Islamic Banking Bulletin

June 2019

Islamic Banking Department
State Bank of Pakistan

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Islamic Banking Industry - Progress & Market Share

Overview

Assets of Islamic banking industry grew by 7.3 percent (Rs. 202 billion) during the quarter April to June, 2019 and stood at Rs. 2,992 billion by June 30, 2019. Similarly, deposits of Islamic banking industry witnessed growth of 9.8 percent (Rs. 216 billion) and reached to Rs. 2,415 billion by end June, 2019. Market share of Islamic banking assets and deposits in the overall banking industry was recorded at 14.4 percent and 15.9 percent, respectively by end June, 2019 **(see Table 1)**. Profit before tax of Islamic banking industry was recorded at Rs. 32 billion by end June, 2019.

Table 1: Industry Progress* and Market Share

Particulars	Industry Progress			YoY Growth (%)	Share in Overall Banking Industry (%)		
	Jun-18	**Mar-19**	**Jun-19**	**Jun-19**	**Jun-18**	**Mar-19**	**Jun-19**
Assets (Rupees in billion)	2,482	2,790	2,992	20.6	12.9	15.0	14.4
Deposits (Rupees in billion)	2,033	2,199	2,415	18.8	14.8	15.6	15.9
Number of Islamic banking institutions	21	22	22	-	-	-	-
Number of Islamic banking branches**	2,685	2,869	2,913	8.5	-	-	-

Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)
*Figures in this bulletin are rounded off
**Including sub-branches

Branch Network of Islamic Banking Industry

The network of Islamic banking industry consisted of 22 Islamic banking institutions; 5 full-fledged Islamic banks (IBs) and 17 conventional banks having standalone Islamic banking branches (IBBs) by end June, 2019. Branch network of Islamic banking industry was recorded at 2,913 (spread across 113 districts) by end June, 2019. More than 77 percent of the branches were concentrated in Punjab and Sindh. The number of Islamic banking windows operated by conventional banks having standalone Islamic banking branches stood at 1,348 (see **Figure 1** and **Annexure I** for details).

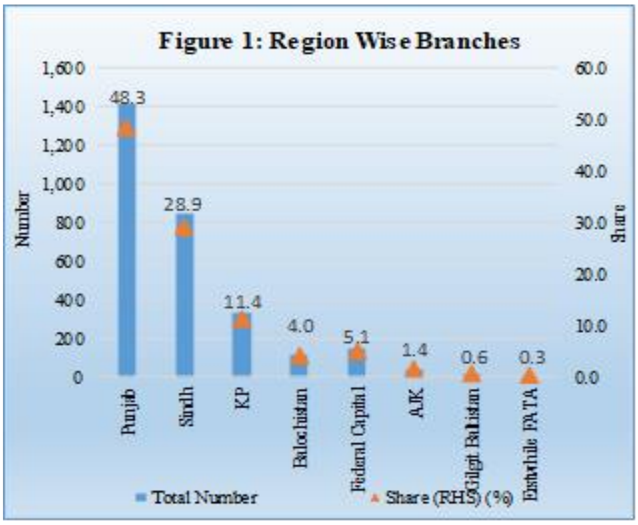
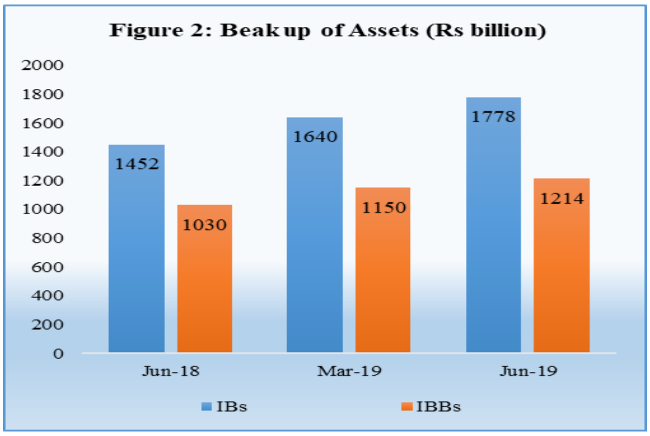


Figure 1: Region Wise Branches

Asset and Liability Structure

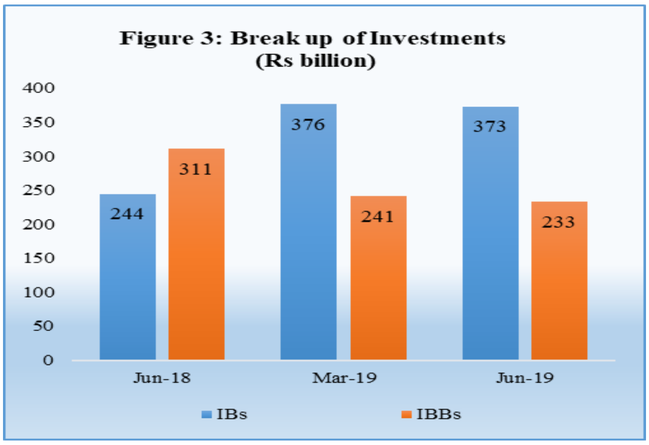
Assets: Assets of Islamic banking industry registered a quarterly growth of 7.3 percent during the quarter April to June, 2019 and were recorded at Rs. 2,992 billion, compared to Rs. 2,790 billion in the previous quarter. Market share of Islamic banking industry's assets in overall banking industry's assets was recorded at 14.4 percent by end June, 2019. The share of net financing and investments in total assets of Islamic banking industry stood at 51.6 percent and 20.3 percent, respectively by end June, 2019 (see section below on **Investments** and **Financing and Related Assets** for details).

Bifurcation of assets among IBs and IBBs reveals (see **Figure 2**) that assets of full-fledged Islamic banks increased by 8.4 percent (Rs. 138 billion) and were recorded at Rs. 1,778 billion by end June, 2019. Similarly, assets of Islamic banking branches of conventional banks increased by 5.6 percent (Rs. 65 billion) and were recorded at Rs. 1,214 billion by end June, 2019. In terms of share, IBs accounted for 59.4 percent and IBBs 40.6 percent share in overall assets of Islamic banking industry during the period under review.



Investments

Investments (net) of Islamic banking industry were recorded at Rs. 606 billion by end June, 2019 compared to Rs. 617 billion in the previous quarter. During the period under review, investments (net) of both IBs and IBBs witnessed slight attrition of 0.8 percent and 3.3 percent, respectively (see **Figure 3**). This can be mainly attributed to non-issuance of sovereign sukuk during the period.



Financing and Related Assets

Financing and related assets (net) of Islamic banking industry increased by Rs. 20 billion to reach Rs. 1,544 billion by end June, 2019 compared to Rs. 1,525 billion in the previous quarter. Breakup of financing and related assets (net) among full-fledged Islamic banks and Islamic banking branches of conventional banks reveals that financing and related assets (net) of IBs increased by Rs. 6 billion during the period under review and stood at Rs. 910 billion compared to Rs. 904 billion in the previous quarter. Similarly, financing and related assets (net) of IBBs grew by Rs. 14 billion and were registered at Rs. 634 billion by end June, 2019 compared to Rs. 621 billion in the previous quarter. In terms of mode wise financing, Diminishing Musharaka improved its share from previous quarter and remained the leading segment

Table 2: Financing Mix (% Share)

Mode	Jun-18	Mar-19	Jun-19
Murabaha	13.4	14.1	13.5
Ijarah	6.6	6.2	6.1
Musharaka	20.0	19.7	20.0
Diminishing Musharaka	33.7	32.9	33.6
Salam	2.8	2.4	2.6
Istisna	6.4	9.3	8.9
Others	17.1	15.3	15.3
Total	**100.0**	**100.0**	**100.0**

with a share of 33.6 percent in overall financing of Islamic banking industry followed by Musharaka (20 percent) and Murabaha (13.5 percent) (see **Table 2**).

Table 3: Sector Wise Financing Concentration (% Share)				
	Jun-18	**Mar-19**	**Jun-19**	**Industry**
Chemical and Pharmaceuticals	4.0	3.8	3.7	3.5
Agribusiness	5.7	7.8	7.8	8.4
Textile	11.5	12.2	11.6	12.3
Cement	3.2	3.5	3.5	2.0
Sugar	4.6	5.2	3.9	3.2
Shoes and leather garments	0.5	0.6	0.5	0.4
Automobile and transportation equipment	0.8	1.2	1.3	1.6
Financial	0.9	0.4	0.5	2.6
Electronics and electrical appliances	1.1	1.3	1.2	1.3
Production and transmission of energy	17.1	16.9	17.9	16.7
Individuals	11.8	11.9	11.6	8.8
Others	38.7	35.3	36.5	39.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

In terms of sector wise financing, production & transmission of energy retained the leading position as its share in overall financing of Islamic banking industry was recorded at 17.9 percent, followed by textile and individuals sectors both having respective shares of 11.6 percent by end June, 2019 (see **Table 3**).

Review of client wise financing reveals that corporate sector accounted for 73.5 percent share in overall financing of Islamic banking industry, followed by commodity financing with a share of 10.6 percent and consumer financing 10.4 percent. The share of small and medium enterprises (SMEs) financing and agriculture financing in overall financing of Islamic banking industry were recorded at 3.7 percent and 0.5 percent, respectively (see **Table 4**).

Table 4: Client Wise Financing Portfolio (% Share)				
Sector	**Jun-18**	**Mar-19**	**Jun-19**	**Industry**
Corporate	74.5	74.5	73.5	70.7
SMEs	3.1	3.6	3.7	5.3
Agriculture	0.4	0.4	0.5	3.8
Consumer Financing	10.5	10.4	10.4	6.5
Commodity Financing	10.3	9.9	10.6	10.2
Staff Financing	1.0	1.0	1.0	1.6
Others	0.3	0.2	0.3	1.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Asset quality indicators of Islamic banking industry including non-performing finances (NPFs) to financing (gross) and net NPFs to net financing were recorded at 2.4 percent and 0.3 percent, respectively by end June, 2019 (see **Table 5**); these ratios were relatively better than those of overall banking industry averages.

Table 5: Asset Quality Ratios (%)				
Ratio	**Jun-18**	**Mar-19**	**Jun-19**	**Industry**
NPFs to Financing (gross)	2.7	2.3	2.4	8.8
Net NPFs to Net Financing	0.4	0.3	0.3	2.1
Provisions to NPFs	84.4	89.0	87.2	78.4

Liabilities

Deposits of Islamic banking industry showed a quarterly growth of Rs. 216 billion during the period under review and were recorded at Rs. 2,415 billion by end June, 2019 compared to Rs. 2,199 billion in the previous quarter. Market share of Islamic banking industry's deposits in overall banking industry's deposits increased to 15.9 percent by end June, 2019 compared to 15.6 percent in the previous quarter.

The category wise breakup of deposits reveals that current (non-remunerative) and saving deposits increased by 11.4 percent (Rs. 83 billion) and 4.7 percent (Rs. 41 billion), respectively; while, fixed deposits recorded an increase of 9.7 percent (Rs. 43 billion) by end June, 2019. Current (remunerative) deposits on the other hand experienced a slight decline of 0.3 percent during the period under review (see **Table 6**).

Table 6: Break up of Deposits

	Rupees in billion			Growth (%)	
	Jun-18	**Mar-19**	**Jun-19**	**YoY**	**QoQ**
Customers					
Fixed Deposits	378	445	489	29.3	9.7
Saving Deposits	812	866	906	11.5	4.7
Current accounts – Remunerative	9	13	13	42.4	-0.3
Current accounts - Non-remunerative	701	722	804	14.8	11.4
Others	24	18	20	-18.9	9.6
Sub-total	**1,924**	**2,064**	**2,232**	**16.0**	**8.2**
Financial Institutions					
Remunerative Deposits	107	132	177	65.8	33.8
Non-remunerative Deposits	2	3	6	214.4	78.3
Sub-total	**109**	**135**	**183**	**68.3**	**34.9**
Total	**2,033**	**2,199**	**2,415**	**18.8**	**9.8**

Breakup of deposits among IBs and IBBs reveals that deposits of full-fledged Islamic banks grew by 9 percent (Rs. 121 billion) during the period under review and were recorded at Rs. 1,455 billion by end June, 2019. Similarly, deposits of Islamic banking branches of conventional banks recorded a growth of 11 percent (Rs. 95 billion) and reached to Rs. 959 billion by end June, 2019. The share of IBs and IBBs in overall deposits of Islamic banking industry stood at 60.3 percent and 39.7 percent, respectively by end June, 2019.

Liquidity

Liquid assets to total assets and liquid assets to total deposits of Islamic banking industry increased as compared to previous quarter and stood at 23.2 percent and 28.7 percent, respectively by end June, 2019. Financing to deposits ratio (net) of Islamic banking industry was recorded at 63.9 percent by end June, 2019 compared to 53.2 percent of overall banking industry (see **Table 7**).

Table 7: Liquidity Ratios (%)

Ratio	Jun-18	Mar-19	Jun-19	Industry
Liquid Asset to Total Assets	24.6	21.0	23.2	48.0
Liquid Assets to Total Deposits	30.0	26.6	28.7	65.3
Financing to Deposits (net)	65.0	69.3	63.9	53.2

Capital

The ratios of Capital to total assets and capital minus net non-performing assets to total assets of Islamic banking industry were recorded at 6.3 percent and 6 percent, respectively by end June, 2019 (see **Table 8**). Both the ratios were lower than those of overall banking industry averages.

Table 8: Capital Ratios (%)

Ratio	Jun-18	Mar-19	Jun-19	Industry
Capital to Total Assets	6.3	6.4	6.3	7.2
(Capital-Net NPAs) to Total Assets	6.1	6.2	6.0	6.4

Profitability

Profit before tax of Islamic banking industry was recorded at Rs. 32 billion by end June, 2019 compared to Rs. 15 billion in the same quarter last year. Profitability ratios like return on assets (ROA) and return on equity (ROE) before tax were recorded at 2.3 percent and 35.3 percent, respectively by end June, 2019. During the period under review, operating expense to gross income ratio witnessed further improvement and was recorded at 52.6 percent, compared to 54.7 percent in the previous quarter (see **Table 9**).

Table 9: Profitability & Earning Ratios (%)

	Jun-18	Mar-19	Jun-19	Industry
Profit Before Tax (Rupees in billion)	15	14	32	155
Return on Assets (before tax)	1.3	2.0	2.3	1.6
Return on Equity (before tax)	20.9	31.8	35.3	21.3
Operating Expense to Gross Income	64.5	54.7	52.6	57.1

Country Model: Qatar

Introduction

State of Qatar, an oil depending nation is a small peninsula in the east of Arabia, bordering the Persian Gulf and Saudi Arabia. The state occupies a strategic location in the central Persian Gulf near major petroleum deposits. Qatar is one of the wealthiest countries in the world in terms of GDP per capita and the lowest unemployment rate[1]. Oil and natural gas extraction accounts for 85 percent of the total export earnings and more than 50 percent of GDP. Qatar's economy has successfully absorbed the adverse shocks from the 2014–16 of decline in oil prices and the 2017 diplomatic rift in GCC and the GDP is projected to grow at 2.6 percent for the year 2019. It is important noting that Moody's investors service upgraded the Qatari Banking sector outlook to stable from negative, which demonstrate the strong performance of the banks in Qatar despite ongoing regional geopolitical tension.

The state of Qatar acknowledged the importance of Islamic banking and finance in the very beginning of eighties, and established its first full-fledged Islamic bank Qatar Islamic Bank (QIB) in 1982. At present, Islamic banking industry (IBI) in the country consists of four full-fledged Islamic banks having an asset base of US$ 97.98 billion (2018). Along with these Islamic banks, three Islamic finance companies are operational in the country while in 2014, Qatar also announced to establish a deposit insurance framework having a Shariah complaint scheme.

Regulatory Environment

Islamic banking and finance made its first debut in Qatar in 1982 with the establishment of Qatar Islamic Bank (QIB) and only full-fledged banks were allowed to operate in the country till 2005 when conventional banks were permitted to offer shariah complaint products and services. However, in 2011 the Qatar Central Bank (QCB) prohibited the operations of Islamic windows by conventional banks. In 2013, Islamic banking was formally defined through legislation; the new Central Bank Law, Law No. 13 of 2012 (Qatar Central Bank Law) which came into effect in January 2013. For the first time, the scope of Shariah compliant banking was defined as well as the formation of a Shariah board at the company level was stipulated.

In Qatar, Islamic banks operate under two regulatory regimes: the Qatar Central Bank (QCB) and Qatar Financial Centre Regulatory Authority (QFCRA). Islamic banks listed on Qatar stock exchange are subjected to the Qatar Financial Market Authority (QFMA). In 2015, the QFCRA issued new Islamic Banking Business Prudential Rules 2015 and also the revised the version of the Conduct of Business Rules 2007. Meanwhile, some amendments including definition of business customer, re-classifying customer and the customer dispute resolution were introduced to these revised business rules in 2015.

Islamic Banking and Finance

Currently Islamic banking industry in Qatar consists of four banks; Qatar Islamic Bank (QIB), Masraf Al Rayan, Qatar international Islamic Bank and Barwa Bank. QIB, the largest Islamic bank in the

1. Source: https://tradingeconomics.com/country-list/unemployment-rate (2018)

country holds about 43.7 percent of the Islamic banking share in Qatar and 11.1 percent of the overall market. In addition to four Islamic banks, three Islamic finance companies are also operating under the supervision of QCB: Al Jazeera Finance, First Finance and Qatar Finance House.

Qatar Islamic banks operate in a highly competitive market in which they compete with seven conventional national players and seven foreign banks. In recent years, Islamic banks have grown more quickly than their conventional counterparts, as in 2017 Qatari Islamic banks recorded asset growth that exceeded that of the conventional banks.

According to data released by IFSB, Qatari Islamic banks are growing despite the Gulf crisis. Qatar's Islamic banking assets have been growing at a double digit, except for 2016 when Islamic banking asset recorded 8.2 percent growth. Total deposits in Islamic banking industry reached US$ 58.79 billion in 2017, which accounted for 26.1 percent of the overall banking industry deposits.

Sukuk

Qatar, a prominent figure in global sukuk market is among the leading issuer of sukuk in the world. The QCB is the main force in driving the sukuk market in the country. Qatar issues sukuk annually with focus on developing local debt market. Before 2013, the QCB issued single issuances sukuk but later changed its approach to regular issuances of three and ten year tenors. Sukuk represented 18 percent of Qatar's total Islamic finance assets in 2017, with total outstanding issuances amounting to US$ 21 billion. The government has been the backbone of the sukuk market in Qatar, representing 73 percent of issuances between 2013 and 2018. In 2018, QCB issued five fixed rate sukuk amounting to US$ 2.21 billion. Qatar is working actively on building regional partnerships to develop its sukuk market. Qatar Investment Authority is planning to invest in energy projects in the Philippines through sukuk.

Future Outlook

Islamic financial industry has gained a significant ground in Qatar and continues to play a major role in the future of its economy. The demand for Islamic finance is on a rising trend. In the presence of well-developed regulatory framework, growing economy and advantage of having more than 67 percent Muslim population, it is expected that Islamic banking industry will grow substantially in Qatar in future.

Sources of Information

- Islamic finance news {www.islamicfinancenews.com}
- Qatar Central Bank Website {http://www.qcb.gov.qa/English/}
- Qatar Islamic bank {https://www.qib.com.qa/en/index.aspx}
- Central Intelligence Agency The Fact Book {https://www.cia.gov/library/publications/the-world-factbook/}
- Index Mundi {https://www.indexmundi.com/qatar/}
- The World Bank {https://www.worldbank.org/}
- Global Islamic Finance Report { http://www.gifr.net/gifr}

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 05: Guarantees

State Bank of Pakistan, vide IBD Circular No. 01 of 2019, has adopted six AAOIFI Shariah Standards; (i) No. 2 (Debit Card, Charge Card and Credit Card), (ii) No. 5 (Guarantees), (iii) No. 14 (Documentary Credit), (iv) No. 18 (Possession (Qabd)), (v) No. 24 (Syndicated Financing) and (vi) No. 38 (Online Financial Dealings). These standards will be discussed in detail one by one in six issues of quarterly bulletin.

In the last issue, standard No. 02 (Debit Card, Charge Card and Credit Card) was discussed while in the current issue, standard No. 05 (Guarantees) is discussed below with amendments advised by Shariah Advisory Committee of State Bank of Pakistan.

Standard

The Standard was adopted by the AAOIFI Shariah Board in its meeting No. 6 held on 25-29 Safar 1422 A.H., corresponding to 19-23 May 2001 A.D.

Preface

The aim of this standard is to outline the Shariah rules governing guarantees, and to clarify forms of guarantees that are permissible or prohibited. It also outlines some significant modern applications of guarantees as employed by Islamic financial institutions[2]).

1. Scope of the Standard

This standard covers securities (Guarantees) intended to secure obligations and protect debts against procrastination and default. Such securities may take the form of written documents, attestations, personal guarantees, mortgages, cheques and promissory notes. The standard also explains the permissible and prohibited forms of securities. It also intends to distinguish between liabilities and the assets held on trust. The standard does not cover guarantees against torts.

2. General Rulings on Guarantees

2/1- Permissibility of guarantees and their relevance to contracts

2/1/1- A contract of guarantee is permissible in contracts of exchange, e.g. a contract of sale, or contract of rights, e.g. right of intellectual property. Such a guarantee contract does not affect the permissibility of the original contract in which it is required. It is, moreover, permissible to stipulate a guarantee into the body of an original at one time, because guarantee is appropriate to, or relevant in, contracts.

2/1/2- There is no objection in Shariah to include a number of guarantees in one contract, such as incorporating a personal guarantee together with a mortgage of security in the same contract.

[2] The word (Institution/ lnstitutions) is used here to refer, in short, to Islamic financial institutions including Islamic Banks.

2/2- Guarantees in trust (fiduciary) contracts

2/2/1- It is not permissible to stipulate in trust (fiduciary) contracts, e.g. agency contracts or contracts of deposits, that a personal guarantee or mortgage of security be produced, because such a stipulation is against the nature of trust (fiduciary) contracts, unless such a stipulation is intended to cover cases of misconduct, negligence or breach of conditions or stipulations. The prohibition against seeking a guarantee in trust contracts is more stringent in Musharakah and Mudarabah contracts, since it is not permitted to require from a manager in the Mudarabah or the Musharakah contract or an investment agent or one of the partners in these contracts to guarantee the capital, or to promise a guaranteed profit. Moreover, it is not permissible for these contracts to be marketed or operated as a guaranteed investment.

2/2/2- It is not permissible to combine agency and personal guarantees in one contract at the same time (i.e. the same party acting in the capacity of an agent on one hand and acting as a guarantor on the other hand), because such a combination conflicts with the nature of these contracts. In addition, a guarantee given by a party acting as an agent in respect of an investment turns the transaction into an interest-based loan, since the capital of the investment is guaranteed in addition to the proceeds of the investment, (i.e. as though the investment agent had taken a loan and repaid it with an additional sum which is tantamount to Riba). But if a guarantee is not stipulated in the agency contract and the agent voluntarily provides a guarantee to his clients independently of the agency contract, the agent becomes a guarantor in a different capacity from that of agent. In this case, such an agent will remain liable as guarantor even if he is discharged from acting as agent.

2/3- Guaranteeing existing leased properties

The lessor bears the risk associated with the leased property and the lessee holds it on a trust basis. Hence, it is not permissible for the lessor to stipulate in the lease contract that the lessee provide a guarantee or mortgage of security, etc. so that he may use it to recover the amount of the lease rental if the leased property is damaged, unless such a stipulation is restricted to cases of misconduct, negligence or breach of contract. Therefore, the lessor is liable for the consequences of any damage to the leased property that is not caused by the misconduct or negligence of the lessee, and is responsible for any related insurance expenses. The lessor also bears the expense of any major maintenance work required to keep the leased property in the condition necessary to provide the contractual benefits under the lease.

2/4- Written documentation and attestation

2/4/1- Documentation in writing is recommended by Shariah, whether such documentation is in the form of ordinary (private) or official documents. However, customary practice is applicable in the drawing up of such documents and in determining the documents that are relevant as proof (or have evidential value). It is prohibited to forge documents or to conceal their contents or to destroy them so as to bring about the loss of other peoples' rights.

2/4/2- Attestation in financial transactions is recommended by Shariah. It is also commendable, and in case of necessity it is obligatory, to give testimony. On the other hand, perjury is prohibited and is one of the major sins.

2/4/3- It is not permitted to scribe or witness acts prohibited by Shariah, such as certifying or witnessing borrowing on the basis of interest.

3. Personal Guarantees

3/1- Permissibility and types of personal guarantee

3/1/1- It is permissible for an institution to stipulate that a customer should provide one or more guarantors to secure the debts owed by the customer.

3/1/2- Personal guarantees are divided into two types. One type is a guarantee where the guarantor has a right of recourse to the debtor, and this guarantee is offered at the request or with consent of the debtor. The other type is a non-recourse guarantee, which is offered voluntarily by a third party without the debtor's request or consent (voluntary guarantee).

3/1/3- An institution is not entitled to guarantee financial commitments without a right of recourse to the debtor, i.e. to be a non-recourse guarantor, unless the institution is already authorized by its shareholders and investors to make donations or to perform acts of benevolence.

3/1/4- It is permissible to fix the duration of a personal guarantee. It is also permissible to set a ceiling on the amount to be guaranteed and it is permissible that the personal guarantee be restricted by, or be contingent upon, a condition. In addition, it is permissible that such a guarantee be made contingent upon a future event, for example, by fixing a future date at which liability will commence and, in this case, the guarantor may validly withdraw the guarantee, by notifying the creditor, before the prospective obligation to be guaranteed arises.

3/1/5- It is not permissible to take any remuneration whatsoever for providing a personal guarantee per se, or to pay commission for obtaining such a guarantee. The guarantor is, however, entitled to claim any expenses actually incurred during the period of a personal guarantee, and the institution is not obliged to inquire as to how the guarantee produced has been obtained by the customer. (See item 7/1/1 and 7/1/2)

3/2- Guaranteeing unknown (Majhul) and future debts

A valid guarantee may be given for debts, the exact amount of which is unknown. Similarly, a valid guarantee may be given for a debt that will arise in the future. However, it is permissible for the guarantor to withdraw such a guarantee before a future debt is actually created, after notifying the person having interest in the guarantee. This is called a "market (business) guarantee," or a "guarantee of contractual obligation." An example of this type is a third party's guarantee to refund the price to the buyer if it appears that the sold commodity belongs to a person other than the seller and this guarantee is known as Daman al-Dark (dealers/business misrepresentation guarantee).

3/3- The effect of a personal guarantee

3/3/1- The creditor is entitled to claim the amount of his debt from either the debtor or the guarantor and he has the choice of claiming his right from either of them. However, the guarantor is entitled to arrange the order of liability, for example, by stipulating (at the conclusion of the contract of guarantee) that the creditor shall first claim payment from the principal debtor and that the creditor is entitled to recourse to the guarantor for payment only if the principal debtor refuses to fulfil his obligation.

3/3/2- If the creditor discharges the debtor from the debt, the guarantor is also discharged automatically from his liability. However, if the creditor discharges the guarantor from liability, the debtor remains in debt. If the guarantor secures a discount that results in paying an amount less than the original debt, the guarantor is entitled to recover only the amount he has actually paid to the creditor; he cannot demand that the debtor pay the debt in full ignoring the discount. This rule is intended to prevent a procedure being used that potentially leads to Riba. However, if the guarantor

reaches an agreement with the creditor to settle the debt using as consideration a commodity of a different type from that in which the original debt was designated, the guarantor is entitled to recover the exact amount of the commodity provided as consideration for the debt, or the exact amount of the debt, whichever is less.
3/3/3- It is permissible for a personal guarantee contract to be designated in a separate contract. It can also be concluded together with, or before, or after, the conclusion of the contract of a credit transaction.
3/3/4- If an institution manages transactions on the basis of Mudarabah or Musharakah or investment agency, it is not permitted for it to guarantee the fluctuations of currency exchange rates so that the investors will recover their investment shares irrespective of the behaviour of the currency market. Such a guarantee is prohibited because it is tantamount to the Mudarib or partner or investment agent guaranteeing the capital of other partners or investors, which is prohibited by Shariah. (See items 2/2/1 and 2/2/2)
3/3/5- 1f the contract of a credit transaction stipulates that the debtor shall provide a guarantor and the debtor fails to provide one, the institution is entitled to initiate legal action to force him to provide a guarantor or to terminate the contract.

4. Mortgage (Rahn)

It is to make a financial asset or so tied to a debt so that the asset or its value is used for repayment of the debt in case of default. (See Shariah Standard No. 39 on Mortgage)

5. Cases of Achieving the Objectives of Securities

5/1- Bringing forward future instalments in case of default on payment
It is permissible to include a term in a debt contract to the effect that, if the debtor defaults on the payment of one or more instalments, some or all of the future instalments shall fall due immediately, provided the default was not caused by unforeseeable intervening events or force majeure. However, this term shall not be effective until the debtor has been served with a reminder notice and after a reasonable period of time has elapsed.

5/2- Termination of a sale on deferred payment terms in case of failure to pay
The seller is entitled, in a contract of sale on a deferred payment basis, to stipulate that if the buyer fails to pay the price within a certain period of time, the seller is entitled to revoke the contract and repossess the sold asset without recourse to the courts.

6. Some Contemporary Applications of Securities

6/1- Letters of guarantee
6/1/1- It is not permissible to take remuneration for issuing a letter of guarantee, whether it is with cover or without cover, if the remuneration is intended as consideration for the guarantee per se, since the amount guaranteed and the duration of the guarantee are usually taken into consideration in computing remuneration.
6/1/2- Asking an applicant for a letter of guarantee to bear administrative expenses incurred in issuing a letter of guarantee of either type (i.e. preliminary or final) is permissible in Shariah, provided the remuneration for such expenses do not exceed the commission that others would charge for such services. Where full or partial cover is provided, it is permissible, in estimating the expenses for

issuing a letter of guarantee, to take into account anything that will reflect the actual service to be rendered in providing a cover for the transaction.
6/1/3- It is not permitted for the institution to issue a letter of guarantee in favour of an applicant who will use it to acquire an interest based loan or to conclude a prohibited transaction.

6/2- Documentary credit
It is a written undertaking by a bank (known as the issuer) given to the seller (the beneficiary) as per the buyer's (applicant's or orderer's) instruction or is issued by the bank for its own use, undertaking to pay up to a specified amount (in cash or through acceptance or discounting of a bill of exchange), within a certain period of time, provided that the seller present documents for the goods conforming to the instructions. In brief, a documentary credit is an undertaking by a bank to pay subject to conformity of the documents to the contractual instructions. (See Shariah Standard No. 14 on Documentary Credit)

6/3- Use of cheques or promissory notes
There is no Shariah objection to obtaining cheques or promissory notes from the debtor (unless not allowed by law) as a means to force the debtor to make timely payment of instalments in cash, whereby if the debtor pays on time such cheques or promissory notes shall be returned to him, and in the event of default on payment they may be produced for recovery. The party providing these cheques or promissory notes as security is entitled to obtain an undertaking from the institution that they will be used only for timely recovery of its due debts without any addition.

6/4- Insurance for doubtful or bad debts
It is permissible to subscribe to an Islamic insurance coverage as security for debt obligations and it is not permissible that debts be insured on a conventional insurance basis.

6/5- Freezing cash deposits (blocking withdrawals)
6/5/1- In order to secure the future payment of debts on a single payment or an instalment basis, it is permissible for the institution to stipulate, that it is entitled to freeze the customer's investment account, or to revoke his right to withdraw money from such an account entirely or to block an amount in the account equivalent to the debt, which is the preferred option. Nevertheless, the customer remains entitled to share profits on the whole balance of the investment account after deducting the institution's share for acting as a Mudarib.
6/5/2- In a credit transaction, it is not permitted for the institution to stipulate a right to freeze the customer's current account. However, a stipulation of this kind is allowed where the customer has freely, willingly and absolutely agreed to his current account to be frozen.

6/6- Third party guarantees (voluntary undertakings to compensate an investment loss)
It is permissible for a third party, other than the Mudarib or investment agent or one of the partners, to undertake voluntarily that he will compensate the investment losses of the party to whom the undertaking is given, provided this guarantee is not linked in any manner to the Mudarabah financing contract or investment agency contract.

6/7- Underwriting the subscription of shares issued (subscription guarantee)

6/7/1- It is permissible for the institution to undertake that it will underwrite the remaining shares offered for subscription after the expiry of the offer period, provided the shares are underwritten at the offer value without any consideration for the underwriting per se.

6/7/2- The underwriter is entitled to receive consideration for a service it provides other than the guarantee, such as conducting a feasibility study or marketing the shares.

6/8- Guarantees in tenders, security deposits in Murabahah transactions and 'Arboun (Earnest Money)

6/8/1- It is permissible to obtain guarantees for tenders and this includes both the amounts paid for participating in the bid (primary cash security for participating in the bid) and the amounts paid when the contract is awarded to the successful bidder (final cash security providing evidence of ability to complete the project). Such amounts shall be considered as being held on trust by the offeror of the bid on behalf of the successful bidder, and are not viewed as 'Arboun (Earnest Money). Hence, such amounts are recoverable if they are intermingled with other amounts of money (i.e. irrespective of any unwanted circumstances). Moreover, it is not permissible to confiscate such amounts of money, except in compensation for an equivalent amount of financial damage actually sustained in the tendering process. Such amounts may be invested in the benefit of the customer with his consent, unless he requests it to be credited to his current account.

6/8/2- It is permissible for the institution, in the case of a unilateral binding promise, to take a sum of money called Hamish Jiddiyyah (security deposit) from the purchase orderer (customer) as security for his promise. This sum of money is held on trust, not as 'Arboun, because no contract has been established. The rules set out in item 6/8/1 apply here. Where the customer fails to honour his binding promise, the institution is not permitted to retain the security deposit as such. Instead, the institution's rights are limited to deducting the amount of any damage actually incurred as a result of the breach, namely the difference between the cost of the item to the institution and its selling price to a third party.

6/8/3- It is permissible to take 'Arboun from a buyer or lessee when a sale or lease contract is concluded, on condition that, if the contract is not terminated within the specified period during which the option to terminate the contract remains valid, such an amount will be considered as part of the consideration for the contract and, if the buyer or lessee fails to perform the contract within this period, the seller or lessor is entitled to retain the amount. It is, however, preferable that the institution should refund to the customer any balance remaining after deducting from the 'Arboun the amount of any damage actually sustained by it.

6/9- Priority right of recovery and the right to follow up

6/9/1- The institution is entitled to recover first its tangible items that were sold to or manufactured for a customer and have not been paid for and can be identified among the assets of the customer.

6/9/2- The institution is entitled to protect the integrity of the subject of a guarantee, such as a mortgaged asset, and pursue a legal action against misusing it if it is established that the person holding it is using it in a manner that may lead to losses to be borne by the institution.

6/9/3- The rights of the parties holding mortgages of security shall be given priority over the rights of the parties who are unsecured. (See Shariah Standard No. 39)

6/9/4- In the event of bankruptcy or liquidation, the parties in charge of the liquidation have a preferential right or priority over other creditors in recovering their rights; i.e. the cost of any services provided in the process of liquidation. (See Shariah Standard No. 43 on Insolvency)

Adoption of Standard in Pakistan

Following amendments have been made in the standard for its adoption in the country. It is important noting that all amendments will be made in the form of footnotes.

Clause No.	Original Clause	Clarifications/Amendments
1	**Scope of the standard:** This standard covers securities (Guarantees) intended to secure obligations and protect debts against procrastination and default. Such securities may take the form of written documents, attestations, personal guarantees, mortgages, cheques and promissory notes. The standard also explains the permissible and prohibited forms of securities. It also intends to distinguish between liabilities and the assets held on trust. The standard does not cover guarantees against torts.	The following is added as footnote to the clause: The term 'Liability' should be read as 'indemnifiable assets (Mazmoonaat)'.
3	**Personal Guarantees**	The following is added as footnote to the clause: In this clause, word 'Personal' shall be considered as deleted in the heading as well as in the text.
4	**Mortgage (Rahn)** It is to make a financial asset or so tied to a debt so that the asset or its value is used for repayment of the debt in case of default.	The following are added as footnotes to the clause: The term 'financial' may be read as 'valuable'. The term 'Rahn' includes and covers mortgage, lien, charge, pledge, etc.
6/5/2	In a credit transaction, it is not permitted for the institution to stipulate a right to freeze the customer's current account. However, a stipulation of this kind is allowed where the customer has freely, willingly and absolutely agreed to his current account to be frozen.	The following is added as footnote to the clause: For this clause, reference may be made to AAOIFI Shariah Standard # 39 on Rahn.

6/8/1	It is permissible to obtain guarantees for tenders and this includes both the amounts paid for participating in the bid (primary cash security for participating in the bid) and the amounts paid when the contract is awarded to the successful bidder (final cash security providing evidence of ability to complete the project). Such amounts shall be considered as being held on trust by the offeror of the bid on behalf of the successful bidder, and are not viewed as 'Arboun (Earnest Money). Hence, such amounts are recoverable if they are intermingled with other amounts of money (i.e. irrespective of any unwanted circumstances). Moreover, it is not permissible to confiscate such amounts of money, except in compensation for an equivalent amount of financial damage actually sustained in the tendering process. Such amounts may be invested in the benefit of the customer with his consent, unless he requests it to be credited to his current account.	The following is added as footnote to the clause: For this clause, reference may be made to AAOIFI Shariah Standard # 39 on Rahn.

Source:
AAOIFI website: http://aaoifi.com/
IBD Circular No. 01 2019, March 01, 2019 {http://www.sbp.org.pk/ibd/2019/C1.htm}

Events and Developments at Islamic Banking Department (IBD)-SBP

Events

- **Training Program on 'Fundamentals of Islamic Banking Operations (FIBO)**

During the April-June quarter, Islamic Banking Department (IBD), in collaboration with National Institute of Banking and Finance (NIBAF), organized three FIBO programs. The training programs were arranged at Lahore during April 22-26, Gilgit June 17-21, and Multan June 24-28, 2019. These training programs aimed at enhancing skills and knowledge base of field staff of Islamic banking institutions particularly Branch Managers (BMs), Operation Managers (OMs), and Relationship Managers (RMs) of Islamic banking industry, academia, students and Shariah scholars.

- **Awareness Sessions on Islamic Banking for Academia**

IBD, in collaboration with NIBAF, organized four awareness sessions on Islamic banking at leading educational institutions in Lahore, Multan and Quetta during the quarter under review. The sessions were organized at (i) Lahore Garrison University, (ii) Institute of Southern Punjab, Multan, (iii) Al Hamd Islamic University, Quetta, and (iv) Baluchistan University of Information Technology, Engineering, and Management Sciences (BUITEMS), Quetta. The sessions were organized to raise awareness about Islamic banking among the students and academia. During the course of these sessions, reputable Shariah scholars inter alia clarified queries and misconceptions of participants about Islamic banking.

- **Awareness Sessions for Traders and Businessmen on Islamic Banking**

During the quarter under review, IBD, in collaboration with NIBAF, organized two awareness sessions for traders and businesspersons. The sessions were organized at local chambers of commerce in Lahore and Multan. The sessions remained successful in enhancing awareness level of the business community about Islamic banking and to take those businesspersons on board who remain out of financial ambit due to faith sensitivities.

Developments

- **Revision in Format of Interim Financial Statements for Islamic Banking Institutions (IBIs)**

State Bank of Pakistan amended format of interim financial statements (quarterly & half-yearly) for banks/DFIs vide BPRD Circular Letter No. 05 of 2019 (available at http://www.sbp.org.pk/bprd/2019/CL5.htm). In view of the increasing size of Islamic banking industry and developments taking place at international level to enhance disclosure requirements, some additional disclosure requirements have been introduced for Islamic banking institutions, especially for Islamic banking branches (IBBs) of conventional banks. As per revised format, IBBs are now required to give breakup of investments, interbank transactions, deposits, profit earned/expensed and contingencies & commitments in the form of notes in their quarterly/half yearly financial statements.

The above-mentioned changes/amendments aim to provide more detailed and meaningful insight to relevant stakeholders about financial health of an Islamic banking institution.

Islamic Banking News and Views

A. Local Industry News

Naya Pakistan can tap sukuk

Arif Alvi, the president of Pakistan, has promulgated the Naya Pakistan Housing and Development Authority Ordinance, 2019 to provide for housing and real estate development, and other activities related to land and construction. Under the ordinance, the Naya Pakistan Housing and Development Authority will be established for the purposes of planning, development, construction and management of real estate projects. The Authority may raise funds through any means considered appropriate in the circumstances including through REITs, bonds, sukuk and other forms of finances obtained through participation term certificates, Musharakah certificates, term finance certificates or any other financial or debt instruments or securities.
www.islamicfinancenews.com

Pak-Qatar adopts payment digitization

Pak-Qatar Takaful Group has signed an agreement with 1LINK to digitize its payment collection methods through 1LINK's bill payment service, according to a press release. Through this collaboration, customers of Pak-Qatar Takaful will be able to make digital payments at the time and place of their convenience.
www.islamicfinancenews.com

Masood Textile Mills looks to sukuk

Masood Textile Mills has been approved to raise PKR5 billion (US$35.2 million) by way of sukuk to meet its working capital requirements, according to a bourse filing. The date and terms of the offerring have not been disclosed.
www.islamicfinancenews.com

Pak-Qatar Family Takaful teams up with Smartchoice.pk

Pak-Qatar Family Takaful has signed an agreement with Smartchoice.pk, which will enable Smartchoice.pk to offer Pak-Qatar Family Takaful's pre-underwritten individual accident and health products on its platform for the convenience of users in search of takaful plans, according to a press release.
www.islamicfinancenews.com

Pakistan's private sector players focus on participatory modes of Islamic finance instruments to enhance risk-sharing practice

The private sector has taken upon itself to conduct research in developing and promoting more participatory modes of Shariah compliant financial instruments. Under the ambit of a newly formed strategic partnership, the Islamic banking arm of Bank Alfalah and the Centre for Islamic Finance (CIF) at the Lahore University of Management Sciences (LUMS) will spearhead a research initiative to promote the Republic's first asset-side Musharakah-based financing product, according to Pakistan Press International.
www.islamicfinancenews.com

SBP increases financing limit for LTFF

State Bank of Pakistan (SBP) has increased the financing limit for both the Islamic and conventional long-term financing facility (LTFF) for plant and machinery from PKR1.5 billion (US$10.59 million) to PKR2.5 billion (US$17.64 million). According to a statement, the increase is to promote investment in export-oriented projects.
www.islamicfinancenews.com

Ministry of Water Resources seeks permission for sukuk

The Ministry of Water Resources has sought permission from the Economic Coordination Committee to allow the Neelum–Jhelum hydropower project, which is facing a serious financial crisis, to raise funds of PKR55 billion (US$373.54 million) from local banks through sukuk under the government of Pakistan guarantee with the exemption of related tax, The Express Tribune reported.
www.islamicfinancenews.com

Meritorious students receive Islamic financing

The apex committee for the student loan scheme, with representation from SBP, Finance Division (the government of Pakistan) and five major banks (National Bank of Pakistan, Habib Bank, United Bank, Allied Bank and MCB Bank), has approved PKR51.99 million (US$352,425) as interest-free loans to 966 deserving students for their current year of studies within Pakistan, according to a press release. The objective of the student loan scheme is to provide financial assistance to meritorious students having insufficient means. The loans are granted for a maximum tenor of 10 years from the date of the disbursement.
www.islamicfinancenews.com

B. International Industry News

With its maiden sukuk offering looming, Egypt establishes national Shariah board

Egypt's Financial Regulatory Authority (FRA) is establishing a national Shariah board, joining a growing number of countries forming such a regulatory body while paving the way for the Arab Republic's maiden corporate sukuk issuance, expected to take place this year. Nine eminent scholars and specialists with extensive experience in the legal and financial fields will make up the Shariah Supervisory Committee, the official name of the new body, according to the FRA's new resolution.
www.islamicfinancenews.com

AAOIFI develops Shariah governance framework with the IFSB as part of rapprochement

To achieve greater standardization of the industry, AAOIFI is jointly developing with the IFSB a Shariah governance framework planned to be achieved in 2021, and is working on translating its standards into new languages including Spanish, Russian and Bengali to make them more accessible. "There are different aspects of the Shariah governance mechanisms that will be addressed in the Shariah governance framework, starting from having a Shariah supervisory board developed toward Shariah compliance functions and internal Shariah audit functions, requirements with regard to external Shariah audit and many other topics," shares Omar Mustafa Ansari, the secretary-general of AAOIFI.
www.islamicfinancenews.com

S&P and Dow Jones Islamic indices outperform conventional benchmarks in first quarter of 2019

Global S&P and Dow Jones Shariah compliant benchmarks outperformed their conventional counterparts in the first quarter of 2019 as information technology, which tends to be overweight in Islamic indices, finished the quarter at the top of the sector leader board while financials which are underrepresented in Islamic indices underperformed the broader market. The S&P Global BMI Shariah and Dow Jones Islamic Market (DJIM) World each gained 13.8% and 13.7%respectively, outperforming the conventional S&P Global BMI by approximately 210 bps.
www.islamicfinancenews.com

Blockchain sukuk platform expands validator node network as it moves toward first mini sukuk this year

A German start-up expecting to issue the first blockchain-powered 'mini sukuk' end of this year has deployed three full Stellar validator nodes for Europe and Asia, with five more planned for the Middle East and Africa, moving one step closer toward its goal of creating a robust cost-effective ecosystem for sukuk offerings.
www.islamicfinancenews.com

Corporates reveal sukuk plans at IFN Asia Forum 2019

Over 650 Islamic finance professionals gathered in Kuala Lumpur for the annual IFN Asia Forum, which was the stage to a myriad of engaging debates and discussions centered on Islamic capital markets, sustainability, fintech and liquidity and where several sukuk offering plans were revealed. The two-day event started with a keynote address by Adnan Zaylani, the assistant governor at Bank Negara Malaysia, who emphasized the role of value-based intermediation, technology and sustainable finance in propagating Islamic finance globally.
www.islamicfinancenews.com

AAOIFI works on sukuk governance

AAOIFI has announced in a statement that it has conducted a public hearing for an exposure draft on sukuk governance. The draft sets out the standardized requirements for various stages in sukuk management that comprise issuance and management, among others. Similar hearings have been conducted in various jurisdictions including the UAE, Bahrain, Malaysia and Morocco, and further hearings in other jurisdictions are scheduled as well.
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IFRC to launch Islamic fund and sukuk to fight cholera

The International Federation of Red Cross and Red Crescent Societies (IFRC) is joining hands with the IDB to launch a multimillion dollar fund in 2019 to combat cholera and other diarrheal diseases in OIC member countries. In addition, an impact sukuk will be issued by the end of the year to further grow the size of the fund. Trying to find new sources of funding, the IFRC will tap Islamic finance with the help of the IDB through the establishment of an Islamic fund and the issuance of a sukuk facility. The size of the sukuk would depend on the response received during roadshows to be held in the next few months in London, Geneva and Kuala Lumpur.
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Millennials key to the future of Islamic banking

Younger customers are expected to play a crucial role in the growth of Islamic finance and expand its customer base in the future. With Muslim spend estimated at $2.1 trillion in 2017, the Islamic economy continues its steady growth driven by an expanding, young Muslim population, which is expected to reach 3 billion in 2060, up from 1.8 billion in 2017, State of the Global Islamic Economy Report 2018-19. “Islamic banking continues to outpace growth in conventional banking as Muslims and non-Muslims alike – seek more ethical ways to bank and finance projects,” says Dr. Saeeda Jaffar, Managing Director of global consultancy Alvarez and Marsal Middle East.
https://gulfnews.com/business/banking/millennials-key-to-the-future-of-islamic-banking-1.1561626464714

C. Articles & Views

Islamic banking versus the Islamic way of banking

As an Islamic banking practitioner, I have heard bankers and non-bankers alike share their perception of what Islamic banking is. After listening to these diverse views, it reminds me of a story called ‘The Blind Men and the Elephant’. The story goes that a group of men who were blindfolded were asked to touch an elephant and describe what it looks like. The one who touched the elephant’s trunk described the elephant as a rope, while the other who touched the elephant’s leg described it as a tree. Each man had a different description, because each of them had only touched one part of the animal.
www.islamicfinancenews.com

Developments in Islamic leasing getting bigger every day

A recent report published by Thomson Reuter’s states that Islamic financing could be found in 56 countries. There are approximately 1,389 Shariah compliant financial firms worth a combined US$2.4 trillion in assets under management.
www.islamicfinancenews.com

Doing well while doing good: moving Islamic banking beyond the CSR paradigm

Financing the SDG agenda internationally requires trillions of dollars. Obviously, governments investments are not enough to provide the needed financial resources. Thereby, the private sector in general and the financial sector in particular are required to bridge the financing gap and support the SDGs. To illustrate, Arab countries would need a minimum of US$230 billion a year to finance sustainable development.
www.islamicfinancenews.com

Sustainability risk: should Islamic finance learn from the ESG, SRI and green products?

During the last years, in Europe and even globally, investment trends highlighted that more and more investors who were interested in investing in innovative and real economy-linked products shifted their preferences from classical Islamic finance/faith-based products to more tailor-made types of sustainable investments (such as environmental, social and governance (ESG), sustainable and responsible investment (SRI) and green). However, in essence, Islamic finance is by definition a heterogeneous compilation of ESG, SRI, green and donation-based investments and more with positive impacts on individuals, society and environment. It would be interesting to understand how

this shift could be analyzed and explained from pure operational aspects (unrelated to any faith-based element).
www.islamicfinancenews.com

Bridging Islamic finance and SDG impact investing through sukuk

Repeating the success of last year's green sukuk, the government of Indonesia has just issued a US$2 billion green sukuk facility in the global market with an oversubscription of close to 3.8 times. Similar to the sophisticated green instrument, a proposal to issue blue sukuk from a development partner was also addressed to support Indonesia's blue economy. The savings sukuk facility ST-003 which succeeded in funding infrastructure and several buildings was also issued earlier last month targeting millennials as they were the largest subscriber of the previous issuance at 40%, comprising more than 7,000 investors. All these efforts confirm Indonesia's position as one of the leading sukuk issuers in the world.
www.islamicfinancenews.com

Liquidity risk management in Islamic finance: time to change the rules?

In 2008, the world discovered the liquidity risk, the only risk that could crush a multibillion-asset bank in less than a week. It was the shockwave of the Lehman Brothers' default. Indeed, the world not only faced one of the most disastrous financial crises but also faced a crisis with a unique specificity, in the sense that all the stressed banks and especially the defaulting ones had massive balance sheets full of illiquid but income-producing assets. A decade after, where does the Islamic finance industry stand in terms of managing liquidity risk?
www.islamicfinancenews.com

Applying blockchain to Islamic SME financing

SMEs make up over 95% of all firms worldwide, approximately 50% of GDP and 60–70% of total employment taking into account both formal and informal SMEs. This totals between 420 million and 510 million SMEs, 310 million of which are in emerging markets. In developing countries, they represent the majority of employment, including for women. Investing in SMEs is a long-term and smart strategy, with sustainable returns that multiply across regions, countries and societies. Promoting access to finance for SMEs has been on the global reform agenda since the global financial crisis.
www.islamicfinancenews.com

Liquidity risk: a much-needed learning curve

The volatility and turmoil in capital markets have prompted international regulators of the banking profession to put increasing attention on the liquidity risk exposure and leverage ratio of banks. The Basel Committee for Banking Supervision (BCBS) and IFSB recommendations are meant to provide both commercial banks and Islamic banks great comfort and tools to manage their liquidity risk exposure and capital coverage requirements. While the BCBS guidelines are specifically tailor-made for conventional banks, it is the responsibility of the supervisors and regulators of the Islamic banking industry to develop and enforce ratios that do reflect the balance sheet structure of the industry.
www.islamicfinancenews.com

How Islamic financial institutions can support SMEs and entrepreneurship?

As a rule of thumb, small enterprises have up to 50 employees, medium-sized enterprises up to 250 employees, while microenterprises are defined as having up to 10 employees. SMEs are the lifeblood and backbone in emerging markets, keeping local economies humming. Looking at the Islamic community (where you can easily find SMEs in those emerging markets) around the world, Prof Emilio Escartin says that SMEs (and microenterprises) are the single type of business you can find as the engine of the economy in such markets. This makes a clear case for Islamic financial institutions and jurisdictions to support SMEs, especially as SMEs keep struggling to gain reliable access to capital, with an estimated 68% of SMEs in developing countries being financially underserved or not served at all, according to the World Bank.
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Islamic banking: embracing the digital evolution

When you think of digital banking, you typically think of technological giants, fintech companies and global conventional banks as paving the way toward digitalization. Historically, Islamic banking has been synonymous with conservative, old-fashioned practice and faces the challenging perception that Shariah requirements are complex, prices are high and customer service levels lag behind. In reality, the Islamic banking industry has taken great strides; its markets have expanded, products have increased, prices are competitive, the human capital talent pool has enlarged and its culture has evolved.
www.islamicfinancenews.com

Can Islamic social finance be the key to end poverty and hunger?

In 2015, countries around the world adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Formulated on the principle that no one is left behind, the Sustainable Development Goals (SDGs) have defined the world's priorities and aspirations for 2030. But to mobilize these efforts, we need to effectively uplift groups at the bottom where poverty plays a main obstacle. Although poverty levels have fallen dramatically since 2000, there are still 783 million people living below the international poverty line of $1.90 a day.
https://blogs.worldbank.org/category/tags/islamic-finance

Can Islamic finance be cryptocurrency friendly?

The Shariah-compliant Islamic financial systems were conceived in the 1970s and are gaining more and more ground, given their potential to attract a very large number of clients, since Islam is the religion that is spreading fastest in the world. Even traditional banks and financial institutions are opening or intend to open a branch that deals with Islamic banking to expand their range of services. However, what makes Islamic banking extremely fascinating is the crossover between the financial services it offers and the Islamic Canon Law, the Shariah.
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Islamic finance: A catalyst for financial inclusion

Providing access to financial services is a universally shared vision for all nations, including Islamic countries. This is a basic requirement that defines our modern-day society. However, in reality, access to financial services is neither uniform nor consistent. Islamic finance will therefore have a prominent

role to play in helping to address the needs of the world's Muslim population for Shariah compliant formal financial services. Additionally, it possesses the ability to move beyond its core base, and attract a larger constituent due to the common universal values it embodies.
www.islamicfinancenews.com

Islamic insurance is booming — but have we reached the tipping point yet?
It's been a busy few years for the takaful sector, with strong growth in key markets across the GCC, Southeast Asia and even Africa suggesting that the struggle for market share and fears of declining profitability could finally be foundering amid a new lease of life for the Islamic industry. According to a 2018 report issued by the Dubai Islamic Economy Development Centre (DIEDC), the total size of the takaful market currently stands at around US$ 20 billion globally. Moody's believes that this will continue to grow, as the industry's capitalization remains at robust levels and growing demand prompts greater regulatory sophistication in key regions, including GCC countries, Southeast Asia and Africa. Amazon has already expressed interest in building an insurance team while in October 2018 Alibaba introduced mutual insurance products through its subsidiary Ant Financial based on profit and risk sharing. It could only be a matter of time before these tech giants filter through into the mainstream and when they do; their influence on the vast Islamic market of underbanked, underinsured customers could be immense.
www.islamicfinancenews.com

Despite challenges, it is high time for Islamic finance industry to establish own profit rate benchmark, say market practitioners
As the days of one of the most heavily relied upon financial benchmarks are numbered, Islamic finance industry stakeholders are again calling for an Islamic alternative, a task some consider too cumbersome and impractical. "The world of Islamic finance should establish its own profit rate benchmark and move away from using conventional interest rate benchmarks, despite serious challenges in design, implementation and monitoring of the new benchmark," concluded a roundtable recently organized by the Central Bank of Bahrain's Waqf Fund. A three-pronged strategy has been proposed: economists, in consultation with market practitioners, should set up a benchmark formula; industry-setting bodies such as AAOIFI and IIFM will govern the mechanism; while regulators are to implement and monitor the mechanism. The model can be tested for several years by way of simulation to determine its performance against LIBOR and LIBOR equivalents.
www.islamicfinancenews.com

Islamic cryptocurrencies: No longer just a flash in the pan
From small beginnings, Islamic cryptocurrencies have come a long way in the last two years. Despite questions over compliance and concerns around security, new product launches have kept on coming with each claim bigger and bolder than the last. So could blockchain really be the Islamic currency of the future? Dubai last year approved the world's first government-backed cryptocurrency, EmCash, which will allow customers to pay for goods and services using the state-approved digital coin. In April 2019, Qintar Capital Switzerland and ISL-Blockchain Sarl announced the launch of Qintar, a venture they claim to be the world's first truly Shariah compliant token independent of the banking and financial system. The currency is based on Islamic Blockchain (ISL).
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Annexure: I

Islamic Banking Branch Network

(As of June 30, 2019)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	183	-
	BankIslami Pakistan Limited	218	-
	Dubai Islamic Bank Pakistan Limited	200	-
	Meezan Bank Limited	678	-
	MCB Islamic Bank Limited	177	-
	Sub-Total	**1,456**	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	60
	Askari Bank Limited	91	-
	Bank Al Habib Limited	71	141
	Bank Alfalah Limited	156	121
	Faysal Bank Limited	283	1
	Habib Bank Limited	48	493
	Habib Metropolitan Bank Limited	31	219
	National Bank of Pakistan	190	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	21	-
	Standard Chartered Bank (Pakistan) Limited	6	62
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	74	-
	United Bank Limited	93	164
	Zarai Taraqiati Bank Limited	5	
	Sub-Total	**1,328**	**1,348**
	Total Full-Fledged Branches	**2,784**	**-**
Sub Branches	AlBaraka Bank (Pakistan) Limited	8	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	112	-
	The Bank of Punjab	2	-
	Faysal Bank Limited	1	
	Habib Bank Limited	2	-
	United Bank Limited	1	-
	Total Sub-Branches	**129**	**-**
	Grand Total Branches/Sub-Branches	**2,913**	**1,348**

Source: Information/Data obtained from different banks

Annexure: II

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

(As of June 30, 2019)

Type	Bank Name	Azad Kashmir	Balochistan	Erstwhile FATA*	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	7	-	6	1	16	102	48	183
	BankIslami Pakistan Limited	3	12	-	9	2	19	95	78	218
	Dubai Islamic Bank Pakistan Limited	7	5	-	11	-	8	85	84	200
	Meezan Bank Limited	6	24	-	34	3	44	353	214	678
	MCB Islamic Bank Limited	2	11	1	9	1	11	74	68	177
	Islamic Banks	**21**	**59**	**1**	**69**	**7**	**98**	**709**	**492**	**1,456**
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	2	4	-	6	1	12	69	23	117
	Askari Bank Limited	-	3	-	8	1	13	46	20	91
	Bank Al Habib Limited	-	4	-	2	-	8	24	33	71
	Bank Alfalah Limited	1	5	-	11	-	10	90	39	156
	Faysal Bank Limited	2	13	1	13	4	31	159	60	283
	Habib Bank Limited	2	1	1	4	-	4	24	12	48
	Habib Metropolitan Bank Limited	-	-	-	1	-	7	9	14	31
	National Bank of Pakistan	9	6	2	5	1	36	96	35	190
	Silk Bank Limited	1	1	-	3	-	5	11	9	30
	Sindh Bank Limited	1	1	-		-	2	7	3	14
	Soneri Bank Limited	-	1	-	2	1	4	8	5	21
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1	-	1	1	3	6
	Summit Bank Limited	-	1	-	2	2	1	2	6	14
	The Bank of Khyber	-	4	4	2	-	61	10	3	84
	The Bank of Punjab	1	2	-	6	-	11	54	-	74
	United Bank Limited	1	4		4	-	19	39	26	93
	Zarai Taraqiati Bank Limited		-	-	1	-	1	2	1	5
	Islamic Banking Branches Total	**20**	**50**	**8**	**71**	**10**	**226**	**651**	**292**	**1,328**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	1	-	-	1	6	8
	Askari Bank Limited	-	1	-		-	1	1	-	3
	BankIslami Pakistan Limited	1	6	-	8	-	5	41	51	112
	Faysal Bank Limited	-	-	-	-	-	-	1	-	1
	Habib Bank Limited	-	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	-	-	-	1	-	-	1
	Sub Branches Total	**1**	**7**	**0**	**9**	**0**	**7**	**46**	**59**	**129**
	Grand Total	**42**	**116**	**9**	**149**	**17**	**331**	**1,406**	**843**	**2,913**

* Merged with KP through 25th Amendment to Constitution

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of June 30, 2019)

S. No.	Province	District	No. of Branches*
1	Sindh	Badin	3
2		Dadu	6
3		Ghotki	3
4		Hyderabad	56
5		Jacobabad	5
6		Jamshoro	3
7		Karachi City	679
8		Khairpur	3
9		Larkana	6
10		Matiari	3
11		Mirpurkhas	11
12		Naushahro Feroze	3
13		Shaheed Benazir Abad	16
14		Sanghar	14
15		Shikarpur	1
16		Sukkur	18
17		Shahdadkot	2
18		Tando Allahyar	4
19		Tando Mohammad Khan	1
20		Thatta	2
21		Umer Kot	4
Sindh Total			**843**
22	Punjab	Attock	17
23		Bahawalnagar	13
24		Bahawalpur	24
25		Bhakkar	3
26		Chakwal	17
27		Chiniot	6
28		Dera Ghazi Khan	16
29		Faisalabad	109
30		Gujranwala	69
31		Gujrat	55
32		Hafizabad	5
33		Jhang	15
34		Jhelum	16
35		Kasur	17
36		Khanewal	23
37		Khushab	6
38		Lahore City	470
39		Layyah	6
40		Lodhran	5
41		Mandi Bahauddin	14
42		Mianwali	8
43		Multan	84
44		Muzaffargarh	9
45		Nankana Sahib	7
46		Narowal	7
47		Okara	21
48		Pakpattan	9
49		Rahim Yar Khan	37
50		Rajanpur	4
51		Rawalpindi	142
52		Sahiwal	30
53		Sargodha	33
54		Sheikhupura	24
55		Sialkot	48
56		Toba Tek Singh	19
57		Vehari	18
Punjab Total			**1,406**

S. No.	Province	District	No. of Branches*
58	Khyber Pakhtunkhwa	Abbottabad	23
59		Bannu	8
60		Batagram	3
61		Buner	4
62		Charsadda	10
63		Chitral	7
64		Dera Ismail Khan	13
65		Hangu	5
66		Haripur	11
67		Karak	1
68		Kohat	11
69		Lakki Marwat	1
70		Lower Dir	13
71		Malakand	14
72		Mansehra	13
73		Mardan	21
74		Nowshera	22
75		Peshawar	98
76		Shangla	4
77		Swabi	7
78		Swat	29
79		Tank	1
80		Torghar	1
81		Upper Dir	7
82		Kohistan	2
Khyber Pakhtunkhwa Total			**329**
83	Gilgit-Baltistan	Skardu	2
84		Diamir	6
85		Gilgit	9
Gilgit-Baltistan Total			**17**
86	Erstwhile FATA**	Bajaur Agency	2
87		Khyber Agency	5
88		Mohmand Agnecy	1
89		Orakzai Agency	2
90		Kurram Agency	1
Erstwhile FATA Total			**11**
91	Federal Capital	Islamabad	149
Federal Capital Total			**149**
92	Balochistan	Chaghi	1
93		Gawadar	6
94		Harnai	1
95		Khuzdar	3
96		Lasbela	6
97		Loralai	6
98		Panjgur	2
99		Pishin	8
100		Qilla Abdullah	6
101		Qilla Saifullah	5
102		Quetta	63
103		Turbat	2
104		Zhob	6
105		Ziarat	1
Balochistan Total			**116**
106	Azad Kashmir	Bagh	1
107		Bhimber	1
108		Dadyal	4
109		Hattian Bala	1
110		Kotli	5
111		Mirpur	17
112		Muzaffarabad	11
113		Poonch	2
Azad Kashmir Total			**42**
Grand Total			**2,913**

*including sub-branches

** Merged with KP through 25th Amendment to Constitution