ISLAMIC BANKING BULLETIN

January – March 2022

Islamic Banking Department
State Bank of Pakistan

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Progress & Market Share of Islamic Banking Industry

Overview

Assets of Islamic Banking Industry (IBI) continued to grow and increased by Rs 368 billion during the quarter January to March, 2022 to reach Rs 5,945 billion by end March, 2022. Deposit base of IBI also expanded by Rs 35 billion during the period under review and was recorded at Rs 4,246 billion by end March, 2022. The year-on-year growth of assets and deposits of IBI was recorded at 35.5 percent and 22.8 percent, respectively by end March, 2022. As a result of continued growth, the market share of IBI's assets and deposits in the overall banking industry rose to 19.4 percent and 20 percent, respectively by end March, 2022 (**Table-1**).

During the period under review, net investments and financing of IBI climbed by Rs 350 billion and Rs 94 billion, respectively. The year on year (YoY) growth of net investments and financing of IBI was recorded at 74.6 percent and 37. 8 percent respectively, by end March, 2022. It is worth mentioning that the market share of financing of IBI in advances of overall banking industry was 26 percent by end March, 2022.

Table-1: Industry Progress and Market Share (Amount in PKR Billion)

Particulars	Period			Yearly Growth (%)			Share in Overall Banking Industry (%)		
	Mar-21	Dec-21	Mar-22	Mar-21	Dec-21	Mar-22	Mar-21	Dec-21	Mar-22
Assets	4,389	5,577	5,945	30.6	30.6	35.5	17.0	18.6	19.4
Deposits	3,457	4,211	4,246	28.4	24.2	22.8	18.7	19.4	20.0
Number of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
Number of Branches*	3,504	3,956	3,983	7.8	14.5	13.7	-	-	-
Number of Islamic Banking Windows	1,595	1,442	1,418	16.0	(12.9)	(11.1)	-	-	-

** including sub-branches*

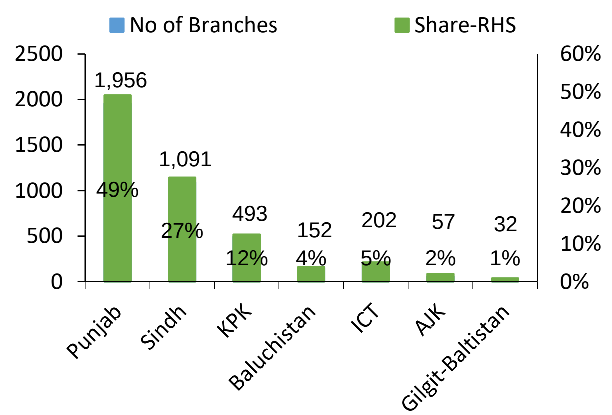
Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)

Branch Network of Islamic Banking Industry

The network of IBI consisted of 22 Islamic Banking Institutions (IBIs), including 5 full-fledged Islamic Banks (IBs) and 17 Conventional Banks having Islamic Banking Branches (IBBs). During the period under review, 27 standalone branches were added to the branch network of IBI. The branch network of IBI increased to 3,983 (spread across 127 districts of the country) by end March, 2022. **Figure-1** shows concentration of branches in different regions of Pakistan.

Figure 1: Region Wise Branch Network

(Number)



Source:SBP

The number of Islamic banking windows (dedicated counters at conventional branches) operated by IBBs was recorded at 1,418 by the end March 2022 (**Annexure I**).

Assets and Liabilities Structure

Assets

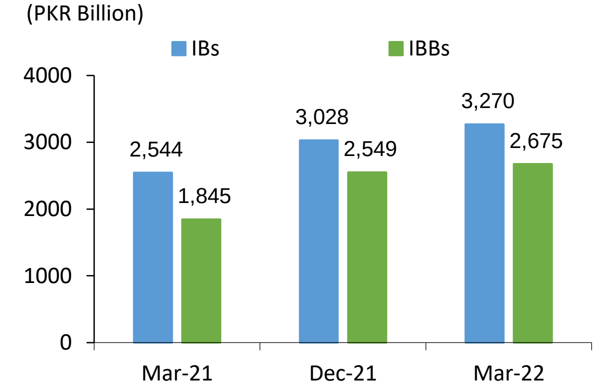
During the period under review, assets of IBI increased by Rs 368 billion and were registered at Rs 5,945 billion, compared to Rs 5,577 billion in the previous quarter. Market share of IBI's assets in overall banking assets increased to 19.4 percent by end March, 2022 compared to 18.6 percent in the previous quarter. The expansion in assets was mainly contributed by investments (net), which observed a quarterly rise of Rs 350 billion. On the other hand, financing (net) of IBI showed an increase of Rs 94 billion during the period under review. The share of net financing and investments in total assets of IBI stood at 45.3 percent and 37 percent, respectively by end March, 2022 (see section below on **Investments** and **Financing and Related Assets** for details).

Breakup of Assets of IBs and IBBs

Assets of IBs observed an acceleration of Rs 242 billion during the period under review and reached Rs 3,270 billion by end March, 2022. Whilst, assets of IBBs grew by Rs 126 billion and stood at Rs 2,675 billion by end March, 2022. The share of IBs and IBBs in overall assets of IBI was registered at 55 percent and 45 percent, respectively by end March, 2022 (**Figure-2**).

Figure 2: Breakup of Assets

(PKR Billion)



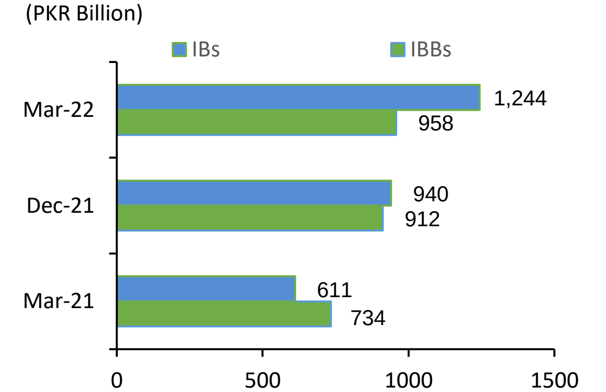
Source: SBP

Investments

Investments (net) of IBI reflected a robust growth of Rs 350 billion during the period under review to reach Rs 2,202 billion by end March, 2022. The YoY growth of investments (net) of IBI was recorded at 74.6 percent by end March, 2022. The increase was mainly driven by investments made by IBI in the Government of Pakistan (GoP) domestic Ijarah Sukuk (GIS). During the period under review, the GoP issued six GIS amounting Rs 479 billion. An analysis of investments made by IBs & IBBs shows that investments of IBs grew by Rs 304 billion during the period under review and stood at Rs 1,244 billion by end March, 2022. In contrast, investments of IBBs experienced a surge of Rs 46 billion to reach Rs 958 billion (**Figure-3**).

Figure 3: Breakup of Investments

(PKR Billion)

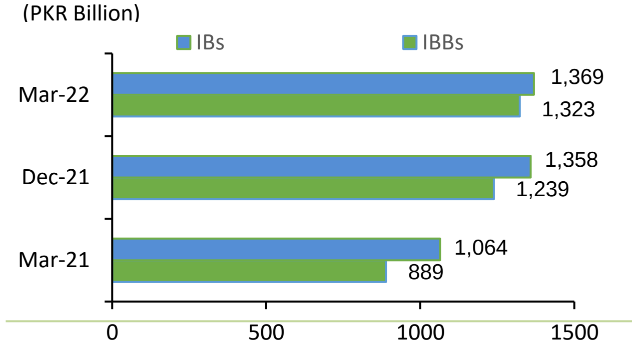


Source: SBP

Financing & Related Assets

Financing & related assets (net) of IBI augmented by Rs 95 billion during the period under review to reach Rs 2,692 billion by end March, 2022. The YoY growth of financing of IBI was recorded at 37. 8 percent by end March, 2022. Bifurcation of financing and related assets (net) among IBs and IBBs divulges that financing & related assets (net) of IBs displayed an increase of Rs 11 billion during the period under review and recorded at Rs 1,369 billion by end March, 2022. On the other hand, financing portfolio of IBBs indicated relatively higher surge of Rs 84 billion during the period under review to reach Rs 1,323 billion (**Figure-4**). It is important to highlight that the growth rate of financing portfolio of IBI remained remarkable during the last few years compared to the advances of overall banking industry. Owing to this growth, the market share of financing of IBI in advances of overall banking industry increased to 26 percent by end March, 2022.

Figure 4: Breakup of Financing



Source: SBP

Mode wise break-up of financing shows that the share of Diminishing Musharaka (35.2 percent) remained highest in the overall financing of IBI, followed by Musharaka (21.8 percent) and Murabaha (13.5 percent) by end March, 2022 (**Table-2**). In terms of sector wise break-up of financing, textile (16.4 percent) and production & transmission of energy (11.7 percent) were two leading sectors in terms of their share in the overall financing of IBI by end March, 2022 (**Table-3**).

Table-2: Mode Wise Financing (Share in %)

Mode	Mar-21	Dec-21	Mar-22
Murabaha	13.5	13.6	13.5
Ijarah	4.9	4.4	4.8
Musharaka	24.8	24.9	21.8
Diminishing Musharakah	34.2	33.8	35.2
Salam	2.4	2.0	2.1
Istisna	8.9	8.3	9.3
Others	11.3	13.0	13.3
Total	**100**	**100**	**100**

Table-3: Sector Wise Financing (Share in %)

Sector	Mar-21	Dec-21	Mar-22	Overall Banking Industry
Chemical & pharmaceuticals	3.5	3.9	4.0	3.4
Agribusiness	7.5	13.9	11.3	7.8
Textile	14.8	16.2	16.4	16.2
Cement	3.4	2.7	2.5	2.0
Sugar	4.6	2.4	4.5	3.6
Shoes and leather garments	0.4	0.4	0.4	0.4
Automobile & transportation equipment	1.1	1.3	1.5	1.8
Financial	0.3	0.2	0.3	3.1
Insurance	0.0	0.0	0.0	0.1
Electronics & electrical appliances	0.9	1.2	1.1	1.4

Production & transmission of energy	13.8	11.0	11.7	14.0
Individuals	10.8	11.2	11.4	10.0
Others	38.9	35.5	34.8	36.3
Total	**100**	**100**	**100**	**100**

The breakup of client wise financing portfolio transpires that the share of corporate sector (69.6 percent) remained dominant in the overall financing of IBI followed by commodity financing (14.4 percent) and consumer finance (11.1 percent). While, the share of SMEs and agriculture financing remained low compared to the overall banking industry's share in financing to these sectors (**Table-4**).

Table-4: Client Wise Financing Portfolio (Share in %)

Segment	Mar-21	Dec-21	Mar-22	Overall Banking Industry
Corporate Sector	69.7	68.0	69.6	71.7
SMEs	3.0	2.3	2.1	4.7
Agriculture	0.3	0.8	1.1	3.9
Consumer Finance	10.5	10.6	11.1	8.2
Commodity Financing	14.9	16.7	14.4	9.5
Others	1.6	1.7	1.7	2.0
Total	**100**	**100**	**100**	**100**

Asset Quality

During the period under review, key indicators of asset quality including non-performing finances (NPFs) to financing (gross) and net NPFs to net financing, remained unchanged compared to the previous quarter and stood at 2.7 percent and 0.3 percent, respectively by end March, 2022. These ratios were relatively better than those of overall banking industry averages (**Table-5**).

Table-5: Assets Quality Ratios (%)

Ratio	Mar-21	Dec-21	Mar-22	Overall Banking Industry
NPFs to Financing (gross)	3.5	2.7	2.7	7.8
Net NPFs to Net Financing	0.6	0.3	0.3	0.7
Provisions to NPFs	82.2	90.8	90.7	91.5

Liabilities

Deposits of IBI grew by Rs 35 billion during the period under review and were recorded at Rs 4,246 billion by end March, 2022. Market share of IBI's deposits in overall banking industry's deposits increased to 20 percent by end March, 2022 compared to 19.4 percent in the previous quarter.

Table-6: Break up of Deposits (Amount in PKR Billion, Growth in %)

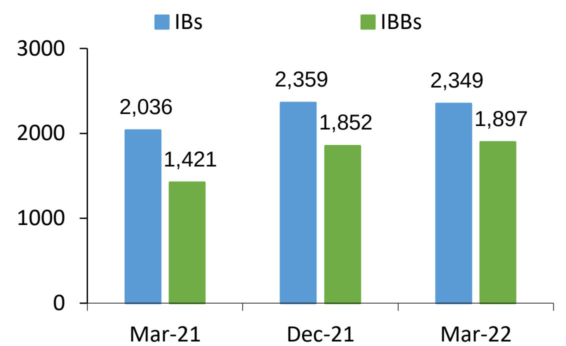
Category	Mar-21	Dec-21	Mar-22	Yearly Growth (%)	Quarterly Growth (%)
A. Deposits (1+2)	**3,457**	**4,211**	**4,246**	**22.8**	**0.8**
1. Customers	**3,205**	**3,878**	**3,947**	**23.2**	**1.8**
Fixed Deposits	644	667	673	4.5	0.9
Saving Deposits	1,292	1,526	1,509	16.8	(1.1)
Current Deposits	1,225	1,642	1,721	40.5	4.8
Others	44	43	45	2.3	4.7

2. Financial Institutions	**252**	**333**	**299**	**18.7**	**(10.2)**
Remunerative Deposits	242	316	280	15.7	(11.4)
Non-remunerative Deposits	10	17	19	90.0	11.8
Local Currency Deposits	3,275	3978	4,002	22.2	0.6
Foreign Currency Deposits	182	232	244	34.1	5.2

Category wise breakup of deposits illustrates that current deposits and fixed deposits increased by Rs 79 billion and Rs 6 billion, respectively during the period under review. In contrast, deposits of financial institutions and saving deposits decreased by Rs 34 billion and Rs 17 billion, respectively (**Table-6**). By end March, 2022, the deposit base of IBs and IBBs was recorded at Rs 2,349 billion and Rs 1,897 billion, respectively. The share of IBs and IBBs in overall deposits of IBI was 55 percent and 45 percent, respectively by end March, 2022 (**Figure-5**).

Figure 5: Breakup of Deposits

(PKR Billion)



Source: SBP

Liquidity

During the period under review, 'liquid assets to total assets' and 'liquid assets to total deposits' ratios further improved compared to previous quarter and were registered at 36.3 percent and 50.8 percent, respectively by end March, 2022. This improvement in both ratios was mainly due to investments made by IBI in GIS during the period under review. Financing to deposits ratio (net) of IBI enlarged to 63.4 percent by March, 2022. It is pertinent to mention here that financing to deposits ratio (net) of IBI remained significantly higher than the industry average (**Table-7**).

Table-7: Liquidity Ratios (%)

Ratios	Mar-21	Dec-21	Mar-22	Overall Banking Industry
Liquid Assets to Total Assets	27.8	33.2	36.3	55.2
Liquid Assets to Total Deposits	35.3	44.0	50.8	79.8
Financing to Deposits (Net)	56.5	61.7	63.4	48.6

Capital

The ratios of 'capital to total assets' and 'capital minus net NPAs to total assets' of IBI were registered at 5.8 percent and 5.6 percent, respectively by end March, 2022 (**Table-8**).

Table-8: Capital Ratios (%)

Ratios	Mar-21	Dec-21	Mar-22	Overall Banking Industry
Capital to Total Assets	6.2	5.7	5.8	6.3
(Capital - Net NPAs) to Total Assets	5.9	5.5	5.6	6.0

Profitability

Profit before tax of IBI was recorded at Rs 30.9 billion by end March, 2022 compared to Rs 21.3 billion in the same quarter last year. Whereas, earnings ratios like return on assets (ROA) and return on equity (ROE) (before tax) were recorded at 2.1 percent and 37.2 percent, respectively by end March, 2022. Operating expense to gross income ratio of IBI stood at 51.3 percent by end March, 2022 (**Table-9**).

Table-9: Profitability Ratios (%)

Particulars	Mar-21	Dec-21	Mar-22	Overall Banking Industry
Profit before tax (PKR billion)	21.3	94.6	30.9	139.9
ROA before tax	2.0	2.0	2.1	1.8
ROE before tax	31.9	32.6	37.2	29.1
Operating Expense to Gross Income	51.5	50.6	51.3	52.8

Country Model: The Republic of Kenya

i. Introduction

The Republic of Kenya is a sub-Saharan African nation with a population of 47.6 million, according to Kenya's population and housing census of 2019. The tourism and agriculture sectors play a significant role in the country's economic growth. The World Bank Global Economic Prospect has forecasted the GDP to grow by 4.7 percent in 2022. Kenya has a robust financial sector with 39 banks in the country which collectively hold USD 39 billion in assets.

ii. Islamic Banking and Finance

Since the advent of Islamic banking in Kenya in 2007, the Central Bank of Kenya (CBK) has licensed three full-fledged Islamic banks: Dubai Islamic Bank Kenya, Gulf African Bank (GAB) and First Community Bank. The First Community Bank (FCB) was the first to be formally approved on 29th May, 2007 and commenced operations on 1st June, 2008. Subsequently, the Gulf Africa Bank (GAB) began operations in 2008. Conventional banks, including Chase Iman, National Amanah, Kenya Commercial Bank (KCB) and Standard Chartered, offer Islamic products and services on a window basis. Similarly, Bank Al Habib has a representative office in Kenya under the name BAHL-Representative Office. As of 3Q2019 Islamic banking industry in Kenya accounted for 1.4 percent of the entire banking industry.

iii. Regulatory Environment

In Kenya, both Islamic and conventional banks are regulated by three sets of regulations, including the Central Bank of Kenya Act 2015, Banking Act 2015 and Finance Act of 2010. The Finance Act 2010 amended Section 45 of the Central Bank of Kenya Act to allow the Central Bank as the Government's fiscal agent to recognize the payment of a "return" rather than "interest" on government securities. This amendment opened up the spectrum of Sharia-compliant investments in the country. However, the country's Shariah Governance Framework is in its development stage, which was initiated by the central bank in 2016.

Moreover, in 2018, the Finance Act 2017 was passed into law, with provisions for Sukuk transactions and updates on the Stamp Duty Act, Income Tax Act and Value-Added Tax Act that afford Islamic finance transactions the same tax treatment as their conventional counterparts. Sukuk issuances are now exempt from value-added taxes and stamp duties. The Insurance Regulatory Authority regulates the Takaful sector under the Insurance (Amendment) Act 2016, which only came into force in January 2017.

iv. Sukuk

The Sukuk market in Kenya is still in its development phase, which shall be regulated by the Capital Market Authority of Kenya. The Government had been considering the issuance of its debut sovereign Sukuk in 2018 but was postponed indefinitely. The Government is now considering international debt instruments that include Shariah-compliant ones to raise an estimated KES250 billion (US$2.3 billion). In 2017, Nairobi Securities Exchange and NASDAQ Dubai signed a MoU to jointly establish a Sukuk market in Kenya to promote Islamic capital market products.

v. Takaful

Takaful is still in the nascent stage in Kenya. The country has only two fully-fledged Islamic insurance companies, i.e., Takaful Insurance of Africa and GAB Takaful, with Kenya Reinsurance Corporation and FCB offering Takaful products on a window basis.

vi. Asset Management

Kenya has an established asset management market. The Shariah-compliant Collective Investment Scheme (CIS) by Genghis Capital and investment banking services by Salaam Investment Bank are among the capital market players. The country also has two Islamic pension funds, including Country Pension Fund (CPF), offering a Shariah-compliant pension scheme known as 'Salih' and the Local Authorities Fund (Lapfund), known as Amal.

vii. Way forward

The Central Bank of Kenya partnering with the sector to promote financial inclusion by supporting innovation in the Sharia-compliant banking sector is a welcoming step forward. Kenya hosts a more than five million Muslim population, which can be leveraged by providing Islamic financial products tailored to their needs. The future of Islamic finance in Kenya is bright; however, delay in the development and execution of Islamic finance regulatory frameworks hinders the progress of Islamic banking in the country.

Sources of Information

- Kenya Population and Housing Census {https://web.archive.org/}
- World Bank Global Economic Prospects Report 2021 {https://openknowledge.worldbank.org/}
- IFSB Stability Report 2021 {https://www.ifsb.org/sec03.php}
- Central Bank of Kenya {https://www.centralbank.go.ke/}
- Islamic Finance News {https://www.islamicfinancenews.com/}
- University of Nairobi {http://erepository.uonbi.ac.ke}

Special Section: An Overview of Global Islamic Fintech Report 2021

(In the special section of this issue, few extracts of "Global Islamic Fintech Report 2021" are being presented).

Overview

The estimated Islamic Fintech market size for OIC countries in 2020 was $49 Bn. This represents 0.72% of the current global Fintech market size, based on transaction volumes. The Islamic Fintech market size for OIC countries is projected to grow at 21% CAGR to $128 Bn by 2025. This compares favorably to the conventional Fintech CAGR of 15%. The top 5 OIC Fintech markets by transaction volume for Islamic Fintech are Saudi Arabia, UAE, Malaysia, Turkey and Kuwait, indicating a strong dominance by MENAT region countries. Collectively, the Top 5 markets account for 75% of the OIC Islamic Fintech market size, indicating high concentration of market activity among leading jurisdictions.

Market & Regulatory Developments

One of the most newsworthy stories of Islamic Fintech in 2020 was Wahed's acqusition of Niyah, since it provided clear evidence that the growth of the Islamic Fintech sector has now reached a point where one standalone Islamic Fintech can acquire another. In 2020, the global Islamic Fintech market also witnessed a number of innovative use cases that heralded a maturing of the market and which augur well for the future of the industry. These include LSE-listed Supply@ME Capital (SYME)'s plans to introduce Shariah-compliant inventory monetisation Fintech solution, as well as Islamic Fintech Ta3meed becoming the first Islamic Fintech in Saudi Arabia to provide purchase order financing. Moreover, new geographies such as non-OIC markets like Germany continue to open up to Islamic Fintech: INAIA, a German homegrown Islamic Fintech, is introducing real estate financing and payments solutions on its platform in 2021.

On the regulatory front, several key countries in Islamic Fintech introduced regulatory initiatives that will help facilitate the further growth of their national Islamic Fintech spaces. For instance, Saudi Arabia admitted another nine Fintechs into its regulatory sandbox, a sign of the swift pace it is moving at to grow Saudi Islamic Fintech. Meanwhile, Egypt's FRA approved a draft law regulating Fintech in non-banking financial activities. As a huge latent market for Islamic Fintech, this may help facilitate its growth in Egypt amid increasing Egyptian interest in Islamic finance.

2021 GIFT Index

- **Index Overview:**

Although there are an increasing number of countries which are seeing Islamic Fintech activity, or are well-placed to facilitate such activity, no specific ranking exists to do to compare such countries in the Islamic Fintech space. As such, a clear need exists for such an exercise, and this Report presents the first Global Islamic Fintech (GIFT) Index. This Index represents which countries are most conducive to the growth of Islamic Fintech Market & Ecosystem in their jurisdictions.

- **Inclusion Rationale**

The index comprises an overall ranking of 64 OIC and non-OIC countries. These countries were included on the basis of their existing Islamic Fintech market activity, the presence of Islamic finance capital (a facilitator of growth in Islamic Fintech), or due to their systemic importance to the wider global Fintech ecosystem (e.g. China, Japan).

- **Methodology**

The index applied a total of 32 indicators across five different categories for each country. These five categories are: Talent; Regulation; Infrastructure; Islamic Fintech Market & Ecosystem; and Capital. These categories were weighted before in order to derive an overall score, with a heavier weighting given to the Islamic Fintech Market & Ecosystem category, since this is the most indicative by far of a country's current conduciveness to Islamic Fintech specifically.

- **Results**

Malaysia, Saudi Arabia and the UAE lead the Index; OIC countries dominate Top 10, non-OIC ecosystems are developing fast.

Top 10: Within the set of 64 countries, 9 out of the Top 10 (90%) countries are OIC, Muslim majority countries; the exception is the UK, which has a thriving Islamic Fintech ecosystem due to various factors, e.g. active Islamic Fintech community and presence of several Islamic Fintechs; regulatory support; a thriving Fintech sector; and a ready talent pool from developed Islamic finance and technology sectors

Top 20: Compared to the Top 10 rankings, the Top 20 have a significantly higher proportion of non OIC countries, indicating that they are fast developing ecosystems which may compete with the incumbents in years to come: 12 out of the top 20 countries (60%) are OIC, Muslim-majority countries, while 8 (40%) are non-OIC countries.

Full report is available at Salaam Gateway website: Salaam Gateway - Global Islamic Economy Gateway

Events at Islamic Banking Department (IBD) – State Bank of Pakistan (SBP)

Training Programs on "Fundamentals of Islamic Banking Operations (FIBO)"

IBD, SBP in collaboration with National Institute of Banking and Finance (NIBAF) conducted four (04) online iterations of Fundamentals of Islamic Banking Operations (FIBO) program for participants in different cities across the country. These programs were aimed to enhance the capacity of the industry professionals, Shariah scholars, academia, etc. The sessions were organized for participants in Islamabad, Sialkot, Lahore and Quetta during the quarter January to March, 2022.

Capacity Building Programs on "Islamic Banking Branch Operations (IBBO)"

A short duration capacity building program named 'Islamic Banking Branch Operations' was continued in this quarter as well. This program is especially designed for upscaling capacity levels of Islamic banking branch staff. During the quarter, IBD conducted three (03) online iterations of IBBO program. The sessions were organized for participants in Islamabad, Faisalabad and Quetta during the quarter January to March, 2022.

Islamic Banking Certification Program for Shariah Scholars

To upgrade the capacity levels of Shariah scholars serving the industry, Phase 2 and 3 of the 'Islamic Banking Certification Program for Shariah Scholars' was conducted during January – March, 2022. The program was attended by Shariah scholars from across the industry.

Awareness Sessions for University Students

In a drive to increase awareness and clarify doubts about Islamic banking & finance in the young minds, IBD conducted two (02) awareness sessions for university students. The first session was conducted at Hailey College of Commerce, Lahore on January 18, 2022, while the second session was conducted at Sardar Bahadur Khan Women University, Quetta on March 30, 2022.

Islamic Banking News and Views

I. Local Industry News

SBP wins global award for Islamic banking

Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia, has declared the State Bank of Pakistan as the best central bank of 2021 across the world in promoting Islamic finance. The IFN Best Banks Poll is regarded as one of the prestigious accolades in the global Islamic finance space. The category of the best central bank in promoting Islamic finance is one of the closely fought contests among regulators competing for supremacy through exceptional advances made during the year.
https://www.dawn.com/

Pakistan launches $1bn Ijara Sukuk in global market

Pakistan launched the $1 billion Islamic bond — Ijara Sukuk — in the global capital market at 7.95 per cent return payable on a semi-annual basis with a maturity of seven years i.e. January 31, 2029. Earlier, a five-year Sukuk bond of same denomination had envisaged 6.8pc return in December 2014, followed by 5.5pc in October 2016 and 5.6pc in December 2017. Pakistan launched the Islamic bond in the international market after little over four years. The last five-year Islamic debt instrument was secured at 5.6pc return in December 2017, which matured last month and was required to be replaced by a fresh paper — in this case with seven- year maturity and 7.95pc return.
https://www.dawn.com/

International Islamic Trade Finance Corporation approves $1.2bn for Pakistan

The International Islamic Trade Finance Corporation (ITFC), a member of the Islamic Development Bank, has approved a $1.2 billion financing under the annual plan to provide Pakistan integrated trade solutions to support the energy and agriculture sectors. The annual plan agreement for calendar 2022 includes financing for the import of essential commodities such as crude oil, refined petroleum products, LNG, food and agricultural products in addition to implementing trade-related technical assistance intervention to ensure trade development impact.
https://www.dawn.com/

State Bank of Pakistan's new framework could pave the way for first fully Islamic digital bank in the country

The State Bank of Pakistan (SBP) has accelerated its drive to set up digital banks in Pakistan — both Islamic and conventional — with its recently released Licensing and Regulatory Framework for Digital Banks. The central bank can, under the framework, grant two types of digital bank licenses: one for digital retail banks and another for digital full banks (which serve corporate entities in addition to retail customers). The demand for banking services is also faith-sensitive and there is a large market for Shariah compliant services, therefore, licenses for digital retail banks and digital full banks may be obtained for both conventional and Islamic variants.
https://www.islamicfinancenews.com/

IsDB approves $180m for Mohmand Dam

The Islamic Development Bank (IsDB) signed framework agreements to extend $180 million loans to Pakistan to finance Mohmand Dam Hydropower Project (MDHP). The financing agreements were signed by Secretary Economic Affairs Mian Asad Hayaud Din and Special Adviser to the President IsDB Mohammad Jamal Al-Satti. The two sides signed a total of three framework agreements for a cumulative amount of $180m to provide financing for Rs310bn worth MDHP.
https://www.dawn.com/

Pakistan could welcome sixth fully-fledged Islamic bank by end of the year

Pakistan's Islamic banking sector, which currently has five fully-fledged Islamic banks, may well see its sixth Shariah bank by the end of this year, as Faysal Bank's shareholders greenlit the bank's fully-Islamic conversion plan. During Faysal Bank's 27th annual general meeting held on the 29th March 2022 in

Karachi, shareholders gave their approval to authorize the bank's board of directors to complete all the necessary requirements for obtaining an Islamic banking license from the State Bank of Pakistan and to surrender its conventional banking license. Faysal Bank's journey into fully-Islamic conversion started a little before 2019, with a vision to become a Shariah bank by 2023.
https://www.islamicfinancenews.com/

II. International Industry News

Digital Sukuk gaining increasing mainstream attention

A fintech start-up in Saudi Arabia has engaged a Shariah advisor to monitor and certify the Shariah integrity of its automated Sukuk issuance platform, amid increasing mainstream adoption of digital Sukuk which began in Southeast Asia and is now spreading to the Middle East and Africa. Mudaraba Financial Company (MFC) confirmed Bahrain-based Shariyah Review Bureau to be its partner in ensuring its Mudarabah-based Sukuk issuance platform will be aligned with Islamic principles. The platform is to automate the Sukuk process, streamline the intermediaries and minimize operational costs and third-party charges.
https://www.islamicfinancenews.com/

Global Islamic funds market grows 300% in decade - report

The global Islamic funds market has grown by more than 300% over the last decade to nearly reach $200 billion in assets under management, according to General Council for Islamic Banks and Financial Institutions (CIBAFI), Bahrain. Islamic assets under management (AuM) grew 13.7% in 2020 despite the COVID-19 pandemic, though that was slower than the 35.1% growth of 2019, it said in a report. Islamic funds' AuM growth showed signs of recovery last year, rising to $194.51 billion at the end of the third quarter, a 17.1% increase from end-2020. However, the sector is in its infancy compared to conventional funds.
https://www.reuters.com/

Japan: Leaning into Islamic finance

For a country with a small Muslim population and customer base for Islamic finance products, Japan has, in the past decade, recognized the importance of Shariah finance and banking. The country continues to partner often with Islamic finance powerhouses like Malaysia and Saudi Arabia to carry out its Shariah compliant transactions. Japan does not have a dedicated Islamic finance framework, but it continues to facilitate Shariah compliant financial transactions in the country and abroad. The establishment of Islamic financial institutions is permitted, and banks (and their subsidiaries) and insurance companies are allowed to carry out Islamic finance transactions, albeit limited to certain types of products and services, including Murabahah and Ijarah-structured products. In 2012, legal and tax frameworks for Sukuk were created by the Financial Services Agency of Japan, and in 2015, the 'Comprehensive Guidelines for Supervision of Major Banks and Comprehensive Guidelines for Supervision of Regional Financial Institutions' were amended to include Islamic banking services.
https://www.islamicfinancenews.com/

UK to level tax playing field for Islamic P2P and HPP providers with new rules

In its draft regulations in the Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022 released on the 11 the February, Her Majesty's Revenue and Customs outlined rules to broaden the scope of tax legislation which would allow home purchase plan (HPP) providers and certain alternative finance peer-to-peer (P2P) arrangements to be treated at par with their conventional peers. The new provisions will include HPPs provided by Financial Conduct Authority (FCA)-regulated providers that are not financial institutions as well as FCA regulated P2P platforms to receive equivalent tax treatment. For P2P platforms in particular, the treatment can apply to purchase and resale arrangements and diminishing shared ownership arrangements, according to an official document viewed by IFN. The UK is widely acknowledged as the western hub of Islamic finance, housing four fully-fledged Islamic banks which provide Shariah compliant HPPs and 41 Islamic fintech firms, out of which eight are alternative finance start-ups, six are crowdfunding platforms and three P2P finance providers.

https://www.islamicfinancenews.com/

Bahrain's GFH launches $100m GCC sukuk fund

GFH Financial Group, an investment bank based in Bahrain, rolled out and seeded a $100 million diversified sukuk fund as it seeks to tap into the growing appetite for Islamic bond issuances in the region. The fund will hold a portfolio of sovereign, quasi-sovereign and corporate sukuk and sukuk-related securities from various countries and issuers, primarily in the GCC, and will be managed in accordance with Sharia principles. Global sukuk issuances surged by 36.1 per cent in 2021 to $252.3bn and are expected to continue growing this year, according to a report from Fitch Ratings. Robust Islamic investor appetite, a diversification in funding goals and Islamic-finance development agendas are expected to drive the growth of sukuk issuance in the region.

https://www.thenationalnews.com/

UAE retains the Top-3 spot in $2 trillion global spending in Islamic-faith inspired ethical consumption

Muslims over the world spent a combined $2 trillion on food, medicines and on lifestyle needs based on Sharia-based ethical consumption. That's from a healthy 8.9 per cent gain year-on-year, and which sets up such spending to reach $2.8 trillion by 2025. The UAE ranks among the Top 3 nations in such spending for a third consecutive year, with Malaysia and Saudi Arabia holding the top two spots. Indonesia is at fourth, while Turkey made had the most significant gain, landing in fifth from 12th a year ago. Islamic-linked finance assets will reach a combined $3.6 trillion this year. Investments in Islamic economy-relevant companies increased 118 per cent in 2020-21 to $25.7 billion from $11.8 billion in 2019-20. About 66.4 per cent of these investments were covered by Islamic finance transactions, followed by 23.6 per cent in halal products (food, pharmaceuticals, cosmetics, fashion) and 10 per cent in Islamic lifestyle (travel and media).

https://gulfnews.com/

III. Articles and Views

Cybersecurity: The future of financial stability and cyber risk

Over the past few years, banks have reported their growing concerns over cybersecurity risk and technology risk by placing them among the top three on the risk dashboard. In line with the digital revolution, more banks are tapping into fintech, blockchain, cryptocurrencies and assets, robo-advisors, artificial intelligence and mobile applications. With this, banks and financial institutions are targeted by hackers as most cyberattacks are financially motivated. The Islamic banking industry is no exception to cyberattacks and financial institutions have relatively recently integrated cybersecurity into their risk management strategy. In line with the emergence of Islamic crypto assets and other new digital services, the threat level of cybersecurity risks has also grown, prompting regulators to launch new initiatives.
https://www.islamicfinancenews.com/

Islamic finance: A pathway for global wealth

Islamic finance has experienced a meteoric rise over the last several decades and markets including Malaysia and the UK have successfully managed to capitalize on this exponential growth. Since its inception, the Islamic finance industry has embraced a global financial framework and infrastructure and as a result, the industry has stakeholders globally and the industry is being championed worldwide. A key milestone for instance was the debut issuance of the UK's first sovereign Sukuk in 2014 which was oversubscribed, raising over US$268 million. This was a significant event for the industry globally, as the UK's sovereign Sukuk issuance was widely considered to be one of the first Sukuk to be issued outside of the Islamic world. Other sovereigns, quasi-sovereigns and corporates have followed suit across the globe, whether in Africa, Asia or indeed the Middle East. As a result, the industry continues to build on its foundation with a robust regulatory and supervisory framework globally. Earlier in the year, S&P Global Ratings reported that the industry would grow by at least 10% over 2021–22, and the global projection for the next decade is US$4 trillion in assets by 2030.
https://www.islamicfinancenews.com/

The congruency of Islamic and ESG investing

The ESG principles have become new permanent features of venture capital and private equity. Adherence to the ESG is driven by limited partners, so the fund managers have to make sure that their performance fits the requirements of the investors. The demand to invest in funds which focus on ESG accelerated in 2021, driving the assets under management (AUM) to nearly US$3.9 trillion in the third quarter of 2021. And there is a definite convergence between Islamic and ESG investment as they both are concerned about their impact on society, the wellbeing of people and the environment. Many things long forbidden within Islamic finance are now excluded by ESG investment strategies too. A study of 6,500 publicly listed companies conducted by Refinitiv established that non-financial Shariah compliant companies have on average 10% higher ESG score than their conventional counterparts. Nevertheless, ESG and Shariah compliant funds have different attitudes toward Riba. No matter how socially inclusive and environmentally cautious a conventional bank is, it still would not be acceptable to the Shariah compliant investors https://www.islamicfinancenews.com/

Digital transformation - opportunities and perceived threats

Financial technology has long been used to automate investments, insurance, trading, banking services and risk management in the financial services industry but the microfinance sector is moving at a slower pace, despite the significant benefits on offer. Today digital transformation is all about digital customer onboarding, credit scoring and know-your-customer or even mobile banking or digital money, let alone blockchain. Fintechs are also competing with traditional banks on the new turf of cryptocurrency. But the Islamic microfinance sector broadly operates its 'old-fashioned' trust- and relationship based financial inclusion model. The benefits are clear cut— first, it allows financial services providers to increase revenues and reduce costs. Second, it brings the opportunity to leverage relationship banking, i.e., microfinance institutions already have established trust with clients and technology allows them to deepen the customer experience. But do microfinance institutions face an existential threat from digital technology? While fintechs are disrupting traditional financial markets by creating new financial services that are more efficient, their ability to reach the poor and often digitally excluded clients is limited. This market segment continues to be served by microfinance institutions.
https://www.islamicfinancenews.com/

Annexure I: Islamic Banking Branch Network

Islamic Banking Branch Network (As of March 31, 2022)			
Type	**Name of Bank**	**No. of Branches**	**Windows**
Islamic Banks	AlBaraka Bank (Pakistan) Limited	171	-
	BankIslami Pakistan Limited	230	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Meezan Bank Limited	908	-
	MCB Islamic Bank Limited	176	-
	Sub-Total	**1,695**	
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	117	110
	Askari Bank Limited	102	7
	Bank Al Habib Limited	142	145
	Bank Alfalah Limited	235	-
	Faysal Bank Limited	593	3
	Habib Bank Limited	272	572
	Habib Metropolitan Bank Limited	49	218
	National Bank of Pakistan	187	-
	Silk Bank Limited	27	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	35	15
	Standard Chartered Bank (Pakistan) Limited	2	39
	Summit Bank Limited	14	35
	The Bank of Khyber	110	39
	The Bank of Punjab	112	25
	United Bank Limited	112	197
	Zarai Taraqiati Bank Limited	5	-
	Sub-Total	**2,128**	**1,418**
	Total Full-Fledged Branches and windows	**3,823**	**1,418**
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Askari Bank Limited	3	-
	Bank Alfalah Limited	1	
	BankIslami Pakistan Limited	113	-
	MCB Islamic Bank Limited	1	
	The Bank of Khyber	4	
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	2	
	Habib Bank Limited	1	-
	United Bank Limited	2	-
	Total Sub-Branches	**160**	**-**
	Grand Total Branches/Sub-Branches/Windows	**3,983**	**1,418**

Source: Information/Data obtained from different banks

Annexure II: Province/Region wise Break-up of Islamic Banking Branch Network

Province/Region wise Break-up of Islamic Banking Branch Network
(As of March 31, 2022)

Type	Name of Bank	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	5	7	3	15	96	43	171
	BankIslami Pakistan Limited	4	14	9	4	22	100	77	230
	Dubai Islamic Bank Pakistan Limited	7	5	15	3	10	86	84	210
	Meezan Bank Limited	8	36	40	3	65	484	272	908
	MCB Islamic Bank Limited	2	10	10	1	18	88	47	176
	Sub-Total	**23**	**70**	**81**	**14**	**130**	**854**	**523**	**1,695**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	2	4	6	1	12	69	23	117
	Askari Bank Limited	-	3	9	1	15	50	24	102
	Bank Al Habib Limited	1	8	9	1	27	43	53	142
	Bank Alfalah Limited	1	7	17	-	26	133	51	235
	Faysal Bank Limited	8	23	26	7	49	326	154	593
	Habib Bank Limited	8	4	12	2	29	148	69	272
	Habib Metropolitan Bank	1	1	1	-	12	15	19	49
	National Bank of Pakistan	9	4	6	1	40	94	33	187
	Silk Bank Limited	-	1	3	-	4	11	8	27
	Sindh Bank Limited	1	1		-	2	7	3	14
	Soneri Bank Limited	-	1	2	1	9	15	7	35
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	1	2
	Summit Bank Limited	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	6	3	-	88	10	3	110
	The Bank of Punjab	1	6	6	2	18	75	4	112
	United Bank Limited	1	5	7	-	19	45	35	112
	Zarai Taraqiati Bank Limited		-	1	-	1	2	1	5
	Sub-Total	**33**	**75**	**110**	**18**	**352**	**1,046**	**494**	**2,128**
	Total Full-Fledged Branches	**56**	**145**	**191**	**32**	**482**	**1,900**	**1,017**	**3,823**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-		6	6
	Askari Bank Limited	-	1	-	-	1	1	-	3
	Bank Alfalah Limited			1					
	BankIslami Pakistan Limited	1	6	9	-	5	41	51	113
	Dubai Islamic Bank Pakistan Limited	-	-	-	-	-	9	16	25
	MCB Islamic Bank Limited						1		
	Faysal Bank Limited		-	-	-	-	2	-	1
	Habib Bank Limited	-	-	-	-	-	-	1	2
	The Bank of Khyber	-	-	-	-	4	-	-	3
	The Bank of Punjab	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	1	-	1	-	-	2
	Total Sub-Branches	**1**	**7**	**11**	**0**	**11**	**56**	**74**	**160**
	Grand Total	**57**	**152**	**202**	**32**	**493**	**1,956**	**1,091**	**3,983**

Annexure III. District wise Break-up of Islamic Banking Branch Network

District wise Break-up of Islamic Banking Branch Network

(As of March 31, 2022)

S. No.	Province	District	No. of Branches*
1	Sindh	Badin	3
2		Dadu	8
3		Ghotki	5
4		Hyderabad	66
5		Jacobabad	5
6		Jamshoro	3
7		Karachi City	892
8		Kashmore	2
9		Khairpur	4
10		Larkana	9
11		Matiari	4
12		Mirpurkhas	14
13		Naushahro Feroze	5
14		Shaheed Benazir Abad	19
15		Sanghar	14
16		Shikarpur	1
17		Sukkur	20
18		Shahdadkot	2
19		Tando Allahyar	4
20		Tando Mohammad Khan	3
21		Thatta	3
22		Umer Kot	5
Sindh Total			**1,091**
23	Punjab	Attock	27
24		Bahawalnagar	28
25		Bahawalpur	36
26		Bhakkar	6
27		Chakwal	22
28		Chiniot	8
29		Dera Ghazi Khan	26
30		Faisalabad	158
31		Gujranwala	97
32		Gujrat	76
33		Hafizabad	10
34		Jhang	18
35		Jhelum	21
36		Kasur	23
37		Khanewal	35
38		Khushab	9
39		Lahore City	607
40		Layyah	10
41		Lodhran	5
42		Mandi Bahauddin	18
43		Mianwali	11
44		Multan	113
45		Muzaffargarh	19
46		Nankana Sahib	10
47		Narowal	11
48		Okara	34
49		Pakpattan	17
50		Rahim Yar Khan	53
51		Rajanpur	8
52		Rawalpindi	188
53		Sahiwal	41
54		Sargodha	48
55		Sheikhupura	32
56		Sialkot	72
57		Toba Tek Singh	30
58		Vehari	29
Punjab Total			**1,956**
59	Azad Kashmir	Bagh	4
60		Bhimber	2
61		Dadyal	4
62		Hattian Bala	1
63		Kotli	6
64		Mirpur	22
65		Muzaffarabad	13
66		Poonch	5
Azad Kashmir Total			**57**

S. No.	Province	District	No. of Branches*
67	Khyber Pakhtunkhwa	Abbottabad	29
68		Bannu	14
69		Batagram	3
70		Buner	9
71		Charsadda	12
72		Chitral	8
73		Dera Ismail Khan	18
74		Hangu	10
75		Haripur	17
76		Karak	5
77		Kohat	16
78		Lakki Marwat	1
79		Lower Dir	24
80		Malakand	20
81		Mansehra	21
82		Mardan	25
83		Nowshera	27
84		Peshawar	123
85		Shangla	7
86		Swabi	12
87		Swat	51
88		Tank	2
89		Torghar	1
90		Upper Dir	11
91		Kohistan	2
92		Bajaur Agency	6
93		Khyber Agency	12
94		Mohmand Agnecy	1
95		Orakzai Agency	2
96		Kurram Agency	3
97		North Waziristan Agenc	1
KPK Total			**493**
98	ICT	Islamabad	201
Islamabad Total			**202**
99	Gilgit-Baltistan	Astore	1
100		Baltistan	1
101		Ghizer	1
102		Hunza	1
103		Skardu	6
104		Diamir	7
105		Gilgit	15
Gilgit-Baltistan Total			**32**
106	Balochistan	Chaghi	3
107		Duki	1
108		Gawadar	8
109		Harnai	1
110		Jaffarabad	2
111		Kech	2
112		Khuzdar	3
113		Kharan	1
114		Lasbela	6
115		Loralai	6
116		Mastung	1
117		Noshki	2
118		Nasirabad	2
119		Panjgur	3
120		Pishin	8
121		Qilla Abdullah	8
122		Qilla Saifullah	7
123		Quetta	75
124		Sibi	2
125		Turbat	3
126		Zhob	5
127		Ziarat	3
Baluchistan Total			**152**
Grand Total			**3,983**

*including sub-branches