

Islamic Banking Bulletin

June 2014

**Islamic Banking Department
State Bank of Pakistan**

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Launching Ceremony of FPCCI's First Publication on Islamic Banking & Takaful

FPCCI Head Office, Karachi,

Key Note Address by Saeed Ahmad,
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August 04, 2014

Assalam u Alaikum

I feel honored to be invited to address this distinguish gathering. I am pleased to see that Islamic banking and finance has grasped the attention of business community and I congratulate the Federation of Pakistan Chambers of Commerce & Industry (FPCCI), for taking this initiative for promoting Islamic Banking among the business community. Takaful is a fast growing concept nowadays in Pakistan, because it is a Halal alternative of conventional insurance designed within the boundaries of Islamic Laws. This is much appealing for Pakistani nation which is evident by the increasing number of people having Takaful plans. I hope and believe that initiative such as this by FPCCI will help in enhancing awareness about Islamic Banking and finance.

Ladies and Gentlemen:

Islamic banking is one of the fastest growing segments of the global financial industry. In the last few decades, Islamic banking has made substantial progress on the global front, in terms of growth in the number of Islamic financial Institutions and their asset base. By the end of 2013, total assets of Islamic financial industry increased to an estimated USD1.8 trillion. Islamic banking remains the dominant sector within the Islamic financial industry with approximately 80% of the total Islamic financial assets. The industry witnessed a compound annual growth rate of 17 % between 2009 and 2013.¹ At present, Islamic finance is considered as a feasible alternative to conventional finance in both Muslim and Non-Muslim countries alike. Given its ability to provide financial solutions, Islamic finance presents new opportunities to support the economic growth and help in attaining overall financial stability.

The global Takāful industry has experienced strong double-digit growth rates in recent years. Worldwide gross Takāful contributions have increased to an estimated amount of USD18.3 billion, recording an impressive 18.06% cumulative average growth rate during 2007–2012. The number of Takāful operators increased from 133 in 2006 to about 200 in 2012, with nearly two-thirds of the operators located in the GCC, Southeast Asia and Africa.

Pakistan is among the pioneers in Islamic banking and finance which has grown significantly over the years. Since 2001 the Islamic banking industry has shown strong momentum registering annual growth rate of above 30 percent during the last few years.

¹ Source: Islamic Financial Services Industry Stability Report 2014, Islamic Financial Services Board.

Islamic Banking is currently spread across 87 districts of the country through 19 Islamic Banking Institutions having a network of over 1,300 branches. Of late SBP has allowed 3 more conventional banks to initiate Islamic banking operations. Two of these conventional banks have recently announced conversion into full-fledged Islamic banks over the next 2-3 years while the third one has its first Islamic Banking Branch inaugurated on 1st of Ramzan. In addition, a number of microfinance institutions are very keenly using Shariah compliant products to meet their clients' needs.

As of March 2014, the industry's asset base has crossed Rs. 1 trillion with both assets and deposits constituting above 10 percent of the overall banking industry. The future outlook of the industry is very positive with bright prospects of doubling its market share by 2020.

Distinguished Guests:

The central bank has played a key role in facilitating Islamic banking industry to reach a point of recognition both at the local and international level. State Bank of Pakistan while being a regulator has also remained committed to being a facilitator for the industry; it is one of the few regulators that have introduced comprehensive legal, regulatory and Shariah compliance framework for the Islamic banking industry. In order to align the regulatory framework with the international regulatory standards and best practices, we regularly review and evaluate standards issued by these institutions for their customized implementation in the country.

Some of the recent initiatives of SBP for promoting Islamic banking in the country include:

- 1) Issuance of 5 year Strategic Plan for Islamic Banking Industry. The key focus areas of the plan include
 - i) further improvement in legal, regulatory and taxation environment,
 - ii) improving Shariah governance,
 - iii) markets and products diversification,
 - iv) awareness and capacity building initiatives.
- 2) Completion of Knowledge, Attitude and Practices Survey of Islamic Banking in Pakistan (KAP)
- 3) Development of comprehensive Shariah Governance Framework
- 4) Capacity building & Awareness creation initiatives (Mass Media Campaign)

We are a country of over 180 million people predominantly Muslims with a significantly large population excluded from the financial system. Islamic Finance can address faith sensitive voluntary exclusion along with involuntary exclusion.

SBP realizes the need for active capital markets and sound takaful sector and is hence actively collaborating with the Securities and Exchange Commission of Pakistan (SECP) for ensuring sustainable growth and smooth functioning of overall Islamic financial system. Encouragingly SECP has also been taking initiatives for development of necessary infrastructure for Islamic Capital Markets. It has issued draft Sukuk guidelines, introduced takaful rules and established its Shariah advisory board. These steps will go a long way in development of Islamic Capital market in the country.

Ladies and Gentlemen:

The current Government is fully committed towards the development of Islamic finance industry on sustainable basis. In this regard a Steering Committee has been formed with representation from all key stakeholders to formulate a comprehensive framework to address challenges/hurdles that are adversely affecting the growth momentum of the industry. The committee has been mandated to suggest a road map and timeframe for progression of various phases of Islamic banking in the country.

The chamber of commerce is an important platform for business community that not only protects their interest but also provides avenue for raising concerns and creating awareness amongst its members and business community at large.

Chamber can play a central role in dissemination of information on Islamic banking and remove misconceptions regarding the industry by conducting targeted events with the help of Islamic banking industry. We at State Bank are always ready to support such events. We are already engaging chambers across the country to frequently hold focused group discussions at various offices of SBP BSC.

Our recent survey based study on Islamic finance reflects a huge demand for participatory modes by the industry however Islamic banks have so far shied away from such transactions. One of the primary reasons for this is that the Islamic banks are mostly approached with infeasible projects requiring financing under these modes. This results in adverse selection and becomes one of the main reasons for the banks to avoid such financing. I would like to emphasize here the chamber's role in motivating its members to undertake such transactions which will be a win-win situation. This will enable businesses that do not have sufficient collateral to secure financing on the sound feasibility of their projects and for banks to share in due profitability of the project. On the part of SBP we are looking at ways to encourage Islamic banks to increase their share in participatory mode of financing.

I will like to reiterate that it is not only our national duty but also our religious responsibility to be fair and transparent in our dealings. Participatory modes call for profit and loss sharing therefore if in times of high profit we share the returns we will also have an advantage of sharing the risk in case of loss.

In the end I am again thankful to the organizers for providing me this opportunity to share my thoughts and I hope that all of us here are able to contribute to the cause of Islamic banking.

Thank you.

Islamic Banking Industry- Progress & Market Share

Overview

Islamic banking industry continued to grow as both assets and deposits increased during the second quarter of CY14. Assets of the Islamic banking industry reached Rs. 1089 billion compared to Rs 1016 billion in the last quarter while deposits also increased to reach Rs 932 billion from Rs 872 billion in the previous quarter (see **Table 1**). The market share of Islamic banking industry's assets in overall banking industry increased to 9.8 percent during the review quarter from 9.4 percent in the previous quarter. However, the market share of Islamic banking industry's deposits in overall banking industry declined slightly during the quarter ending June 2014 to reach 10.6 percent. Profitability of the Islamic banking industry registered at Rs 7.7 billion by end June 2014 remained higher compared to Rs 4.3 billion profit by end June 2013. Earning and profitability indicators including return on equity (ROE) and return on assets (ROA) both witnessed increase during quarter ending June 2014 compared to previous quarter. Asset quality indicators of the Islamic banking industry including non-performing financing (NPF), and NPFs to Financing decreased during the second quarter of CY14.

| | Industry Progress | | | Growth (YoY) | | | Share in Industry | | |
|---|-------------------|--------|--------|--------------|--------|--------|-------------------|--------|--------|
| | Jun-13 | Mar-14 | Jun-14 | Jun-13 | Mar-14 | Jun-14 | Jun-13 | Mar-14 | Jun-14 |
| Total Assets | 903 | 1016 | 1089 | 27.0% | 20.0% | 20.5% | 9.0% | 9.4% | 9.8% |
| Deposits | 771 | 872 | 932 | 28.0% | 23.9% | 20.9% | 9.9% | 10.7% | 10.6% |
| Net Financing & Investment | 700 | 662 | 682 | 28.9% | -0.7% | -2.5% | 8.8% | 7.6% | 7.8% |
| Total Islamic Banking Institutions | 19 | 20 | 22 | - | - | - | - | - | - |
| Total No. of Branches* | 1115 | 1314 | 1335 | - | - | - | - | - | - |

Source: Quarterly Unaudited Accounts
*number includes sub-branches

IBI Network Expansion

Branch network of Islamic banking industry continued to increase during the quarter ending June 2014. With addition of 21 branches during the quarter, the cumulative number of Islamic banking branches reached 1335 (see **Table 2**). The number of Islamic banking institutions also increased during the quarter, as two banks i.e. Allied Bank Limited and Sind Bank Limited started Islamic banking operations after obtaining license and necessary approval from SBP. It is, however, pertinent to note that branch network of the Islamic banking industry is still concentrated in two provinces i.e. Sind and Punjab (78 percent). Islamic banking industry thus needs to expand their branch network to smaller provinces which hitherto remain under served.

| Province | Total Number | Share (percent) |
|----------------------|--------------|-----------------|
| Punjab | 590 | 44.2 |
| Sindh | 446 | 33.4 |
| Khyber Pakhtoonkhawa | 148 | 11.1 |
| Baluchistan | 55 | 4.1 |
| Gilgit Baltistan | 5 | 0.4 |
| FATA | 4 | 0.3 |
| Federal Capital | 72 | 5.4 |
| AJK | 15 | 1.1 |
| Total | 1,335 | 100.0 |

Asset & Liability Structure

Asset: After witnessing a moderate increase of 0.2 percent during the first quarter of CY14, assets of the Islamic banking industry registered relatively better growth of 7.2 percent during April to June quarter 2014. Both financing and investments, the two major components of assets, contributed in this growth though financing grew more (5.4 percent) compared to investments (1.1 percent) ². Market share of Islamic banking assets in overall banking industry also increased during the quarter under review as assets of Islamic banking industry grew at a faster pace (7.2 percent) compared to overall banking industry (3.4 percent).

Bifurcation of assets among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks reveals that assets of both IBs and IBDs increased during the review quarter compared to previous quarter though assets of IBDs (9.2 percent) grew more compared to assets IBs (6.0 percent). One of the factors contributing to this relatively greater increase in assets of IBDs compared to assets IBs was addition of two new IBDs in the Islamic banking industry. As a result share of assets of IBDs in overall assets of Islamic banking industry increased from 35.5 percent in March 2014 to 36.2 percent in June 2014.

Investments:

After witnessing decline in the previous two quarters, investments of Islamic banking industry increased during the second quarter of CY14 to reach almost Rs 358 billion from Rs 354 billion by end March 2014 (see **Table 3**). One of the major reasons for decline in investments during previous two quarters was non-availability of any new GoP Ijara Sukuk since March 2013 that has generally remained the main investment option for Islamic banking industry. However, during the quarter under review 15th edition GoP was issued providing a much needed investment avenue to the Islamic banking industry. This was also reflected by increase in the Federal government securities held by Islamic banking institutions, the

| Table 3: Investments | | | | | |
|-----------------------------------|------------------|------------------|------------------|---------------|------------|
| Rupees in million | | | | | |
| | Growth | | | | |
| | Jun-13 | Mar-14 | Jun-14 | YoY | QoQ |
| Federal government securities | 314,596.0 | 240,438.3 | 247,160.2 | (21.4) | 2.8 |
| Fully paid up ordinary shares | 3,881.8 | 5,516.2 | 6,054.3 | 56.0 | 9.8 |
| TFCs, Debentures, Bonds, & PTCs | 34,237.1 | 34,636.0 | 40,851.5 | 19.3 | 17.9 |
| Other investments | 87,487.1 | 74,930.0 | 65,124.0 | (25.6) | (13.1) |
| Investments by type | | | | | |
| Held for Trading | 210.01 | 420.33 | 4,700.99 | 2,138.5 | 1,018.4 |
| Available for Sale | 420,169.5 | 325,891.5 | 324,419.0 | (22.8) | (0.5) |
| Held to Maturity | 11,260.3 | 15,861.7 | 16,546.6 | 46.9 | 4.3 |
| Surplus /(deficit) on revaluation | 130.2 | 5,964.4 | 6,140.2 | 4,615.0 | 2.9 |
| Net Investments | 438,754.3 | 353,955.1 | 357,772.8 | (18.5) | 1.1 |

² Among other components of assets of the Islamic banking industry, “Balances with other banks” and “due from financial institutions” also witnessed increase during the quarter under review.

highest contributor to investment, that increased by 2.8 percent during the second quarter of CY14. Though growth in Federal government securities was relatively less compared to other components of investments, however, in absolute terms the increase in Federal government securities was greater than other components mainly due to high base of the said group.

Financing

Gross financing of the Islamic banking industry grew by 4.9 percent during the quarter under review, to reach Rs 339 billion by end June 2014 from Rs 323.2 billion in the previous quarter. This increase is however in line with the usual trend in which financing picks up during the second quarter of CY13 after showing relatively slower growth in the first quarter.

Mode wise financing of the Islamic banking industry remained concentrated in Murabaha and Diminishing Musharaka as the said modes collectively contributed nearly 65 percent of overall financing (see **Table 4 (a)**). However, it is worth mentioning that since the last two quarters Murabaha is witnessing a decrease in absolute amount whereas Diminishing Musharaka is increasing during the same period. As a result since the last two quarters Diminishing Musharaka has become the highest mode contributing to financing. Among other modes, all modes of financing, except Mudaraba and Salam, witnessed an increase during the review quarter resulting in an increase their share in overall financing (see **Table 4 (b)**).

Table 4 : Financing Mix

| (a) Amount in billion Rupees | | | |
|-------------------------------------|---------------|---------------|---------------|
| | Jun-13 | Mar-14 | Jun-14 |
| Murabaha | 110.0 | 106.7 | 100.9 |
| Ijarah | 23.4 | 27.1 | 28.8 |
| Musharaka* | 4.0 | 27.9 | 33.0 |
| Mudaraba | 0.5 | 0.6 | 0.5 |
| Diminishing Musharaka (DM) | 90.8 | 107.2 | 118.9 |
| Salam | 13.4 | 18.6 | 15.0 |
| Istisna | 15.1 | 19.5 | 22.4 |
| Qarz/Qarz-e-Hasna | 0.0 | 0.0 | 0.0 |
| Others | 18.5 | 15.5 | 19.4 |
| Total | 275.8 | 323.2 | 339.0 |
| (b) Percent Share | | | |
| Murabaha | 39.90 | 33.01 | 29.76 |
| Ijarah | 8.48 | 8.39 | 8.50 |
| Musharaka* | 1.46 | 8.62 | 9.73 |
| Mudaraba | 0.17 | 0.20 | 0.16 |
| Diminishing Musharaka (DM) | 32.92 | 33.18 | 35.08 |
| Salam | 4.86 | 5.76 | 4.43 |
| Istisna | 5.47 | 6.04 | 6.60 |
| Qarz/Qarz-e-Hasna | 0.0 | 0.0 | 0.0 |
| Others | 6.72 | 4.79 | 5.74 |
| Total | 100.0 | 100.0 | 100.0 |

*Musharaka includes Running Musharaka

Table 5: Financing Concentration - percent share

| | Jun-13 | Mar-14 | Jun-14 | Industry |
|---|---------------|---------------|---------------|-----------------|
| Chemical and Pharmaceuticals | 7.3% | 7.6% | 7.5% | 4.0% |
| Agribusiness | 4.0% | 1.7% | 1.6% | 8.4% |
| Textile | 17.1% | 19.0% | 18.4% | 15.5% |
| Cement | 1.4% | 0.7% | 0.6% | 0.9% |
| Sugar | 4.6% | 4.8% | 4.7% | 3.5% |
| Shoes and leather garments | 0.8% | 0.8% | 0.8% | 0.5% |
| Automobile and transportation equipment | 1.5% | 2.2% | 2.2% | 1.3% |
| Financial | 1.0% | 0.7% | 0.5% | 2.7% |
| Insurance | 0.0% | 0.0% | 0.0% | 0.0% |
| Electronics and electrical appliances | 1.9% | 1.7% | 2.4% | 1.3% |
| Production and transmission of energy | 7.6% | 10.8% | 11.9% | 12.0% |
| Individuals | 14.0% | 14.0% | 14.2% | 8.6% |
| Others | 38.7% | 36.1% | 35.3% | 41.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Sector wise financing extended by the Islamic banking industry remained concentrated in the textile sector, though the share of textile financing in overall financing registered a marginal decrease compared with previous quarter. Despite this decrease the share of financing extended by Islamic banking industry in textile sector remained higher than the share of financing extended by overall banking industry in the same sector. Among other sectors ‘Electronics and electrical appliances’, ‘Production and transmission of energy’ and ‘Individuals’ witnessed an increase in their shares in overall financing during the quarter under review (see **Table 5**).

Like previous quarters, client category wise financing of IBIs remained concentrated in corporate sector, having a share of 77 percent followed by consumer financing (12.8 percent) and commodity financing (4.6 percent) in overall financing. Like previous quarters share of financing extended by Islamic banking industry in sectors like SME (3.6 percent) and agriculture (0.2 percent) remained small compared to share of financing extended by overall banking industry in the same sectors (see **Table 6**).

Asset Quality

Non-performing financing (NPF) of Islamic banking industry continued to decrease during the second quarter of CY12 and reached Rs 18.1 billion reflecting quarterly (QoQ) decline of 3.5 percent. This decline was mainly contributed by the ‘loss’ category (see **Table 7**). Non-performing assets (NPA) of Islamic banking industry also declined during the quarter under review.

Table 6: Client Wise Financing Portfolio (Share Percent)

| | Jun-13 | Mar-14 | Jun-14 | Industry |
|---------------------|---------------|---------------|---------------|---------------|
| Corporate Sector | 70.5% | 74.4% | 77.0% | 66.4% |
| SMEs | 3.7% | 5.3% | 3.6% | 5.9% |
| Agriculture | 0.1% | 0.1% | 0.2% | 5.7% |
| Consumer Finance | 12.8% | 12.7% | 12.8% | 6.4% |
| Commodity Financing | 10.9% | 5.8% | 4.6% | 13.3% |
| Staff Financing | 1.6% | 1.7% | 1.7% | 2.0% |
| Others | 0.3% | 0.1% | 0.1% | 0.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Table 7: Non-Performing Financing & Assets

| | Jun-13 | Mar-14 | Jun-14 | Rupees in billions | |
|-------------------------|--------|--------|--------|--------------------|-------|
| | | | | YoY | QoQ |
| | | | | Growth in % | |
| NPF | 19.37 | 18.76 | 18.11 | -6.5 | -3.5 |
| Substandard | 1.34 | 1.44 | 1.12 | -16.2 | -22.4 |
| Doubtful | 2.98 | 0.87 | 1.08 | -63.9 | 23.8 |
| Loss | 15.05 | 16.44 | 15.85 | 5.3 | -3.6 |
| Provisions | 12.81 | 14.36 | 14.45 | 12.8 | 0.6 |
| Net NPF | 6.57 | 4.41 | 3.67 | -44.1 | -16.8 |
| Recovery (year to date) | 0.69 | 0.50 | 1.08 | 57.5 | 115.3 |
| NPA | 23.10 | 22.42 | 21.40 | -7.4 | -4.5 |
| Net NPAs | 7.84 | 5.29 | 4.38 | -44.1 | -17.1 |

Declining Non-performing financing during the second quarter of CY14 resulted in a decline in NPFs to financing ratio. However, due to rise in provisions made by Islamic banking industry Provisions to NPFs ratio increased during the same quarter (see **Table 8**). Among other asset quality indicators, Net NPAs to Capital and Net NPAs to Net Financing declined during the review quarter. All above mentioned performance indicators of Islamic banking industry are however still lower than overall industry ratios indicative of relatively better asset quality of Islamic banking industry.

| | Jun-13 | Mar-14 | Jun-14 | Industry |
|--|---------------|---------------|---------------|-----------------|
| Assets Quality Ratio | | | | |
| NPFs to Financing | 7.1% | 5.8% | 5.3% | 12.8% |
| Net NPFs to Net Financing | 2.5% | 1.4% | 1.1% | 2.9% |
| Provisions to NPFs | 66.1% | 76.5% | 79.7% | 79.5% |
| Net NPAs to Total Capital | 12.2% | 7.0% | 5.6% | 12.9% |
| Real estate Financing to Total Financing | 5.6% | 5.4% | 5.4% | 1.2% |
| FCY Denominated Financing to Capital | 11.1% | 16.9% | 19.0% | 23.1% |

Liabilities

Deposits of the Islamic banking industry increased during the quarter to reach Rs. 932 billion by end June 2014 from Rs 872 billion in the previous quarter (QoQ growth of 6.9 percent). This increase in deposits was mainly due to customers' deposits that grew by 7.5 percent during the review quarter. On the other hand, financial institutions' deposits with IBIs registered decline during the first quarter of CY14. Unlike previous quarter, the share of Islamic banking industry's deposits in overall banking industry declined slightly during April to June quarter 2014 to reach 10.6 percent compared to 10.7 percent in previous quarter as deposits of the overall banking industry grew at relatively higher pace (7.6 percent) compared to growth in deposits of Islamic banking industry (6.9 percent).

Table 9: Break up of Deposits

| | Rupees in million and growth in percent | | | | |
|-------------------------------------|---|------------------|------------------|-------------|--------------|
| | Growth | | | | |
| | Jun-13 | Mar-14 | Jun-14 | YoY | QoQ |
| Deposits | 770,945.2 | 872,094.8 | 931,935.5 | 20.9 | 6.9 |
| Customers | 729,998.8 | 808,622.3 | 869,569.7 | 19.1 | 7.5 |
| Fixed Deposits | 239,836.0 | 249,983.9 | 238,229.0 | (0.7) | (4.7) |
| Saving Deposits | 289,360.8 | 340,232.8 | 333,839.7 | 15.4 | (1.9) |
| Current accounts - Remunerative | 2,259.5 | 2,633.5 | 3,285.5 | 45.4 | 24.8 |
| Current accounts - Non-remunerative | 194,895.8 | 212,414.6 | 286,790.6 | 47.2 | 35.0 |
| Others | 3,646.7 | 3,357.5 | 7,425.0 | 103.6 | 121.1 |
| Financial Institutions | 40,946.4 | 63,472.4 | 62,365.7 | 52.3 | (1.7) |
| Remunerative Deposits | 40,616.0 | 62,916.5 | 58,483.2 | 44.0 | (7.0) |
| Non-remunerative Deposits | 330.4 | 555.9 | 3,882.6 | 1,075.1 | 598.4 |
| Currency Wise | | | | | |
| Local Currency Deposits | 732,226.2 | 828,058.8 | 887,108.4 | 21.2 | 7.1 |
| Foreign Currency Deposits | 38,719.0 | 44,035.9 | 44,827.1 | 15.8 | 1.8 |

Earning & Profitability

Islamic banking industry managed to register profitability of Rs 7.7 billion by end June 2014, higher compared to Rs 4.3 billion profit by end June 2013. Among indicators of earnings and profitability both return on equity (ROE) and return on assets (ROA) increased compared to previous quarter mainly due to declining non-performing financing of the Islamic banking industry (see **Table 10**). Similarly net markup income to gross income of Islamic banking Industry registered increase during the second quarter of CY14. On the other hand Non Mark up Income to Gross Income declined during the quarter ending June 2013 though it stayed above overall banking industry average. In line with general trend Operating Expense to Gross Income of Islamic banking industry remained higher than that of overall banking industry.

| Table 10: Earning & Profitability | Jun-13 | Mar-14 | Jun-14 | Industry |
|--|---------------|---------------|---------------|-----------------|
| Net Income to Total Assets (ROA) | 0.8% | 1.0% | 1.2% | 1.4% |
| Return on Equity (ROE) | 11.1% | 13.7% | 16.1% | 15.4% |
| Net mark up Income to Gross Income | 79.1% | 74.4% | 75.4% | 70.6% |
| Non-mark up Income to Gross Income | 20.9% | 25.6% | 24.6% | 29.4% |
| Trading & Fx Gains/(Losses) to Gross Income | 7.3% | 12.5% | 10.8% | 9.9% |
| Operating Expense to Gross Income | 71.7% | 68.8% | 66.6% | 54.7% |

Country Model

United Kingdom

Islamic Finance started in United Kingdom (UK) with a transaction of Commodity Murabaha during 1980's and UK is currently leading the Western world towards growth of Islamic finance. The industry in UK consists of 22 banks including five full-fledged Shariah Complaint banks, a vibrant London Metal Exchange, nine fund managers and seven Shariah compliant exchange-traded funds and 20 law firms offering services in areas related to Islamic finance. In the capital markets, thus far 49 Sukuk have been issued in UK raising US \$ 34 billion along with a sovereign sukuk of £2.3 billion. The Government of UK is fully committed to make UK a global destination for Islamic Finance.

The history of Islamic banking in United Kingdom is not very old as it dates back to the launch of Albaraka International Bank, in 1982, though the first Shariah compliant transaction; Commodity Murabaha, took place in 1980. During the decade of eighties many investment banks in UK started offering varied Shariah complaint products particularly for trade finance, leasing and project finance. However, the industry received a real spur with the political and regulatory support at the start of this millennium. The most significant regulatory change was the addition of alternative finance clauses in various taxation acts; the introduction of Finance Act 2003 has removed the double payment of stamp duty land tax on real estate transaction for Islamic finance.

The favourable changes in legal and regulatory environment for Islamic finance started attracting more banks and financial institutions to offer Shariah compliant services; the very first Islamic retail bank; Islamic Bank of Britain, was established in 2004, the first wholesale Islamic Investment bank; European Islamic Investment Bank (EIIB), was set up in 2005 while the British Islamic Insurance Co. also started offering Takaful in 2008.

Sukuk has become the most popular product of Islamic finance in recent years, as London being the centre for issuance and trading of international bonds, became habitat for Sukuk as well. Since the listing of the very first Sukuk on London Stock Exchange (LSE), a total of 49 issues amount US \$ 34 billion have been issued. The notable development in this regard is the issuance of first sovereign sukuk of UK government in June of current year (2014); the very first sovereign sukuk of a non-Muslim country of £2.3 billion.

The London Metal Exchange (LME) is a leading metal exchange and is playing the most significant role in extending UK a prominent place on the global landscape of Islamic finance.

The distinction feature of UK Islamic finance market is the number of renowned educational institutes offering degrees and trainings related to said industry. University of Durham is the most well known institute offering doctorate program along with summer school. Oxford, Cambridge, School for Oriental and African Studies (SOAS), Reading, Westminster and few others are offering variety of Islamic finance related courses. In addition to these programs various certification courses covering from general Islamic banking to specialized areas are also available; the most significant among these is the Islamic Finance Qualification (IFQ) -the most comprehensive entry level qualification.

Way Forward

Given the growth of Islamic finance industry complemented with government's commitment to make UK a global destination for Islamic Finance, the future of the industry seems bright in UK. However, the industry would be required to work with government to develop level playing field especially in terms of legislation, regulation and taxation to sustain the growth trajectory of Islamic finance.

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Adoption of AAOIFI Accounting Standards: Case of Pakistan

AAOIFI Accounting Standards for Islamic Financial Institutions

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in its objective of bringing standardization and harmonization has issued 26 accounting standards by now. These standards cover areas General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions, Murabaha and Murabaha to the Purchase Orderer, Mudaraba Financing, Musharaka Financing, Disclosure of Bases For Profit Allocation Between Owners' Equity and Investment Account Holders, Equity of Investment Account Holders and their Equivalent , Salam and Parallel Salam, Ijarah and Ijarah Muntahia Bittamleek, Zakah, Istisna'a and Parallel Istisna'a, Provisions and Reserves Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies Investment Funds, Provisions and Reserves in Islamic Insurance Companies, Foreign Currency Transactions and Foreign Operations , Investments, Islamic Financial Services offered by Conventional Financial Institutions, Contributions in Islamic Insurance Companies, Deferred Payment Sale, Disclosure on Transfer of Assets and Segment Reporting.

Various countries are adopting these standards at their own discretion. Pakistan by now has issued three Islamic financial accounting standards related to Murabaha, Ijara and Profit and Loss Sharing of Deposits.

Adoption of Accounting Standards in Pakistan

Institute of Chartered Accountant of Pakistan (ICAP) following the judgment on riba of Shariah Appellate Bench of 1999 constituted a committee on accounting and auditing standards of interest-free modes of financing and investment. This committee of ICAP works in collaboration with Security Exchange commission of Pakistan (SECP) along with active support of SBP for rolling out of AAOIFI accounting standards in Pakistan; ICAP issues standards, SECP notifies these through statutory notification (SRO) while SBP issues regulatory instruction for its implementation by Islamic banking institutions (IBIs).

Till now SECP has notified three Islamic Financial Accounting Standards (IFAS) to be implemented by financial institutions offering Shariah compliant services;

1. IFAS-1 -Murabaha

SECP through its SRO No 865(I)/2005 has notified the very first IFAS on August 24, 2005 while its has been made effective with effect from January 2006. This standard on Murabaha is applicable to financial statements prepared in the context of historical cost convention in accounting for Murabaha transaction undertaken by a bank.

Following this Islamic banking institutions have been obligated to prepare their quarterly statements in line with the issued standard on Mudaraba with effect from September 30, 2007³ . This instruction was

³ IBD Circular Letter No. 03 of 2007

applicable to only normal Mudaraba while for credit Mudaraba accounting was not standardized. To address this issue SBP has issued following instructions for credit Mudaraba which are in line with the spirit of IFAS-1 and have been effective for Islamic banks since June 29, 2012⁴

- i. The cases wherein IBI purchases the goods on supplier's credit and sells the same on credit under Murabaha, the transaction shall be booked as on-balance sheet item by appropriately recording 'Payable to supplier' and 'Receivable from customers against Murabaha' for the said credit purchase and credit sale respectively.
- ii. The CRR/SLR and capital adequacy requirements on the said liability and financing respectively shall be applicable as per prevailing SBP instructions, issued from time to time.
- iii. Profit on the said transaction will be recognized as per the provisions of IFAS-1.

2. IFAS-II- Ijara

This standard applies in accounting for Ijara agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. However, this standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

SECP has notified this standard through SRO No 431(I)/2007 in May 2007 to be followed by companies and mudarabas while accounting for Ijara (Lease) transactions as defined by the Standard⁵. Following this SBP has allowed implementation of this standard with effect from January 01, 2009⁶.

3. IFAS-III -Profit and Loss Sharing on Deposits

SECP notified IFAS-3 "Profit and Loss Sharing on Deposits" through S.R.O 584/2013 in June, 2013, however, SBP has not issued its regulatory instruction for implementation of this standard yet..

This standard provides accounting principles to be followed by institutions offering Islamic financial services (IIFS) for recognizing, ensuring, presenting and disclosing the transactions relating to equity ('funds') of unrestricted investment/(profit/Loss Sharing) PLS deposit account holders and their equivalents.

This standard aims at two main issues;

- i. The accounting principles relating to funds received by IIFS for investment in its capacity as Mudarib at the IIFS' discretion, in whatever manner the IIFS deems appropriate (funds of unrestricted investment account holders/PLS deposit holders); and

⁴ IBD Circular No. 02 of 2012

⁵ SECP has got the right to provide exemption to financial institution from compliance with all or any of the requirements of the Standard

⁶ IBD Circular No. 01, 2009

- ii. The disclosure of bases for profit allocation between owner's equity and that of unrestricted investment /PLS deposit account holders as applicable to the financial statements published by IIFS to meet the common information needs of the users of such statements.

This standard is not applicable to any funds received by IIFS on basis other than Mudaraba and/or Musharaka contract.

Sources:

- Latifah et. al. (2012); "History and Development of IFRS and AAOIFI and Their Future Challenge", Cambridge Business & Economics Conference, 2012
- <http://www.aaofi.com/> {accessed on September 5, 2014}
- <http://www.secp.gov.pk/> {accessed on September 5, 2014}

Events and Developments at IBD

Developments

Establishment of First Islamic Banking Subsidiary- MCB Islamic Bank

MCB Bank has been granted license by SBP for establishing the very first Islamic banking subsidiary (IBS) in the country with the name of “MCB Islamic Bank Ltd.”. It is expected that other larger conventional banks having Islamic banking branches will also follow this path and more IBS will be formed.

Approval for NRSP Microfinance bank to start Islamic Microfinance

NRSP Microfinance bank has been given in principle approval to start Islamic microfinance operations by opening one Islamic microfinance branch in Bahawalpur. NRSP bank is going to be the first Microfinance bank to start Islamic Microfinance operations in Pakistan.

Events

Module – I of “Fundamentals of Financial Accounting” for Shariah Scholars

Held on April 10, 2014 at LRC, SBP, Karachi

Keeping in view the training needs identified at various forums, Islamic Banking Department (IBD) organized Module – I of a training course on “Fundamentals of Financial Accounting” for Shariah Advisors of Islamic Banking Institutions (IBIs) during April 10 – 12, 2014 at LRC – SBP. The same was inaugurated by Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan. The training was attended by Shariah Advisors from IBIs and chairman of Shariah Advisory Board – Securities and Exchange Commission of Pakistan (SECP). Conducting such programs is in line with IBD’s objective of improving awareness of Islamic finance among different segments of society.

Meeting with Officials of Ministry of Finance

Held on May 14, 2014 at NIBAF, Islamabad

As per the advice of the ‘Steering Committee for Promotion of Islamic Banking’ and SBP Shariah Board, IBD arranged a special session for senior officials of Ministry of Finance, Planning Commission & Debt Management Department of Government of Pakistan on Sukuk structures, documentation and issuance, etc. on May 14, 2014 at National Institute of Banking and Finance (NIBAF), Islamabad. In this regard, a team comprising of SBP representative, Shariah advisor and market practitioners briefed participants on project financing Sukuk.

Awareness Sessions by IFAAS – UK

Held on June 17, 2014 at LRC, SBP, Karachi

A delegation of Islamic Finance Advisory & Assurance Services (IFAAS), UK visited SBP on June 17, 2014 and delivered two presentations on “Liquidity Management Product” and “Mudaraba Product” at LRC – SBP. The first presentation was attended by officials from within SBP, while the second session was meant for officials of Product Development departments of IBIs.

Islamic Banking News and Views

News

Basel III-compliant Sukuk, a catalyst for the global Sukuk market

Over the past 16 months, since the implementation of Basel III in January 2013, a total of eight Basel III-compliant Sukuk issuances have been made. Auctioned by seven different issuing banks across Malaysia, Saudi Arabia and the UAE, the deals raised approximately US\$4.93 billion. According to KFH Research, the gradual implementation of Basel III accords has led Islamic banks to turn towards Basel III-compliant Sukuk instruments to satisfy the revised capital standards.

www.islamicfinancenews.com

Global Islamic banking assets to exceed \$3.4trn by 2018, says EY

Global Islamic banking assets with commercial banks are on course to exceed \$3.4 trillion by 2018, fuelled by growing economic activity in core Islamic finance markets, according to specialists at Ernst and Young. Its Global Islamic Banking Centre said across the six markets of Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT), the combined profits of Islamic banks broke the \$10 billion mark for the first time at the end of 2013. If the current growth rate continues, the Islamic banking profit pool across QISMUT markets is set to exceed \$25 billion by 2018, a statement said.

<http://www.arabianbusiness.com/global-islamic-banking-assets-exceed-3-4trn-by-2018-says-ey-550849.html>

Tighter capital restrictions for Islamic banks under Basel III

The landscape of Islamic banking is changing along with the shifts in the global regulatory structure as a result of Basel III standards, in particular those relating to capital adequacy. The standards don't create an imperative need for Islamic banks to raise new capital to replace Tier 3 capital instruments that will be phased out because, by and large, Islamic banks don't have any Tier 3 capital.

http://www.zawya.com/story/Tighter_capital_restrictions_for_Islamic_banks_under_Basel_III-ZAWYA20140616071703/

First Sukuk by Japanese Bank

The Bank of Tokyo-Mitsubishi UFJ (Malaysia) Bhd (BTMU Malaysia) will issue a US\$500 million (RM1.6 billion) sukuk, marking the first Islamic bond issuance in Malaysia and the global market by a Japanese commercial bank.

<http://www.malaysiandigest.com/business/503866-first-sukuk-by-japanese-bank.html>

Mufti Taqi Usman selected for precious award for promoting Islamic banking

Famous scholar of Pakistan, Mufti Taqi Usmani has been selected for 'Islamic Banking and Finance' award for promoting Islamic banking. According to Arab website, along with Mufti Taqi Usmani, British professor Rodney Wilson also been given this award. According to the website, Mufti Taqi Usmani and Rodney Wilson have been selected unanimously by the committee comprised by famous scholars and experts.

<http://www.thenewstribes.com/2014/05/10/mufti-taqi-usman-selected-for-precious-award-for-promoting-islamic-banking/>

Dar says Pak will issue Islamic bond denominations in dollars

Federal Minister Ishaq Dar vowed that Pakistan was up to issue an Islamic bond denominated in US dollars for Islamic banking institutions and funds. Dar made these comments during a sitting with the outgoing Saudi envoy to Pakistan Dr Abdul Aziz Al-Ghadeer, who paid a farewell call on him at the ministry concerned. Through prudent macro-economic management, Dar informed the ambassador, that austerity measures, resorting to external sources of funding and retiring domestic debt obligations, the government has been successful in putting the economy on the stable growth trajectory.

<http://www.pakistantoday.com.pk/2014/05/13/business/dar-says-pak-will-issue-islamic-bond-denominations-in-dollars/>

Pakistan plans new Islamic bank capital adequacy rules, money market

Pakistan's central bank will phase in new rules on capital adequacy for Islamic banking and intends to develop a Sharia-compliant interbank money market later this year. The initiatives are part of an ambitious five-year plan by the regulator to promote Islamic finance through an array of proposed legislative changes, product incentives and instructions to market participants.

<http://www.reuters.com/article/2014/04/30/islamic-finance-pakistan-idUSL6N0NL12R20140430>

MCB decides against acquiring Burj Bank shares

MCB Bank has decided to set up its own separate Islamic Banking Subsidiary instead of acquiring 55 percent shares of Burj Bank. Two months ago, MCB Bank Limited decided to acquire Burj Bank and reached an understanding with the majority shareholders of Burj Bank Limited to invest in new and existing shares.

<http://www.brecorder.com/top-stories/0/1175564/>

D8 Central banks experts meeting: SBP working on making financial markets more inclusive: Wathra

Governor of the State Bank of Pakistan Ashraf Mahmood Wathra has said that SBP has been working on making financial markets more inclusive. Inaugurating the D8 Countries' Central Banks Experts Meeting in Islamabad, Wathra stressed the need for continued collaboration amongst D8 central banks for inclusive economic growth. The meeting was held as part of the D8 organization for economic cooperation on promoting inclusive financial services and Islamic banking.

<http://www.dailytimes.com.pk/business/22-Apr-2014/d8-central-banks-experts-meeting-sbp-working-on-making-financial-markets-more-inclusive-wathra>

Shariah Governance Framework for Islamic banks in Pakistan

The State Bank issued a comprehensive Shariah Governance Framework (SGF) to strengthen the overall Shariah compliance environment in Islamic banking institutions. The framework is aimed at institutionalising the Shariah compliance function in Islamic banking institutions. It explicitly defines the

roles and responsibilities of all organs of IBIs, including board of directors, executive management, Shariah Board, Shariah Compliance Department and Internal and External Auditors towards Shariah Compliance.

<http://www.dawn.com/news/1097802/framework-for-islamic-banks>

SBP encourages research on Islamic banking

Deputy Governor State Bank of Pakistan (SBP) Saeed Ahmed has said that educational institutes are being encouraged to initiate research on Islamic banking. Speaking at the Lahore Chamber of Commerce and Industry (LCCI), he said the SBP is in regular contact with the Institute of Business Administration Karachi for the establishment of a centre of excellence on Islamic banking. After this, three more such centres would also be established in Lahore, Islamabad and Karachi.

<http://www.thenews.com.pk/Todays-News-3-247330-SBP-encourages-research-on-Islamic-banking>

ITFC for enhancing trade partnership with Pakistan

International Islamic Trade Finance Corporation (ITFC) is interested in enhancing its long-term trade partnership with Pakistan in its endeavours to achieve economic targets. Chief Executive Officer of ITFC Waleed Al-Wohaib talking to Federal Minister for Finance Senator Ishaq Dar on the sidelines of Islamic Development Bank (IDB) in 39th meeting of Board of Governors at Jeddah showed keen interest in enhancing partnership with Pakistan after admitting Pakistan economy has shown progress and its economic and financial policies have gained international credibility.

<http://www.dailytimes.com.pk/business/23-Jul-2014/pakistan-focuses-on-regional-economic-connectivity-integration>

Pakistan's Wasil Foundation wins Islamic microfinance challenge

The Wasil Foundation, a Pakistan-based microfinance institution, won the Islamic Microfinance Challenge, a global contest to identify innovative Sharia-compliant financial products. Wasil won the \$100,000 grant award for its package of products aimed specifically at smallholder farmers. The theme of the Islamic Microfinance Challenge was "Beyond Murabaha."

<http://www.digitaljournal.com/pr/1992924>

Ijara Sukuk auction fetches Rs 49.537 billion

The government of Pakistan successfully raised Rs 49.537 billion through the auction of government of Pakistan Ijara Sukuk against M-3 (Motorway). The State Bank of Pakistan (SBP) conducted the auction and overall some Rs 113.720 billion worth bids were received at margin range of minus 30.00 to minus 355.00 basis points (of weighted average yield of the 6-month Market Treasury Bills). The target for the auction was set at Rs 49.5 billion.

<http://www.brecorder.com/market-data/stocks-a-bonds/0/1194674/>

Articles/Views:

Give Islamic finance a chance

In the wake of the 2008 financial melt-down, bankers and regulators appeared to start talking seriously about adopting the more stable and transparent principles of Islamic finance, as opposed to the harum-scarum and frequently dishonest manipulations of the conventional financial markets.

<http://www.arabnews.com/news/553711>

Professionalism in Islamic finance

Working in Islamic financial institutions (IFIs), a certain culture is expected from being part of the Islamic banking and finance (IBF) industry. There is no doubt that IBF is primarily a business phenomenon, i.e, it does not have a hidden political or religious agenda, yet it cannot be denied that IBF has a civic dimension.

<http://themalaysianreserve.com/main/columns/66-shariah-a-finance-by-dr-humayon-dar/5731-professionalism-in-islamic-finance>

The difference between conventional and Islamic fixed deposits

Fixed deposits (FDs) continue to be a banking staple for the financial industry. This is especially so for conventional FDs are an extremely popular way to save and grow your money by being savvy with your investment with little risk. But what about the Islamic FD? The introduction of Islamic banking products into our market may have caused some confusion may linger over the difference between a conventional and an Islamic fixed deposit. Here's a breakdown of what you need to know.

<https://my.news.yahoo.com/difference-between-conventional-islamic-fixed-deposits-014912204.html>

Regional Growth vs Global Opportunities – the debate for the future of Islamic banking

With estimated assets of commercial banks to grow at a CAGR of 19.7% over 2013–18 across the QISMUT countries, Islamic banks are expected to reach US\$1.6t by 2018 (2012: US\$567b). Globally, Islamic banks are already serving c. 38 million customers which will be rising thus resulting in growth of Islamic banking assets to US\$3.4t by 2018. Islamic banking is an increasingly visible alternative to conventional banks.

<http://www.openpr.com/news/289794/Regional-Growth-vs-Global-Opportunities-the-debate-for-the-future-of-Islamic-banking.html?SID=4b895a8abe57870e868a0d194be5e092>

Islamic Banking Branch Network

(As of June 30, 2014)

| Type | Name of Bank | No of Branches* |
|--|--|-----------------|
| Islamic Banks | AlBaraka Bank (Pakistan) Limited | 108 |
| | BankIslami Pakistan Limited | 112 |
| | Burj Bank Limited | 74 |
| | Dubai Islamic Bank Pakistan Limited | 125 |
| | Meezan Bank Limited | 358 |
| | | 777 |
| Islamic Branches of Conventional Banks | Allied Bank Limited | 1 |
| | Askari Bank Limited | 39 |
| | Bank AL Habib Limited | 17 |
| | Bank Alfalah Limited | 145 |
| | Faysal Bank Limited | 53 |
| | Habib Bank Limited | 38 |
| | Habib Metropolitan Bank Limited | 6 |
| | MCB Bank Limited | 27 |
| | National Bank of Pakistan | 23 |
| | Silkbank Limited | 10 |
| | Sindh Bank | 1 |
| | Soneri Bank Limited | 15 |
| | Standard Chartered Bank (Pakistan) Limited | 10 |
| | Summit Bank Limited | 1 |
| | The Bank of Khyber | 44 |
| | The Bank of Punjab | 9 |
| United Bank Limited | 22 | |
| | | 461 |
| Sub Branches | AlBaraka Bank (Pakistan) Limited | 2 |
| | Askari Bank Limited | 2 |
| | BankIslami Pakistan Limited | 89 |
| | Faysal Bank Limited | 1 |
| | Habib Bank Limited | 2 |
| | United Bank Limited | 1 |
| | | 97 |
| | | 1335 |

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

| | | | | | | | | | | Annexure: II | |
|---|--|--------------|-------------|----------|-----------------|------------------|--------------------|------------|------------|--------------|----|
| <i>Province wise Break-up of Islamic Banking Branch Network</i> | | | | | | | | | | | |
| (As of June 30, 2014) | | | | | | | | | | | |
| Type | Bank Name | Azad Kashmir | Balochistan | FATA | Federal Capital | Gilgit-Baltistan | Khyber Pakhtunkhwa | Punjab | Sindh | Grand Total | |
| Islamic Banks | AlBaraka Bank (Pakistan) Limited | 1 | 3 | | 4 | 1 | 11 | 58 | 30 | 108 | |
| | BankIslami Pakistan Limited | 1 | 10 | 1 | 5 | 2 | 13 | 42 | 38 | 112 | |
| | Burj Bank Limited | 1 | 2 | | 4 | | 3 | 32 | 32 | 74 | |
| | Dubai Islamic Bank Pakistan Limited | 1 | 5 | | 7 | | 6 | 53 | 53 | 125 | |
| | Meezan Bank Limited | 5 | 11 | | 16 | | 32 | 170 | 124 | 358 | |
| | IB. Total | 9 | 31 | 1 | 36 | 3 | 65 | 355 | 277 | 777 | |
| Islamic Branches of Conventional Banks | Allied Bank Limited | | | | | | | 1 | | 1 | |
| | Askari Bank Limited | | 2 | | 2 | 1 | 6 | 20 | 8 | 39 | |
| | Bank AL Habib Limited | | 1 | | | | 1 | 3 | 12 | 17 | |
| | Bank Alfalah Limited | 1 | 5 | | 8 | | 8 | 83 | 40 | 145 | |
| | Faysal Bank Limited | | 2 | | 3 | | 14 | 22 | 12 | 53 | |
| | Habib Bank Limited | 2 | 1 | 1 | 3 | | 4 | 16 | 11 | 38 | |
| | Habib Metropolitan Bank Limited | | | | 1 | | | 1 | 4 | 6 | |
| | MCB Bank Limited | | 1 | | 2 | | 2 | 13 | 9 | 27 | |
| | National Bank of Pakistan | 1 | | | 1 | | 2 | 11 | 8 | 23 | |
| | Silkbank Limited | | 1 | | 1 | | 2 | 4 | 2 | 10 | |
| | Sindh Bank | | | | | | | | | 1 | 1 |
| | Soneri Bank Limited | | 1 | | 2 | 1 | 1 | 6 | 4 | 15 | |
| | Standard Chartered Bank (Pakistan) Limited | | | | 1 | | 1 | 2 | 6 | 10 | |
| | Summit Bank Limited | | | | | | | | | 1 | 1 |
| | The Bank of Khyber | | | 2 | 2 | 1 | | 29 | 7 | 3 | 44 |
| | The Bank of Punjab | | | | | | | 4 | 5 | | 9 |
| United Bank Limited | 1 | 2 | | 1 | | | 4 | 8 | 6 | 22 | |
| | SAIBBs Total | 5 | 18 | 3 | 26 | 2 | 78 | 202 | 127 | 461 | |
| Sub Branches | AlBaraka Bank (Pakistan) Limited | | | | 1 | | | | 1 | 2 | |
| | Askari Bank Limited | | | | 1 | | | | 1 | 2 | |
| | BankIslami Pakistan Limited | 1 | 6 | | 8 | | 4 | 32 | 38 | 89 | |
| | Faysal Bank Limited | | | | | | | 1 | | 1 | |
| | Habib Bank Limited | | | | | | | | 2 | 2 | |
| | United Bank Limited | | | | | | 1 | | | 1 | |
| | Sub Branches Total | 1 | 6 | - | 10 | - | 5 | 33 | 42 | 97 | |
| | Grand Total | 15 | 55 | 4 | 72 | 5 | 148 | 590 | 446 | 1,335 | |

District wise Break-up of Islamic Banking Branch Network

(As of June 30, 2014)

| S. No | Province | District | No of Branches | S. No | Province | District | No of Branches | |
|---------------------|----------------|---------------------|----------------|--------------------------|--------------------|------------------|----------------|--|
| 1 | Sindh | Badin | 3 | 49 | Khyber Pakhtunkhwa | Abottabad | 12 | |
| 2 | | Dadu | 3 | 50 | | Banu | 4 | |
| 3 | | Ghotki | 1 | 51 | | Batagram | 3 | |
| 4 | | Hyderabad | 26 | 52 | | Buner | 2 | |
| 5 | | Jacobabad | 1 | 53 | | Charsadda | 5 | |
| 6 | | Jamshoro | 1 | 54 | | Chitral | 3 | |
| 7 | | Karachi City | 372 | 55 | | Dera Ismail Khan | 6 | |
| 8 | | Larkana | 3 | 56 | | Hangu | 2 | |
| 9 | | Matiari | 1 | 57 | | Haripur | 6 | |
| 10 | | Mirpurkhas | 6 | 58 | | Kohat | 5 | |
| 11 | | Naushero Feroze | 1 | 59 | | Lower Dir | 1 | |
| 12 | | Nawabshah | 6 | 60 | | Malakand | 1 | |
| 13 | | Sanghar | 6 | 61 | | Mansehra | 12 | |
| 14 | | Sukkur | 10 | 62 | | Mardan | 10 | |
| 15 | | Tando Allahyar | 4 | 63 | | Nowshera | 5 | |
| 16 | | Tando Mohammad Khan | 1 | 64 | | Peshawar | 50 | |
| 17 | | Umer Kot | 1 | 65 | | Shangla | 1 | |
| Sindh Total | | | 446 | 66 | | Swabi | 5 | |
| 18 | Punjab | Attock | 12 | 67 | | Swat | 9 | |
| 19 | | Bahawalnagar | 7 | 68 | | Tank | 1 | |
| 20 | | Bahawalpur | 4 | 69 | | Upper Dir | 5 | |
| 21 | | Chakwal | 6 | KP Total | | | 148 | |
| 22 | | Dera Ghazi Khan | 6 | 70 | Gilgit-Baltistan | Baltistan | 1 | |
| 23 | | Faisalabad | 55 | 71 | | Diamir | 3 | |
| 24 | | Gujranwala | 23 | 72 | | Gilgit | 1 | |
| 25 | | Gujrat | 20 | | GB Total | 5 | | |
| 26 | | Hafizabad | 2 | 73 | FATA | Khyber Agency | 1 | |
| 27 | | Jhang | 5 | 74 | | Orakzai Agency | 3 | |
| 28 | | Jhelum | 8 | FATA Total | | | 4 | |
| 29 | | Kasur | 4 | 75 | Capital | Islamabad | 72 | |
| 30 | | Khanewal | 10 | | Capital | 72 | | |
| 31 | | Khushab | 5 | 76 | Balochistan | Chagi | 1 | |
| 32 | | Lahore City | 214 | 77 | | Gawadar | 1 | |
| 33 | | Layyah | 1 | 78 | | Kila Abdullah | 4 | |
| 34 | | Lodhran | 1 | 79 | | Killa Saifullah | 3 | |
| 35 | | Mandi Bahauddin | 2 | 80 | | Lasbela | 2 | |
| 36 | | Mianwali | 3 | 81 | | Loralai | 5 | |
| 37 | | Multan | 40 | 82 | | Pishin | 1 | |
| 38 | | Muzaffargarh | 5 | 83 | | Quetta | 37 | |
| 39 | | Okara | 8 | 84 | | Zhob | 1 | |
| 40 | | Pakpattan | 3 | Balochistan Total | | | 55 | |
| 41 | | Rahim Yar Khan | 14 | 85 | Azad Kashmir | Mirpur | 11 | |
| 42 | | Rawalpindi | 71 | 86 | | Muzaffarabad | 3 | |
| 43 | | Sahiwal | 6 | 87 | | Poonch | 1 | |
| 44 | | Sargodha | 14 | AJK Total | | | 15 | |
| 45 | | Sheikhupura | 9 | Grand Total | | | 1335 | |
| 46 | Sialkot | 21 | | | | | | |
| 47 | Toba Tek Singh | 4 | | | | | | |
| 48 | Vehari | 7 | | | | | | |
| Punjab Total | | | 590 | | | | | |