposits

The deposits' growth during the quarter was marginal only at the rate of 2.3 percent from 201.6 billion to 206 billion. However, growth in Islamic Banking Deposits is satisfactory as compare to 0.03 percent growth in conventional banking industry during the same period. The deposits breakdown shows that amount from current account-remunerative had been withdrawn while fixed and saving accounts have shown increase. Because of the branches which were opened during the last quarter of 2008, it is hoped that the deposits of Islamic banking industry would grow further in coming quarters.

Earning and Profitability

The earning and profitability of Islamic banks remained positive during the march quarter. Markup income to gross income ratio has increased from 83.6 percent to 88.0 percent and non mark up income has reduced by 4 percentage point and its share in total gross income has also reduced to 12 percent. A significant reduction has been seen in divided income and income from dealing in foreign currencies. Administrative expenses to gross income has been on positive side and reduced to 66 percent from 76 percent; The ROA remained under pressure at 0.8 percent.

<u>Earnings and Profitability Section*</u>	<u>Dec-08</u>	<u>March 2009</u>
Net Income to Total Assets (ROA)	1.7%	0.8%
Return on Equity (ROE)	13.3%	5.9%
Net Income to Gross Income	83.6%	88.0%
Non-interest Income to Gross Income	16.4%	12.0%
Trading & Fx Gains/(Losses) to Gross Income	3.0%	1.6%
Operating Expense to Gross Income	76.0%	66.0%
Personnel Expense to Operating Expense	35.8%	30.3%

<u>Assets Quality Ratio</u>		
NPFs to Financing	2.3%	4.5%
Net NPFs to Net Financing	0.8%	2.3%
Net NPFs to Total Assets	3.9%	9.7%
Provisions to NPFs *Annualized growth rates	67.6%	50.5%

Breakup of Financing (Rs. In Millions)

<u>Description</u>	<u>Dec-08</u>	<u>March 09</u>	<u>%Change</u>
Murabaha	53,357	52,466	10%
Ijarah	32,373	29,731	-9%
Musharaka	3,134	1,320	-30%
Mudarah	308	1,650	-1%
Diminishing Musharaka	42,327	43,987	4%
Salam	2,649	3,070	0%
Istisna	4,274	4,523	0%
Qarz-e-Hasna	17		0%
Others	7,876	2,614	-66%
Total	146,314	139,361	-1%
Amount of Non performing Financing	4,304	6,288	46%
Provision against NPFs	2,455	3,177	29%
Net NPF	1,849	3,111	68%

Book Review

Islamic Finance: Global Legal Issues and Challenges

Publisher : Islamic Financial Services Board

Pages : 213

ISBN : 983-43288-6-9

Publication Year: 2008

This book is available in SBP Library

The book is a commendable effort by the Islamic Financial Services Board (IFSB) to document one of the most important issues facing the Islamic financial industry at the global level—the legal issues and challenges. The book is compiled through putting together the deliberation of a series of seminars on legal issues and results of five surveys that covers:

(1) Effectiveness of legal framework, (2) Insolvency laws, (3) securitization laws, (4) trust laws, and (5) roles of Shariah boards in relation to the Islamic Financial Services Industry (IFSI)

Chapter 1: The Effectiveness of the Legal and Regulatory Framework for Islamic Financial Services (authored by Data Dr Nik Norzul Thani)

The chapter looks at the effectiveness of the legal and regulatory framework across jurisdictions. The importance of legal and regulatory framework has increased as the IFSI has transformed from a niche to a mainstream market. The initial success of IFSI without a separate legal and regulatory framework was made possible as the IFSI development took place as a niche market. However, with the increased size and enhanced acceptability, there is need to evolve a separate legal framework. This is imperative for credibility and reliability of IFSI offerings.

The legal systems are defined in three broad categories, one with a completely Islamic legal system (such as Saudi Arabia, Iran and Sudan), second with partially Islamic legal system (such as Bahrain, Malaysia, Pakistan), and third with fully secular legal system (such as UK and Singapore). The author has recommended: (1) es-

tablishment of special courts or special branches/committees run by judges that are trained in Islamic finance to try all cases related to IFSI, (2) institution of a cross border adjudication or dispute settlement body, (3) devising a comprehensive code of Islamic commercial law, and (4) greater use of arbitration and mediation by Shari'ah experts in cases of dispute for out of court settlements.

Chapter 2: An analysis of Insolvency Laws as they impact on Islamic Finance Transactions (authored by Hamid Yunis and Rabel Akhund)

The chapter presents finding of a survey done in different jurisdiction regarding the insolvency laws. The survey results suggest that there is a dearth of qualified Shariah Scholars and currently there is no consensus on the definition of qualification. Then there is lack of Shariah harmonizing across jurisdictions. Moreover, there is lack of standardization of documentation of transactions.

Chapter 3: Securities Laws, Enforceability and Sukuk (authored by Micheal Mcmillan)

An effective legal framework had been defined as, “an effective legal framework is more than a code of rules, a collection of substantive doctrinal legal rules”. The author has also defined and explained the Islamic finance, Shariah board and process of securitization. Especially, the process of securitization is explained in some detail covering its importance and how it has helped Sukuk offering. The role of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and IFSB is also highlighted in facilitating the process of securitization of assets.

It was highlighted the fact that regulations governing the securitization are largely national and the lack of harmony in these across jurisdictions is a more pressing constraint at the current moment. There is also discussion on how excessive/inappropriate regulations impede development of capital markets. So effectively the task is to formulate an effective regulatory framework that provides enabling environment that does not in any way hinder the



**** Note:** Book reviewed by Mr. Muhammad Mazhar Khan (Jr. Joint Director, Islamic Banking Department) The views expressed in this review are those of the author and do not necessarily represent those of the SBP or SBP policy.

Book Review**Continued from previous page**

market progress.

Chapter 4: Trust laws and Islamic Finance (authored by Micheal Mcmillan and Sheikh Yusuf Talal)

The authors have taken up a specific and important issue—trust law—from the previous chapter for further enquiry. The trust law is important as it facilitates the issuance of securitized financial instruments through formation of SPV. Since Sukuk is the most successful Islamic finance instrument, it requires legal backing through a trust law that is compatible with the Shari'ah injunctions.

It was opined that the element of trust law is missing in most members of Organization of the Islamic Conference (OIC). A possible way out is to look into Anglo-American Trust Law—regarded as one of the biggest achievement of Englishmen in field of jurisprudence. The authors have given a detailed account of the Anglo-American Trust Law that is based on common law and analyzed how this can be incorporated in the civil law. A comparison of common and civil laws have also been made as both have different nature and evolution. In the end, an account of Islamic Shariah trust concepts like waqf, Irsad, and Adl are also discussed.

Chapter 5: Survey of Shariah Board of Institutions Offering Islamic financial Services across Jurisdictions (authored by Dr. Syed Musa Alhabshi and Dr. Muhammad Daud Bakar)

Formation of Shariah boards and committees is an integral element of any Islamic finance system. The authors have surveyed the Shari'ah boards across jurisdiction—after careful sampling that included Islamic banks and Islamic windows of conventional banks. The national Shari'ah boards are also included where available. The objective of the study is to look at the structure, composition, roles and functions of these Shari'ah compliance mechanisms. Also to look at the interaction between these boards/committees and see how these mechanisms/frameworks differs across jurisdictions.

The survey results are summarized in the following points:

- ◆ The national Shariah boards are considered as the apex body that deals with issuing

guidelines and provide a platform for deliberations at the national and international level.

- ◆ Some countries have a national Shariah board and some don't have, nonetheless most agree to the need for an apex Shariah board.
- ◆ A Shariah compliance report is provided to the BoD in most countries though the importance of the report varies across countries.
- ◆ The involvement of Shariah boards in all strategic, operational and functional aspect also varies from country to country. The respondents are split in opinion of where the Shariah board should intervene and where not.

The authors have concluded on recommendation that in order to strengthen Shariah boards a comprehensive governance framework is needed—both integrated and eclectic so to increase the diversity and effectiveness of Shariah boards.

Chapter 6: Concluding Remarks (authored by Rifaat Ahmed Abdel Karim and Madzlan Mohamad Hussain)

The concluding chapter has summarized the overall discussion and findings of book. The authors say that: there is a vacuum in legislations across jurisdictions that need to be filled in order to continue the progress of IFSI. Even if there is effective legislation, it cannot succeed without a high level of commitment and dedication by all the stakeholders.

All in all, the book is an excellent resource that gives a detailed account of cross jurisdiction legal issues and challenges. It also guides on areas of further exploration both in domestic and international perspective.

Sayings of Holy Prophet (PBUH)

Narrated Abu Huraira: The Prophet (PBUH) said, "Whoever takes the money of the people with the intention of repaying it, Allah will repay it on his behalf, and whoever takes it in order to spoil it, then Allah will spoil him."

Source: Sahih Bukhari, Vol: 3, Book 41, Hadith No. 3.572:

Bank in Focus**Soneri Bank Limited**

Soneri Bank Limited (SBL) was granted principle approval for establishing Islamic banking division in July 2004 and commenced operations on 31st December, 2004 through its first branch in Karachi. Soneri Bank was the 6th conventional bank who introduced Islamic banking through stand alone Islamic banking branches. The initial capital assigned to Islamic banking in 2004 was Rs. 50 M which since has been increased to Rs. 125 M.

The spirit and objective of the bank behind their Islamic Banking operations is to introduce “ Shariah based banking”. The bank is strictly adhering to its said objective.

SHARIAH COMPLIANCE

In order to adhere to its objective all the staff working in the Islamic banking branches has been given training in Islamic Banking. All the managers and officers involved in financing are specially trained at National Institute of Banking and Finance (NIBAF), and have successfully completed their Islamic banking certification course. In addition not only regular lectures are given to the staff by the Shariah advisor, but they are sent in seminars and courses arranged by various organizations. The very purpose of it is to keep the staff fully aware & upto date with Shraiah principles, requirements and compliance.

DEPOSIT PRODUCTS

The deposit products include Soneri Jari Account (Current A/C) for business and commercial sector, Soneri Munafa Account and Soneri Bachat Account (Savings Accounts) for regular depositors and fixed income groups. Similarly Soneri Meeadi Accounts (Term Deposits) are offered for short term to medium term to Investment Account Holders (IAH) in different time bands.

Due to zero non-performing assets port folio, cost efficiency and strictly Shariah compliant distribution mechanism, there is consistency in rate of return. In order to maintain this consistency SBL has planned to introduce Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

FINANCING STRATEGIES

The SBL financing strategy is to cater the requirements of SMEs and medium sized corporates for working capital, trade financing and manufacturing for short and medium terms. These are met through Islamic modes of financing i.e. Salam, Murabaha, Istisna etc., while Ijarah facility is

Table: Bank's Performance at a Glance

	(Rs in Billion)	% of Islamic Banking Industry
Deposits	1,419	0.7%
Financing	838	0.6%
Total Assets	1,714	0.6%
Branch Network	6	1.2 %
Position as of March 31 2009		

also provided to meet capital goods requirements. Diminishing Musharakah is available for house financing.

SBL is the first bank to introduce Salam, Share Murabaha in Pakistan and the second bank to introduce Islamic Export Refinance Scheme (IERS).

Personal financial consultancy services are also provided to the customers to tailor the products as per their requirement.

Due to prudent policies and strictly adhering to Shariah principles and prudential regulations, the port folio of non-performing assets is zero.

BRANCHES NETWORK

SBL has 6 exclusive Islamic banking branches in Karachi, Lahore, Peshawar, Quetta, Islamabad and Hyderabad. All the Islamic banking branches have on line banking which linked all the 110 conventional banking branches network of SBL to provide the fastest services to its customers. The SBL is expanding the Islamic banking branch network by solidifying its operations in each branch one by one.

SHARIAH ADVISOR

Mufti Nadeem Iqbal is the Shariah Advisor. He is a senior teacher and Mufti at Darul Uloom Amjadia and currently heading Darul Ifta. He holds Masters Degree in Islamic Studies from University of Karachi, Takhusus Fil Fiqha from Darrul Uloom Amjadia, Fazil Arabi, Fazil Darse Nizami, Fazil Shahadatul Almia. He has vast teaching experience from 1991 to date. He also has seven years conventional banking experience from 1990 to 1997 in UBL. Some of the positions held by Mufti Nadeem Iqbal are as follows:

Continued on Page 4

Mode of Islamic Financing

SUKUK (صكوك)

In classical period Islam Sakk (صك) [See footnote below.] which is cognate with the European root "cheque" (which itself derives from Arabic) meant any document representing a contract or conveyance of rights, obligations or monies done in conformity with the Shariah. Empirical evidence shows that sukuk were a product extensively used during medieval Islam for the transferring of financial obligations originating from trade and other commercial activities.

The essence of sukuk, in the modern Islamic perspective, lies in the concept of asset monetization the so called securitisation that is achieved through the process of issuance of sukuk (taskeek). Its great potential is in transforming an asset's future cash flow into present cash flow. Sukuk may be issued on existing as well as specific assets that may become available at a future date.

Islamic bonds referred to as Sukuk involve packaging or structuring of pools of Shariah compliant assets. Investors have an undivided interest in the underlying assets and are therefore entitled to share jointly the related returns. Asset exchange could take place through application of various Shariah principles such as Ijarah, Salam, Musharaka, Mudarabah, etc. Main features of Sukuk are as following:

1. Sukuk must be asset linked.
2. Backing by real assets make it tradable.
3. Linking to pure receivables encounter it with prohibition for secondary market trading. However this can be overcome by mixing it with mode having its backing by real assets.
4. The periodic payments and scheduled amortization of the principle due to investors are structured matching with the income and capital returns arising out of the underlying assets.
5. The profit payment can be fixed or benchmarked to the inter-bank offered rate plus a margin

The distinguishing feature between conventional bonds and Sukuk is that bond is a contractual obligation whereby the issuer is obliged to pay to bond holders, on certain specified date, interest and principal. In comparison, under a Sukuk structure the Sukuk holders hold an undivided

beneficial ownership in the underlying assets. Consequently, Sukuk holders are entitled to share in the revenues generated by the Sukuk assets as well as being entitled to share in the proceeds of the realization of the underlying assets. Sukuk play a very important role in liquidity management. It requires active utilization of securitization techniques to manage the maturity and risk spectrum of assets and liabilities.

Benefits & Usages

Islamic Bonds can be very effective in managing liquidity as these can be developed through managing Securitization of assets which represent the proportionate ownership of the holders in illiquid or tradable assets. Trade of such securities is permissible as this will be tantamount to the sale/ purchase of holder's proportionate share in the assets, which is allowed in Shariah. Further, It gives regular periodic income flow during the investment period with easy and efficient settlement and a possibility of capital appreciation of the Sukuk.

Sukuk can be structured alongside different techniques. While a conventional bond is a promise to repay a loan, Sukuk constitutes partial ownership in a debt (Sukuk Murabaha), asset (Sukuk Al Ijara), project (Sukuk Al Istisna), business (Sukuk Al Musharaka), or investment (Sukuk Al Istithmar).

Most commonly Sukuk structures replicate the cash flows of conventional bonds and are listed on exchanges and made tradable through conventional organisations like Euroclear or Clearstream. A key technique to achieve capital protection without amounting to a loan is a binding promise to repurchase certain assets, e.g. in the case of Sukuk Al Ijara, by the issuer. In the meantime a rent is being paid, which is often benchmarked to an interest rate like LIBOR (which is disliked by Shariah Scholars).

From a Shariah perspective, certificates of debt are not tradable (although a different view is held by many in Malaysia), and certain structuring elements for Sukuk Al Musharaka, Sukuk Al Mudaraba and Sukuk Al Istithmar faced severe criticism in late 2007 by Sheikh Taqi Usmani, followed by a meeting of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Due to great demand and investment appetite, Sukuk tend to be bought and held and, as a result, little of the securities enter the secondary market (allowing them to be traded). Furthermore, only public Sukuk are able to enter this market, as they are listed on stock exchanges.

Foot Note: Although often written in English as "sukuk" (singular) and "sukuks" (plural), sukuk is actually a plural word. The correct Arabic forms are "sakk" صك (singular) and "sukuk" صكوك (plural)

Product in Focus

Continued from previous page

The secondary market whilst developing remains a niche segment with virtually all of the trading done at the institution level. The size of the secondary market remains unknown, though Liquidity Management Center (LMC) Bahrain state they traded \$55.5 million of Sukuk in 2007. [2] The European Islamic Investment Bank (EIIB) in an interview published on Sukuk.net stated "Secondary market trading volume has contracted significantly in the first half of 2008 when compared to 2007 where Sukuk with a nominal value of approximately \$0.5bn was traded

Ijarah Sukuk (The Most Common Type of Sukuk)

The most accepted structure, which is tradable, is Sukuk Al Ijara. Debt certificates can be only bought before the finance occurs and then held to maturity from an Islamic perspective, which is critical on debt trading at market value regarding any difference to be like the prohibited Riba (interest on money).

Ijarah Sukuk are the securities representing ownership of well defined existing and known assets tied up to a lease contract, rental of which is the return payable to Sukuk holders. Payment of ijarah rentals can be unrelated to the period of taking usufruct by the lessee. It can be made before beginning of the lease period, during the period or after the period as the parties may mutually decide. This flexibility can be used to evolve different forms of contract and Sukuk that may serve different purposes of issuers and the holders.

These are Sukuk that represent ownership of equal shares in a rented real estate or the usufruct of the real estate. These Sukuk give their owners the right to own the real estate, receive the rent and dispose of their Sukuk in a manner that does not affect the right of the lessee, i.e. they are tradable. The holders of such Sukuk bear all cost of maintenance of and damage to the real estate. (AAOIFI)

Features of Ijarah Sukuk

1. It is necessary for an Ijarah contract that the assets being leased and the amount of rent both are clearly known to the parties at the time of the contract and if both of these are known, Ijarah can be contracted on an asset or a building that is yet to be constructed, as long as it is fully described in the contract provided that the lessor should normally be able to acquire, construct or buy the asset being leased by the time set for its delivery to the lessee (AAOIFI, 2003: 140-157). The lessor can sell the leased asset provided it does not hinder the lessee to take benefit from the asset. The new owner would be entitled to receive the rentals.

2. Rental in Ijarah must be stipulated in clear terms for the

first term of lease, and for future renewable terms, it could be constant, increasing or decreasing by benchmarking or relating it to any well-known variable.

3. As per Shariah rules, expenses related to the corpus or basic characteristics of the assets are the responsibility of the owner, while maintenance expenses related to its operation are to be borne by the lessee.

4. As regards procedure for issuance of Ijarah Sukuk, a Special Purpose Vehicle (SPV) is created to purchase the asset(s) that issues Sukuk to the investor, enabling it to make payment for purchasing the asset. The asset is then leased to third party for its use. The lessee makes periodic rental payments to the SPV that in turn distributes the same to the Sukuk holders.

5. Ijarah Sukuk are completely negotiable and can be traded in the secondary markets.

6. Ijarah Sukuk offer a high degree of flexibility from the point of view of their issuance management and marketability. The central government, municipalities, awqaf or any other asset users, private or public can issue these Sukuk.

References:

- ◆ <http://lmc Bahrain.com/pdf/about-sukuk.pdf>
- ◆ <http://www.moodys.com/>
- ◆ <http://www.investopedia.com/terms/s/sukuk.asp?viewed=1>
- ◆ http://www.ibisonline.net/En/Policy_Dialogue/TenYearFrameworkAndStrategies.pdf
- ◆ <http://lmc Bahrain.com/Global-table.asp>

"All praise is due to Allah, so we praise Him, and seek His pardon and we turn to Him. We seek refuge with Allah from the evils of ourselves and from the evil consequences of our deeds. Whom Allah guides aright there is none to lead him astray; and there is none to guide him aright whom Allah leads astray. I bear witness that there is no God but Allah, the One, having no partner with Him. His is the sovereignty and to Him is due all praise. He grants life and causes death and is Powerful over everything....."

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

FREQUENTLY ASKED QUESTIONS

(Part II)

Q. 7 What are the sayings/Ahadith⁹ about Riba/Interest?

Answer: According to Islamic jurists and scholars, there are around 40 different Ahadith on the subject of riba and its prohibition from Holy Prophet (peace be upon him). Few of these are as follows:

1. From Hazrat Jabir (May Allah be pleased with him): The Prophet, cursed the receiver and the payer of interest, the one who records it and the two witnesses to the transaction and said: "They are all alike [in guilt]." ¹⁰
2. Jabir ibn Abdallah (May Allah be pleased with him), giving a report on the Prophets Farewell Pilgrimage, said: The Prophet addressed the people and said "All of the riba of Jahiliyyah is annulled. The first riba that I annul is our riba, that accruing to Abbas ibn Abd al-Muttalib (the Prophet's uncle); it is being cancelled completely." ¹¹
3. From Hazrat Abdallah ibn Hanzalah (May Allah be pleased with him): The Prophet, said: "A dirham of riba which a man receives knowingly is worse than committing adultery thirty-six times" ¹²
4. Bayhaqi has also reported the above hadith in Shuab al-iman with the addition that "Hell befits him whose flesh has been nourished by the unlawful."
5. From Hazrat Abu Hurayrah (May Allah be pleased with him): The Prophet said: "On the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the outside. I asked Gabriel who they were. He replied that they were people who had received interest." ¹³
6. From Hazrat Abu Hurayrah (May Allah be pleased with him): The Prophet said: "Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother." ¹⁴
7. From Hazrat Abu Hurayrah (May Allah be pleased with him): The Prophet said: "There will certainly come a time for mankind when everyone will take riba and if he does not do so, its dust will reach him." ¹⁵
8. From Hazrat Abu Hurayrah (May Allah be pleased with him): The Prophet said: "God would be justified in not allowing four persons to enter paradise or to taste its blessings: he who drinks habitually, he who takes riba, he who usurps an orphans property without right, and he who is undutiful to his parents." ¹⁶

Q.8 Are there any injunctions against Riba/usury in religious texts other than Holy Quran?

Answer: The following references against the prohibition of Riba/usury are drawn from the old testament of the bible¹⁷:

- ◆ Deuteronomy 23:19: "Thou shall not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury."
- ◆ Psalms 15:1, 2, 5: "Lord, who shall abide in thy tabernacle? Who shall dwell in thy holy hill? He that walketh uprightly, and worketh righteousness and speaketh the truth in his heart. He that putteth not out of his money to usury, nor taketh reward against the innocent."
- ◆ Proverbs 28:8: "He that by usury and unjust gain increaseth his substance, he shall gather it for him that will pity the poor."
- ◆ Nehemiah 5:7: "Then I consulted with myself, and I rebuked the nobles, and rules and said unto them, Ye exact usury, every one of his brother. And I set a great assembly against them."
- ◆ Ezekiel 18:8,9: "He that hath not given forth upon usury, neither hath taken any increase, that hath withdrawn his hand from iniquity, hath executed true judgment between man and man, hath walked in my statutes, and hath kept my judgments, to deal truly; he is just. He shall surely live, said the Lord God."
- ◆ Ezekiel 22:12: "In thee have they taken gifts to shed blood; thou hast taken usury and increase, and though hast greedily gained of thy neighbors by extortion, and hast forgotten me, said the Lord God."

In these excerpts of the Bible the word usury is used in the sense of any amount claimed by the creditor over and above the principal advanced by him to the debtor. The word riba used in the Holy Qur'an carries the same meaning because the verse of Surah An-Nisaa (4-161) explicitly mentions that riba was prohibited for the Jews also¹⁸.

Q. 9 Does interest/Riba is related only to consumption loans or it applies to commercial loans also?

Answer: The interest is prohibited whether it is consumption loan (loan for meeting day to day human needs) or commercial loan (loan for business purpose). There are quite a number of ahadith which clarify that in the days of Holy prophet, people not only borrowed for consumption purposes but also for productive purposes. A few of the ahadith are given as follows for reference:

- (i) Ibn Saad has reported Hazrat Umar (Radi-Allahu anhu), wanted to send a trade caravan to Syriya. He borrowed four thousand dirhams from Sayyidna Abdurrah-

Continued from previous page

man ibn Awaf, Radi-Allahu anhu for this purpose.¹⁹

(ii) Ibn Jarrir has reported that Hind, daughter of Utbah and wife of Abu Sufyan borrowed four thousand dirhams from Sayyidna Umar, Radi-Allahu anhu, for the purpose of her trade. She invested this money in purchasing goods and selling them in the market of the tribe of Kalb.²⁰

This is an ample testimony that the commercial loan was in practice when Quranic verses on Riba were revealed and the term Riba covers not only consumption loan but also the commercial loan.

Q. 10 Does the prohibition of Riba apply equally to the loans obtained from or extended to Muslims as well as non-Muslims?

Answer: With respect to the receipt and payment of interest, there is no distinction between Muslims and non-Muslims or between individuals and states because interest is prohibited not only in Islamic scriptures but also in other religious scriptures of the world as given in Question No. 8 above. Therefore, prohibitions of interest apply to Muslims as well as to non-Muslims.

Question No. 11). What is the difference between conventional banking and Islamic banking?

Answer: The following are the main differential points between conventional banking and Islamic banking.

◆ **CONVENTIONAL BANKING**

1 Money is a commodity besides medium of exchange and store of value. Therefore, it can be sold at a price higher than its face value and it can also be rented out.

2. Time value is the basis for charging interest on capital.

3. Interest is charged even in case the organization suffers losses by using bank's funds. Therefore, it is not based on profit and loss sharing.

4. While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods & services is made.

5. Conventional banks use money as a commodity which leads to inflation.

◆ **ISLAMIC BANKING**

1 Money is not a commodity though it is used as a medium of exchange and store of value. Therefore, it cannot be sold at a price higher than its face value or rented out.

2. Profit on trade of goods or charging on providing ser-

vice is the basis for earning profit.

3. Islamic bank operates on the basis of profit and loss sharing. In case, the businessman has suffered losses, the bank will share these losses based on the mode of finance used (Mudarabah, Musharakah).

4. The execution of agreements for the exchange of goods & services is a must, while disbursing funds under Murabaha, Salam & Istisna contracts.

5. Islamic banking tends to create link with the real sectors of the economic system by using trade related activities. Since, the money is linked with the real assets therefore it contributes directly in the economic development.

To be continued.....

Foot Notes/References

9 Hadith means a saying, action or sanction by the Prophet.

10 Narrated in Muslim, Kitab al-Musaqat, Bab lani akili al-riba wa mukilihi; also in Tirmidhi and

Musnad Ahmad.

11 Narrated in Muslim, Kitab al-Hajj, Bab Hajjati al-Nabi.

12 Narrated in Mishkat al-Masabih, Kitab al-Buyu, Bab al-riba, on the authority of Ahmad and

Daraqutni

13 Narrated in Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-riba; also in Musnad Ahmad

14 Narrated in Ibn Majah.

15 Narrated in Abu Dawud, Kitab al-Buyu, Bab fi ijtinabi al-shubuhah; also in Ibn Majah.

16 Mustadrak al-Hakim, Kitab al-Buyu.

17 Justice Maulana Muhammad Taqi Usmani (May 2005), The Historical Judgment on Interest,

delivered in the Supreme Court of Pakistan, Idaratul – Ma'arif, Karachi-14 – Pakistan , p 31-32

18 ibid

19 Ibn Saad, Al-Tabqat al-Kubra, Beirut, V.3, P.278

20 Al-Tabari, Tarikh-al-Umam V.3, P.87, Events of the year 23 A.H.

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

Developments at Islamic Banking Department, State Bank of Pakistan

Enhancement of CAR for Islamic Banking Divisions of Conventional Banks

Capital Adequacy Ratio (CAR) has been enhanced for Islamic banking Divisions (IBDs) of conventional banks by one percent to 9 percent. The 8 percent ratio was set through clause 7 of Annexure-III of IBD Circular No 2 of 2004, regarding Capital Adequacy Ratio (CAR) requirement for Islamic banking divisions/branches of conventional banks. Now these instructions has been replaced by Revision in IBD Circular Letter No 2 of 2009. Capital Adequacy Ratio is the amount of risk-based capital as percent of risk-weighted assets. As per new clause, Islamic Banking Licensees (IBDs) should maintain a minimum Islamic banking fund of Rs 50 million at any point of time as seed capital and should also maintain Capital Adequacy Ratio (CAR) as applicable on Bank-wide basis (presently 9 percent), prescribed by SBP from time to time. All other instructions contained in the said Circular remain the same

Business Review Meetings With Islamic Banking Industry Players

Islamic Banking is an emerging field and has depicted a tremendous growth in last five years in local Industry. The explosive growth and complexity of Islamic financial products around the world are creating the need for better planning and strategies for its smooth and continuous functioning. Keeping in view the local market conditions and global trends, State Bank of Pakistan has recently issued a strategic plan for Islamic Banking Industry, in terms of which Islamic Banking in Pakistan would be 12 % of overall banking industry by 2012.

Islamic Banking Department is now working on successful implementation of this Strategic Plan. According to this strategy, IBIs would be expanding their existing business and further, they would explore some new sectors like SME, Microfinance, Agriculture, etc. Similarly, IBIs have really need to develop comprehensive policies regarding internal Shariah Compliance mechanism, Product development and capacity building for Human resource in accordance with Strategic Plan for IBIs.

IBIs have to grow further in order to attain the targeted growth of 12% by 2012. To know IBIs future course of action especially with reference to Strategic Plan, IBD has planned to conduct Business Review Meetings with IBIs.

One of such meeting was held on 21st May 2009 at LRC with Emirate Global Islamic Bank Limited. Senior management from Islamic Banking Department, Inspection Department and Banking Policy and Regulation Department participated in this meeting. Mr. Tariq Hasan CEO and Mr. Zafar Ahmad, Head of Business Development participated from EGIBL. They appraised the audience about their progress made so far and future plans of their bank. They appreciate the efforts and support of SBP for successful implementation of strategic plan for Islamic Banking Industry and help in achieving 12 percent share of total banking industry by 2012.

Lecture Session on "Riba" with special reference to supreme court judgment on Riba

Islamic Banking Department aims at developing and promoting the Islamic banking industry as a parallel and compatible banking system in the country. Besides focusing on the introduction of Shariah compliant regulatory and supervisory framework, it gives due importance to the promotion of this growing industry through providing the opportunities like intellectual sessions, knowledge sharing and awareness programs. Islamic Finance is one of the fastest growing segments of the global financial system. Elimination of interest/riba occupies key position in Islamic banking and finance. This is why one needs in depth understanding of riba.

To develop a better understanding of Riba, IBD has arranged a Lecture Session for SBP staff. During this session, Justice Khalil ur Rahman Khan shared his knowledge/experience regarding Riba and related issues. This was a valuable session and the participants grasp invaluable information about Riba and Supreme Court historical Judgment on Riba.

Review of Microfinance Institutions Ordinance 2001

In order to provide legal & regulatory framework for Microfinance Institutions to undertake Islamic Microfinance Business, IBD has suggested insertion of following clause /section after Section 2 of Part-II of the "Microfinance Institutions Ordinance-2001.

"No Microfinance Bank or Microfinance Institution shall carry on or offer Islamic Microfinance Business, unless it has obtained license from State Bank of Pakistan for such business".

Islamic Banking News

Islamic banks Find Alternative to KIBOR

http://www.dailytimes.com.pk/default.asp?page=2009%5C05%5C29%5Cstory_29-5-2009_pg5_3

May 29, 2009

Islamic banks have recently achieved a major milestone towards development of an interbank market for Islamic banks.

Meezan Bank recently hosted a meeting of Shariah advisors and product development experts of all full-fledged Islamic banks to decide upon the mechanism for inter-bank placement amongst Islamic banks and to move towards the development of an Islamic inter-bank market.

After careful deliberation, standardized agreements namely Interbank Musharaka and Interbank Wakala Agreements were finalized and it was agreed that henceforth only these standard contracts would be used by the Islamic banking industry.

This achievement is an important milestone towards development of inter-bank market for Islamic banks and will pave the way for the long awaited Islamic benchmark rate as an alternative to KIBOR. The meeting was attended by Shariah advisors / product development heads of Meezan Bank, BankIslami, Dubai Islamic Bank, Emirates Global Islamic Bank and Dawood Islamic Bank.

BankIslami interested in Citibank's housing finance business

http://www.dailytimes.com.pk/default.asp?page=2009%5C05%5C20%5Cstory_20-5-2009_pg5_2

May 20, 2009

BankIslami Pakistan has expressed its interest in acquiring the consumer housing finance portfolio of Citibank Pakistan, according to a letter sent by the bank to the Karachi Stock Exchange. It said it had entered into a Non Disclosure Agreement with the Citibank for its due diligence. The acquisition is subject to necessary due diligence, mutual agreement between BankIslami and Citibank, and approvals from Board of Directors and relevant regulatory authorities. BankIslami said it was going to commence the due diligence of the consumer housing finance portfolio of Citibank from May 19.

It is interesting to note here that Citibank President Arif Usmani had said a few months ago that there was no plan to sell Citibank or any of its business segments. He had strongly denied rumours that Citibank Pakistan was look-

ing for buyers owing to the problems its consumer finance business had been facing and because of weakened position of Citibank globally.

BankIslami Pakistan is, on the other hand, a fast growing Islamic bank. It started operations on April 07, 2006. Since then it has grown very fast. It had 102 branches by the end of 2008. BankIslami had a deposit base of Rs 12.478 billion and asset base of Rs 19.089 billion at the end of 2008. The bank recorded a loss of Rs 52.93 million in 2008, but chief executive officer Hasan A. Bilgrami stated in annual report 2008 that they expect to reverse bank's losses towards the end of second quarter.

Standard Chartered Islamic to Expand in Pakistan, CEO Says

<http://www.pk.all-biz.info/news/index.php?newsid=409>

May 08, 2009

"Pakistan is a core market for us," Afaq Khan, the Dubai-based chief executive officer of Standard Chartered's Saadiq Islamic unit said in an interview in Singapore. "We take a very long term view of the economy. These are very small aberrations, if you will. Investors who take a strategic view on Pakistan see it as an opportunity."

Standard Chartered has eight Islamic bank branches in the country and "a plan for expansion," he said on the sidelines of the Islamic Financial Services Board summit, without providing details.

Pakistan's Islamic banks, which saw assets grow 20-fold in the past five years, may add about 230 branches in 2009, driven by the world's second-biggest Muslim population, Pervez Said, director of Islamic banking at the State Bank of Pakistan, the central bank, said in January.

The central bank is promoting growth in Islamic finance to expand the reach of the banking industry. Shariah-compliant lenders account for about 5 percent of total banking assets, which the central bank aims to raise to 12 percent by 2012.

Six lenders, including Meezan Bank Ltd. and Dubai Islamic Bank, have Islamic banking licenses, compared with one in 2003, central bank data shows. Twelve conventional banks including London-based Standard Chartered have opened Islamic branches, up from three, five years ago.

"Our business remains strong," according to Standard Chartered Saadiq's Khan, who has been with the bank since 2003. "We continue to invest in that business and stay in Pakistan in Islamic banking." Pakistan is the

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Local News

world's second-most populous Muslim nation after Indonesia, with about 97 percent of its 174 million people following the faith

Religious board for Mudarbah reconstituted

<http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/07-May-2009/Religious-board-for-modaraba-reconstituted>

May 07, 2009

The Federal Government has reconstituted the Religious Board for Mudarbah in pursuance of Section 9 of the Mudarbah Companies and Mudarbah (Floatation and Control) Ordinance, 1980 read with Rule 6 of the Mudarbah Companies and Mudarbah Rules, 1981.

According to a notification issued by the Federal Government for reconstitution of the Religious Board for Modarabas, Justice (Retd) Syed Zahid Hussain Bukhari has been appointed as Chairman while Dr. Muhammad Tahir Mansoori and Mr. Imran Ahsan Nyazee as Members of the Board. The Board Religious Board for Modaraba has been re-constituted for a term of three years and would start functioning with immediate effect.

The newly appointed Chairman of the Religious Board for Modaraba, Syed Zahid Hussain Bukhari, served as an Additional Judge of the Lahore High Court from October 10, 1995 to September 30, 1996 and is a known lawyer of the Lahore High Court and the Supreme Court of Pakistan. Dr. Muhammad Tahir Mansoori and Mr. Imran Ahsan Nyazee, the members, are renowned Shariah Scholars and are associated with the International Islamic University, Islamabad.

The Religious Board is a Shariah certifying body constituted by the Federal Government under the provisions of the Modaraba Ordinance. The Board evaluates and examines new business products for Modarabas under the tenets of Shariah and provides guidance to the Registrar (Modarabas), SECP, in determining whether or not the business operations of any Modaraba conform to the injunctions of Islam.

Islamic banking fast growing in Pakistan

<http://aibim.com/content/view/1223/79/>

May 08, 2009

The Chief Executive Officer AIBaraka Islamic Bank Mohamed Isa Al Mutaweh has said that Islamic Banking is fast gaining ground in Pakistan as it is risk-free when

compared to conventional mode of banking.

Mohamed Isa Al Mutaweh stated this while talking LCCI President Mian Muzaffar Ali here on Thursday. LCCI Senior Vice President Tahir Javaid Malik, Tariq M Kazim Deputy General Manager Overseas Branches, Shafqaat Ahmad Country Head AlBaraka Islamic Bank, former Senior Vice Presidents of LCCI Farooq Iftikhar and Sohail Lashari also spoke on the occasion.

The AlBaraka top man, who came to Pakistan from Bahrain exclusively for having a meeting with LCCI office-bearers and members spent pretty good time at the LCCI explaining modus operandi of Islamic banking system. He said that over the years, the AlBaraka Bank has successfully developed and maintained its identity as one of the leading providers of a host of banking products and services in strict compliance with Shari'ah principles. He said that Islamic financing products such as Murabaha, Ijara, Musharaka and Islamic Export Refinance etc., are catering to a diverse cross-section of the economy including the Corporate, SME and Consumer sectors.

Speaking on the occasion the LCCI President Mian Muzaffar Ali said that today more than two hundred and fifty Islamic financial institutions are operating worldwide from China to USA. Western banks through their Islamic units in UK, Germany, Switzerland, Luxembourg etc. also practice Islamic banking.

Pak-Qatar group to set up Islamic bank

http://dailytimes.com.pk/default.asp?page=2009%5C06%5C06%5Cstory_6-6-2009_pg5_2

May 08, 2009

Chairman Board of Director Pak-Qatar Family and General Takaful and member of the Supreme Council of the Royal Family of the State of Qatar Sheikh Ali Bin Abdullah Thani Al-Thani has applied to set up an Islamic bank in Pakistan. He revealed this in a meeting with Prime Minister Syed Yousuf Raza Gilani at PM House. He said he hoped that due formalities for it would be completed soon.

He also donated Rs 10 million to the government of Pakistan for the victims of Swat operation. In addition, all the employees of PQFTL have also donated one-day salary to the IDPs. He also visited the branch office of Pak-Qatar Family & General Takaful Limited in Islamabad and expressed his satisfaction over the presence of Pak-Qatar offices in nine major cities of the country. He expressed his hope of expanding Islamic insurance operations of his

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Local News

company in Pakistan and said that he would urge other Qatari business leaders to follow suit by investing in Pakistan.

IslamicAdvisory.com Launches First Islamic Finance Training Portal

<http://www.albawaba.com/en/countries/UAE/246647>

May 07, 2009

The Islamic finance industry gets its first dedicated training portal: IslamicAdvisory.com, Islamic Finance Training, Online. Certified by leading scholars, the portal is the first to provide streamable, interactive Islamic finance training modules "ideal for training across large-scale institutions," as one prominent user, Yusuf Jha, Shariah Controller at Abu Dhabi Islamic Bank, describes it. Commenting on the launch, IslamicAdvisory's MD Atif Khan said, "So far the Islamic finance industry has relied on 2 day crash courses to get by. But bankers are frustrated with paying thousands of dollars for theory and coffee. What is needed is practical, bank-wide training throughout the year, with case studies, quizzes, and in-house testing."

IslamicAdvisory memberships start at \$49/month for individuals and \$6,995/month for entire banks. All training content is based on the latest AAOIFI (Accounting and Auditing Organization of Islamic Financial Institutions) Shariah Standards, the leading standard-setting body in Islamic finance. While meeting these global standards, the training modules also address individual bank needs as an outsourced tool for their training departments.

The website has an impressive array of training modules ranging from introductory level, such as "Understanding Sukuk," to the practical and customer-facing, like "How Is A Murabaha Different From A Conventional Loan?" and even the advanced, like "How To Calculate An Ijarah (Islamic Lease) Schedule." The site offers dozens of interactive online quizzes and exercises and a 90-minute certification exam. New training modules are added every week.

In the free access area of the website, IslamicAdvisory offers a community experience with discussion forums, podcasts, live webinars, member profiles, and the largest Islamic finance Q&A database available online.

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 April, 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 Ltd	42
	Meezan Bank Ltd	131
	Sub Total	311
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	7
	Soneri Bank Ltd	6
	Standard Chartered Bank	11
	The Bank of Khyber	16
The Royal Bank of Scotland	3	
United Bank Ltd	5	
	Sub Total	136
Sub Branches	Askari Bank Limited	2
	BankIslami Pakistan Limited	32
	Dawood Islamic Bank Limited	6
	Dubai Islamic Bank Pakistan Ltd	2
	Meezan Bank Ltd	35
	Sub Total	77
	Grand Total	524

**Provisional data

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

(As of April 2009)

Bank Name	Azad Kashmir	Ba-lochistan	Federal Capital	FAA	NWF P	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	30	23	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		6	20	13	42
Meezan Bank Limited	1	4	7		12	60	47	131
Sub-Total	3	14	17	1	27	143	106	311
Islamic Banking Divisions of Conventional Banks								
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	2				1	2	2	7
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
Sub-Total	2	7	7		23	59	38	136
Sub-Branches								
Askari Bank Limited			1				1	2
BankIslami Pakistan Limited	1	3	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	16	13	35
Sub-Total	1	4	5		7	28	32	77
Grand Total	6	25	29	1	57	230	176	524

**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	http://www.sbp.org.pk/ibd/speeches.htm
2	Strategic Plan for Islamic Banking Industry	http://www.sbp.org.pk/departments/pdf/StrategicPlanPDF/Strategy%20Paper-Final.pdf
3	Frequently Asked Questions (FAQs)	http://www.sbp.org.pk/departments/ibd/FAQs.pdf
4	Risk Management Guidelines for IBIs	http://www.sbp.org.pk/ibd/2008/Annex-c1.pdf
5	Pakistan's Islamic Banking Sector Review 2003-07	http://www.sbp.org.pk/ibd/Islamic-Bkg-Review-03-07.pdf
6	Islamic Banking Bulletin	http://www.sbp.org.pk/ibd/bulletin/Bulletin.asp

Cities-wise breakup of Islamic Banking Branches**

(As of April, 2009)

S.No	Province	Cities	No of Branches
1	Sind	Hyderabad	13
2		Karachi City	149
3		Larkana	1
4		Mirpur Khas	1
5		Nawabshah	3
6		Sakrand	1
7		Sanghar	1
8		Sukkur	4
9		Tando Adam	1
10		Tando Allahyar	2
	Sind Total		176
11	Punjab	Arif wala	1
12		Attock	1
13		Bahawalpur	2
14		Chakwal	2
15		Daska	1
16		Dera Ghazi Khan	2
17		Faisalabad	24
18		Gojra	1
19		Gujar Khan	1
20		Gujranwala	8
21		Gujrat	4
22		Hafizabad	1
23		Jaranwala	2
24		Jhang	2
25		Jhelum	1
26		Kamoki	1
27		Kasur	1
28		Khanewal	1
29		Khushab	2
30		Lahore City	94
31		Mandi Bahauddin	1
32		Mian Channu	2
33		Mianwali	1
34		Multan	19
35		Okara	2
36		Pindi Ghaib	1
37		Rahim Yar Khan	5
38		Rawalpindi	21
39		Sadiqabad	2
40		Sahiwal	3
41		Sargodha	5
42		Sheikhupuar	1
43		Sheikhupura	1
44		Sialkot	10
45		Texila	1
46		Vehari	1
47		Wah Cantt	2
	Punjab Total		230

S.No	Province	Cities	No of Branches
48	NWFP	Abottabad	6
49		Banu	1
50		Batkhela	1
51		Charsadda	1
52		Chitral	1
53		Dera Ismail Khan	3
54		Hangu	1
55		Haripur	3
56		Kohat	1
57		Mansehra	6
58		Mardan	3
59		Mingora	1
60		Nowshera	2
61		Peshawar	24
62		Swabi	1
63		Tank	1
64		Timergara	1
	NWFP Total		57
65	Federally Administered Area	Gilgit	1
	FAA Total		1
66	Federal Capital	Islamabad	29
	Federal Capital Total		29
67	Balochistan	Loralai	1
68		Chaman	1
69		Gawadar	1
70		Hub Chowki	1
71		Kuchlack	1
72		Loralai	1
73		Muslim Bagh	1
74		Pishin	1
75		Qilla Saifullah	1
76		Quetta	15
77	Zhob	1	
	Balochistan Total		25
78	Azad Kashmir	Mirpur AJK	4
79		MuzaffarabadAJK	2
	Azad Kashmir Total		6
	Grand Total	79 Cities	524

**Provisional data

