Islamic Banking Bulletin

September 2018

Islamic Banking Department
State Bank of Pakistan

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Islamic Banking Industry - Progress & Market Share

Overview

Assets and deposits of Islamic banking industry were recorded at Rs. 2,458 billion and Rs. 2,005 billion by end September, 2018. Market share of Islamic banking assets and deposits in the overall banking industry stood at 13.6 percent and 14.7 percent, respectively by end September, 2018 **(see Table 1)**. Profit before tax of Islamic banking industry increased to Rs. 23 billion by end September, 2018 compared to Rs. 18 billion in the same quarter last year. Other profitability indicators including return on assets and return on equity before tax were registered at 1.3 percent and 20.2 percent, respectively.

Table 1: Industry Progress and Market Share

Particulars	Industry Progress			YoY Growth (%)	Share in Overall Banking Industry (%)		
	Sep-17	Jun-18	Sep-18	Sep-18	Sep-17	Jun-18	Sep-18
Assets (net) (Rupees in billion)	2,083	2,482	2,458	18.0	11.9	12.9	13.6
Deposits (Rupees in billion)	1,729	2,033	2,005	15.9	13.7	14.8	14.7
Number of Islamic banking institutions	21	21	21	-	–	–	-
Number of Islamic banking branches*	2,368	2,685	2,709	14.4	–	–	-

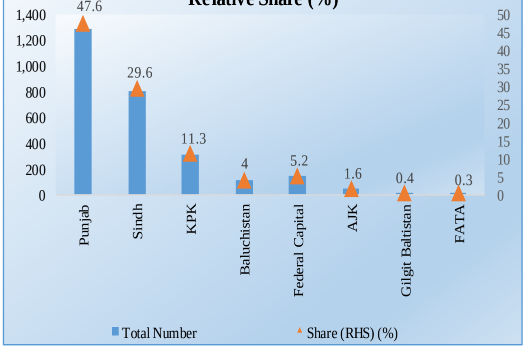
Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)

*Including sub-branches

Branch Network of Islamic Banking Industry

The network of Islamic banking industry consisted of 21 Islamic banking institutions; 5 full-fledged Islamic banks (IBs) and 16 conventional banks having standalone Islamic banking branches (IBBs) by end September, 2018. Branch network of Islamic banking industry was recorded at 2,709 (spread across 111 districts) by end September, 2018. Province/Region wise breakup of branches shows that Punjab and Sindh jointly accounted for 77.2 percent share in overall Islamic banking industry's branch network. The number of Islamic banking windows operated by conventional banks having standalone Islamic banking branches stood at 1,284 (see **Annexure I** for details).

Figure 1: Region Wise Number of Branches & Relative Share (%)

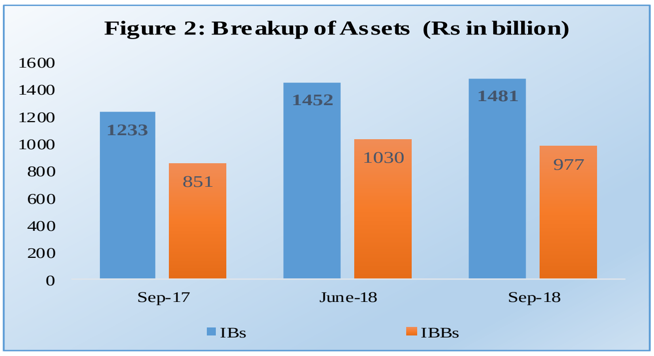


Asset and Liability Structure

Assets: Assets of Islamic banking industry were recorded at Rs. 2,458 billion by end September, 2018 compared to Rs. 2,482 billion in the previous quarter. Analysis of assets composition reveals that financing (net) witnessed a growth of 3.2 percent (Rs. 42 billion) during the period under review. On the other hand, investments (net) of Islamic banking industry declined by 3.7 percent (Rs. 20 billion). Market share of Islamic banking industry's assets in overall banking industry's assets increased to 13.6 percent by end September, 2018 compared to 12.9 percent in the previous quarter. The share of net financing and investments in total assets (net) of Islamic banking industry was recorded at 55.6

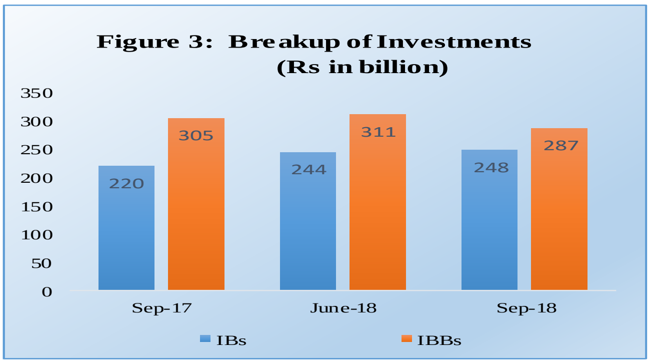
percent and 21.8 percent, respectively by end September, 2018 (see section below on **Investments** and **Financing and Related Assets** for details).

Analysis of assets by breakup among full-fledged Islamic banks and Islamic banking branches of conventional banks shows that assets of full-fledged Islamic banks increased by 2 percent (Rs. 29 billion) and were registered at Rs. 1,481 billion by end September, 2018. In contrast, assets of Islamic banking branches of conventional banks decreased by 5.1 percent (Rs. 53 billion) and stood at Rs. 977 billion by end September, 2018. In terms of share, full-fledged Islamic banks and Islamic banking branches of conventional banks accounted for 60.2 percent and 39.8 percent share, respectively in overall assets of Islamic banking industry.



Investments

Investments (net) of Islamic banking industry were recorded at Rs. 535 billion by end September, 2018 compared to Rs. 555 billion in the previous quarter. During the period under review, investments (net) of full-fledged Islamic banks increased by Rs. 4 billion to reach Rs. 248 billion. However, investments (net) of Islamic banking branches of conventional banks showed a decline of Rs. 24 billion and stood at Rs. 287 billion by end September, 2018.



Financing and Related Assets

During the period under review, financing and related assets (net) of Islamic banking industry grew by 3.2 percent (Rs. 42 billion) to reach Rs. 1,365 billion by end September, 2018. Bifurcation of financing and related assets (net) among full-fledged Islamic banks and Islamic banking branches of conventional banks shows that financing and related assets (net) of full-fledged Islamic banks reflected an increase of 6.2 percent (Rs. 48 billion) during the period under review to reach Rs. 830 billion by end September, 2018. However, financing and related assets (net) of Islamic banking branches of conventional banks declined by 1.1 percent (Rs. 6 billion) and were recorded at Rs. 535 billion by end September, 2018. In terms of mode wise financing, the share of Diminishing Musharaka remained higher in overall financing of Islamic banking industry (see **Table 2**).

Table 2: Financing Mix (% Share)

Mode	Sep-17	Jun-18	Sep-18
Murabaha	14.1	13.4	12.8
Ijarah	8.3	6.6	6.6
Musharaka	21.0	20.0	21.5
Diminishing Musharaka	29.1	33.7	33.4
Salam	3.8	2.8	2.3
Istisna	6.2	6.4	7.6
Others	17.5	17.1	15.8
Total	**100.0**	**100.0**	**100.0**

Table 3: Financing Concentration (% Share)				
	Sep-17	**Jun-18**	**Sep-18**	**Industry**
Chemical and Pharmaceuticals	5.4	4.0	3.9	3.5
Agribusiness	10.3	5.7	7.1	8.7
Textile	11.5	11.5	11.3	12.4
Cement	1.6	3.2	3.1	1.9
Sugar	3.1	4.6	3.2	3.4
Shoes and leather garments	0.4	0.5	0.5	0.4
Automobile and transportation equipment	0.9	0.8	1.0	1.5
Financial	1.0	0.9	0.9	2.3
Electronics and electrical appliances	1.4	1.1	1.3	1.4
Production and transmission of energy	12.9	17.1	18.0	16.6
Individuals	12.0	11.8	11.8	9.0
Others	39.7	38.7	37.9	38.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

Review of sector wise financing shows production & transmission of energy as the leading sector with a share of 18 percent in overall financing of Islamic banking industry by end September, 2018 (see **Table 3**).

Sector wise breakup of financing shows that the share of corporate sector remained high in overall financing of Islamic banking industry, followed by commodity financing. The share of small and medium enterprises (SMEs) financing and agriculture financing in overall financing of Islamic banking industry was recorded at 3 percent and 0.3 percent respectively (see **Table 4**).

Table 4: Sector Wise Financing Portfolio (% Share)				
Sector	**Sep-17**	**Jun-18**	**Sep-18**	**Industry**
Corporate	71.3	74.5	72.7	69.9
SMEs	3.1	3.1	3.0	5.2
Agriculture	0.5	0.4	0.3	4.0
Consumer Financing	10.8	10.5	10.5	6.4
Commodity Financing	12.3	10.3	11.6	11.4
Others	1.9	1.3	1.9	3.1
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 2.7 percent and 0.5 percent, respectively by end September, 2018. It is important to note that both these ratios were better than those of overall banking industry's averages (see **Table 5**).

Table 5: Asset Quality Ratios (%)				
Ratio	**Sep-17**	**Jun-18**	**Sep-18**	**Industry**
NPFs to Financing (gross)	3.5	2.7	2.7	8.0
Net NPFs to Net Financing	0.7	0.4	0.5	1.2
Provision to NPFs	80.0	84.4	82.8	86.0

Liabilities

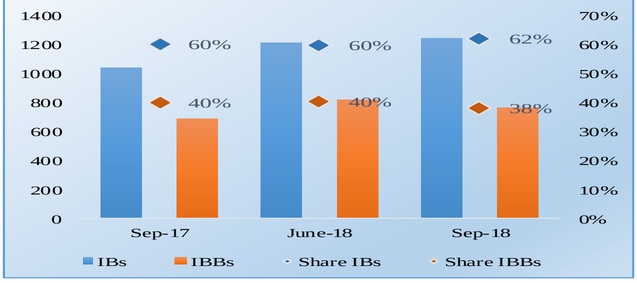
Deposits of Islamic banking industry were recorded at Rs. 2,005 billion by end September, 2018 compared to Rs. 2,033 billion in the previous quarter. Market share of Islamic banking industry's deposits in overall banking industry's deposits stood at 14.7 percent by end September, 2018. During the period under review, fixed deposits increased by 12.4 percent (Rs. 47 billion); while current (non-remunerative) and saving deposits witnessed a decline of 6.4 percent (Rs. 45 billion) and 1.1 percent (Rs. 9 billion), respectively (see **Table 6**).

Table 6: Break up of Deposits

	Rupees in billion			Growth (%)	
	Sep-17	**Jun-18**	**Sep-18**	**YoY**	**QoQ**
Customers					
Fixed Deposits	352	378	425	20.7	12.4
Saving Deposits	685	812	803	17.2	(1.1)
Current accounts – Remunerative	8	9	9	12.5	-
Current accounts - Non-remunerative	555	701	656	18.2	(6.4)
Others	11	24	14	27.3	(41.7)
Sub-total	**1,611**	**1,924**	**1,907**	**18.4**	**(0.9)**
Financial Institutions					
Remunerative Deposits	107	107	95	(11.2)	(11.2)
Non-remunerative Deposits	11	2	3	(72.7)	50.0
Sub-total	**118**	**109**	**98**	**(16.9)**	**(10.1)**
Total	**1,729**	**2,033**	**2,005**	**16.0**	**(1.4)**

Bifurcation of deposits among full-fledged Islamic banks and Islamic banking branches of conventional banks shows that deposits of full-fledged Islamic banks grew by 2.3 percent (Rs. 28 billion) to reach Rs. 1,242 billion by end September, 2018. In contrast, deposits of Islamic banking branches of conventional banks decreased by 6.9 percent (Rs. 56 billion) and were recorded at Rs. 763 billion during the period under review. The share of full-fledged Islamic banks and Islamic banking branches of conventional banks in overall deposits of Islamic banking industry was recorded at 62 percent and 38 percent, respectively by end September, 2018.

Figure 4: Breakup of Deposits (Rs in billion) & Share (%)



Liquidity

Liquid assets to total assets and liquid assets to total deposits ratios of Islamic banking industry were recorded at 22.8 percent and 27.9 percent, respectively by end September, 2018. Financing to deposits ratio (net) of Islamic banking industry increased to 68.1 percent by end September, 2018 compared to 65.1 percent in the previous quarter (see **Table 7**).

Table 7: Liquidity Ratios (%)

Ratio	Sep-17	Jun-18	Sep-18	Industry
Liquid Asset to Total Assets	28.8	24.6	22.8	47.7
Liquid Assets to Total Deposits	34.7	30.0	27.9	63.6
Financing to Deposits (net)	59.8	65.1	68.1	54.6

Capital

During the period under review, capital to total assets and capital minus net non-performing assets to total assets ratios of Islamic banking industry were registered at

Table 8: Capital Ratios (%)

Ratio	Sep-17	Jun-18	Sep-18	Industry
Capital to Total Assets	6.5	6.3	6.4	7.6
(Capital-Net NPAs) to Total Assets	6.0	6.1	6.1	7.2

6.4 percent and 6.1 percent, respectively (see **Table 8**).

Profitability

Profit before tax of Islamic banking industry increased to Rs. 23 billion by end September, 2018 compared to Rs. 18 billion in the same quarter last year. Profitability ratios like return on assets and return on equity (before tax) stood at 1.3 percent and 20.2 percent, respectively by end September, 2018. During the period under review, operating expense to gross income ratio was registered at 65.1 percent (see **Table 9**).

Table 9: Profitability & Earning Ratios (%)

	Sep-17	Jun-18	Sep-18	Industry
Profit Before Tax (Rupees in billion)	18	15	23	183
Return on Assets (before tax)	1.2	1.3	1.3	1.3
Return on Equity (before tax)	18.1	20.9	20.2	17.6
Operating Expense to Gross Income	71.0	64.5	65.1	60.4

Country Model: Bosnia Herzegovina

Recovering from the disastrous Bosnian War in the 1990s, which was part of the breakup of Yugoslavia, Bosnia at the turn of the millennium began re-establishing itself as a Muslim-majority state, one of the very few in Europe. The country today has a share of about 51% of its around 3.8 million population that follows the Islamic faith. The market for retail banking and financial services is, therefore, limited overall, and even smaller for the potentially Shariah compliant segment.

Bosnia has a transitional economy that relies heavily on the export of metals, energy, textiles, and furniture as well as on remittances and foreign aid. Foreign banks, primarily from Austria and Italy, control much of the banking sector, though the largest bank is a private domestic one. With no proper regulations and only one dedicated Shariah bank, Bosnia struggles to bring its Islamic banking and finance industry to the next level.

Islamic Banking & Finance

In total, there are 23 banks operating in Bosnia. The country has both domestic as well as foreign-owned banks from Germany, Austria, Italy, Russia, Slovenia, and Turkey. Out of total, there is only one full-fledged Islamic bank: Bosna Bank International (BBI), which opened its doors in October 2000. The bank's shareholders include the Islamic Development Bank (IDB), Abu Dhabi Islamic Bank and the Dubai Islamic Bank. The BBI is also Europe's first full-fledged Islamic bank. BBI has 31 branches, with its headquarters located in Sarajevo. BBI holds 4.6% of the loan market and 3.8% of the deposit market.

Two years following its launch, BBI secured a permit for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina as well as a license for deposit insurance. BBI has been showing promising growth as the Islamic bank has achieved an average annual growth of 20% for the last decade, and is one of the fastest-growing banks in the country. The country is receptive to cooperation from other countries on the Islamic finance front. Last year, BBI set up a EUR 1 million (US$1.19 million) fund in partnership with the Malaysian government to support SMEs in the country. The fund will allow SMEs in the sectors of agriculture, food processing, construction and tourism to apply for funding. In April 2013, the Association of Islamic Economics, Banking and Finance was formed as a result of an Islamic finance conference in 2012. The association holds conferences not only to promote the industry, but also to stimulate discussions among stakeholders and address pertinent issues to move the Islamic finance segment forward.

Regulatory Environment

Bosnia's Islamic banking and financial system is regulated under the Law on Banks, but the law does not recognize Shariah principles. The country's sole Islamic bank, BBI, has had to find ways to accommodate the law whilst providing Shariah compliant banking options for its customers. Amendments to accommodate Islamic finance were proposed and passed in the Lower House of Parliament twice, but the country still lacks an Islamic finance legislative framework because the proposals were blocked in the Upper House.

The government is in the process of adopting a new Banking Act based on Basel III standards in accordance with relevant EU legislation; however, the new law still would not accommodate Islamic banking, as it restricts banks from being involved in trade or mediation in trade, a prevalent feature in the Murabahah model.

Takaful

So far, there are no takaful companies in the country. BBI is looking at establishing one under its brand, as part of its ambition to enrich the spectrum of Islamic finance products in Europe.

Conclusion

The outlook of Bosnia's Islamic finance industry remains positive based on economic growth projection and the fact that Islamic banking plays a very significant role in the promotion of new foreign direct investments. Islamic banking in Bosnia has increased influence despite regulatory constraints and Sarajevo now serves as a hub for Islamic finance in the South East Europe (SEE) region. Besides its Shariah compliance, BBI has succeeded in building several unique features, which help to create one of the strongest brands in the Bosnian finance industry.

Although Bosnia seems a good potential market for Islamic finance, there are constraints on market growth. One obvious way forward would be for conventional banks to open Islamic finance windows or counters providing Shariah compliant products.

Sources of Information

- Central Bank of Bosnia website https://cbbh.ba/
- www.islamicfinancenews.com
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- https://zulkiflihasan.wordpress.com/2010/09/29/islamic-banking-and-finance-in-bosnia-and-herzegovina/
- http://investingroup.org/review/206/a-growing-market-for-european-banking-bosnia-herzegovina/

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 02: Debit Card, Charge Card and Credit Card

Preface

The purpose of the standard on debit card, charge card and credit card is to explain their types and characteristics, and to lay down the Shariah principles for dealing with the three types of card by both Islamic financial institutions and their customers who hold their cards and use them. The standard also explains the Shariah rulings on the use of the cards in various circumstances.

1. Scope of the Standard

The purpose of the standard on debit card, charge card and credit card is to explain their types and characteristics, and to lay down the Shariah principles for dealing with the three types of card by both Islamic financial institutions and their customers who hold their cards and use them. The standard also explains the Shariah rulings on the use of the cards in various circumstances.

- Debit card
- Charge card
- Credit card

2. Characteristics of Different Types of Card

While some of the characteristics are common to more than one type of card, some are specific to a particular type of card.

2/1- Characteristics of the debit card

2/1/1- The institution issues the card to a customer with available funds in his account.

2/1/2- The card confers on its holder the right to withdraw cash from his account or to pay for goods or services purchased up to the limit of the available funds (credit balance) on his account. The debit to the customer's account will be immediate, and the card does not provide him with any credit.

2/1/3- The customer will not normally pay any charges for using this card, except when it is used to withdraw cash or to purchase another currency through another institution different from the institution that has issued the card.

2/1/4- The issuing institution may charge a fee for issuing the card, or may make no charge for issuing it.

2/1/5- Some institutions charge the party accepting payment by means of the card a commission calculated as a percentage of such payments.

2/2- Characteristics of the charge card

2/2/1- The card provides a credit facility up to certain ceiling for a specified period of time, as well as providing a means of repayment.

2/2/2- The card is used to pay for goods and services and to obtain cash.

2/2/3- This card does not provide revolving credit facilities to the cardholder, insofar as the cardholder is obliged to make payment for the purchased goods or services by the end of a prescribed credit period following receipt of a statement sent by the institution issuing the card.

2/2/4- If the cardholder delays payment of the amount due beyond the period of free credit, an interest charge is imposed on the cardholder but none is imposed by the institutions.

2/2/5- The institution issuing the card does not charge the cardholder any percentage commission on purchases, but receives a percentage commission from the party accepting the card on purchases made by using the card.
2/2/6- The institution issuing the card is obliged to pay the party accepting the card for purchases made by the cardholder, within a specified transaction credit limit (or the agreed increase thereon). This obligation on the card issuer to pay for the cardholder's purchases is direct, and is independent of the relationship between the party accepting the card and the cardholder.
2/2/7- The institution issuing the card has a personal and direct right against the cardholder to be reimbursed for any payments made on his behalf. The issuer's right is absolute and independent of the relationship between the cardholder and the party accepting the card in accordance with the contract between them.

2/3- Characteristics of the Credit Card
2/3/1- This card provides a revolving credit facility within the credit limit and credit period determined by the issuer of the card. It is also a means of payment.
2/3/2- The holder of a credit card is able to pay for purchases of goods and services and to withdraw cash, within the approved credit limit.
2/3/3- When purchasing goods or services, the cardholder is given a free credit period during which the amount due should be paid and no interest is chargeable. The cardholder is also allowed to defer paying the amount due and is charged interest for the duration of the credit. In the case of a cash withdrawal, there is no free credit period.

3. Shariah Rulings for Different Types of Card

3/1- Debit Card
It is permissible for institutions to issue debit cards, as long as the cardholder does not exceed the balance available on his account and no interest charge arises out of the transaction.

3/2- Charge Card
It is permissible for institutions to issue charge cards on the following conditions:

3/2/1- The cardholder is not obliged to pay interest in the case of delay in paying the amount due.
3/2/2- If the institution obliges the cardholder to deposit a sum of money as a guarantee and this amount is not available for the use of the cardholder, then it must be made clear that the institution will invest the money for the benefit of the cardholder on the basis of Mudarabah and that any profit accruing on this amount will be shared between the cardholder and the institution according to a specified percentage.
3/2/3- The institution must stipulate that the cardholder may not use the card for purposes prohibited by the Shariah and that the institution has the right to withdraw the card in case such a condition is violated.

3/3- Credit Card
It is not permissible for an institution to issue credit cards that provide an interest-bearing revolving credit facility, whereby the cardholder pays interest for being allowed to pay off the debt in instalments.

4. General Provisions

4/1- The affiliation of the institution to membership of international card regulatory organizations

4/1/1- It is permissible for institutions to join the membership of international card regulatory organizations, provided the institutions avoid any infringements of Shariah that may be prescribed by those organizations.

4/1/2- It is permissible for the institutions to pay membership fees, service charges and other fees to international card regulatory organizations, so long as these do not include interest payments, even in an indirect way, such as in the case of increasing the service charge to cater for the granted credit.

4/2- Commission to the card issuer payable by merchants accepting the card

It is permissible for the institution issuing the card to charge a commission to the party accepting the card, at a percentage of the purchase price of the items and services purchased using the card.

4/3- Fees charged by the institution to the cardholder

It is permissible for the institution issuing the card to charge the cardholder membership fees, renewal fees and replacement fees.

4/4- Purchasing gold, silver and currency with cards

It is permissible to purchase gold, silver or currency with a debit card or a charge card, in cases where the issuing institution is able to settle the amount due to the party accepting the card without any delay.

4/5- Cash withdrawal using a card

4/5/1- It is permissible for the cardholder to withdraw an amount of cash within the limit of his available funds, or more with the agreement of the institution issuing the card, provided no interest is charged.

4/5/2- It is permissible for the institution issuing the card to charge a flat service fee for cash withdrawal, proportionate to the service offered, but not a fee that varies with the amount withdrawn.

4/6- Privileges granted by card issuing parties

4/6/1- It is not permissible for institutions to grant the cardholder privileges prohibited by the Shariah, such as conventional life insurance, entrance to prohibited places or prohibited gifts.

4/6/2- It is permissible to grant privileges to the cardholder that are not prohibited by the Shariah, such as a priority right to services or discounts on hotel, airline or restaurant reservations and the like.

5. Date of Issuance of the Standard

The Standard was issued on 27 Safar 1421 A.H., corresponding to 31 May, 2000.

6. Adoption of the Standard

The Shariah Standard on Debit Card, Charge Card and Credit Card was adopted by the Shariah Board in its meeting No. (4) held on 25-27 Safar 1421 A.H., corresponding to 29-31 May, 2000.

Source:

AAOIFI website: http://aaoifi.com/

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

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

Islamic Banking Department (IBD) in collaboration with National Institute of Banking and Finance (NIBAF) arranged first FIBO program of FY 2018-19 at Quetta. The program was held during September 10-14, 2018 and attended by 33 participants. The training program 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).

- **Capacity Building Program for Government Officials**

IBD, in collaboration with National Institute of Banking and Finance (NIBAF), arranged a 2-days training program for focal persons of Ministry of Finance (MoF) and other government ministries/departments at Islamabad during August 02-03, 2018. The first program of the series was attended by officials representing MoF, Federal Board of Revenue (FBR), Securities and Exchange Commission of Pakistan (SECP) and Board of Investment.

- **Capacity Building of Shariah Scholars**

IBD, in collaboration with Darul-Iqtisadil-Islami, organized a three days capacity building-cum-awareness raising program at Idara Misbah-Ul-Quran, Bahawalpur on August 11-13, 2018. The program was attended by more than 40 participants.

- **Closing Ceremony of 4 Months & 1 Year Certification Program**

IBD, in collaboration with Darul-Iqtisadil-Islami, organized 4 Months and 1-Year certification programs on Islamic Banking and Finance. The participants of the 4 Months and 1-Year Certificate programs were awarded certificates during a ceremony held on September 06, 2018 at Jamia Hujveria, Lahore. The 4 Months program was attended by 17, whereas the 1 Year program was attended by 26 Shariah scholars.

Islamic Banking News and Views

A. Local Industry News

SBP issues low-cost housing finance policy

The State Bank of Pakistan (SBP) has introduced a policy for the promotion of low-cost housing finance, covering both Islamic and conventional modes of financing. According to the policy document, among the measures suggested include: introduction of a subsidized financing facility for low-cost housing by providing liquidity to the financial institutions at a subsidized rate; nationwide training programs which will include courses on Islamic housing finance; and the introduction of a new Islamic and conventional asset class by the Pakistan Mortgage Refinance Company (PMRC); PMRC bonds. These will have longer maturities than the current debt instruments in the market and would be an investment instrument combining a high degree of security with a yield higher than Pakistan Investment Bonds.
www.islamicfinancenews.com

SBP rallies Islamic banks to support agricultural sector

As part of its yearly strategy to support the development of the agricultural sector, the State Bank of Pakistan has raised the disbursement target for Islamic banking institutions fivefold to PKR100 billion, out of an overall target of PKR1.25 trillion for fiscal year 2018-19. SBP has also urged Shariah compliant financial institutions to develop bespoke financing products that meet the agricultural sector's needs.
www.islamicfinancenews.com

SECP issues risk management guidelines

The Securities and Exchange Commission of Pakistan (SECP) has issued guidelines on risk management and control for asset management companies. The regulator said in a statement that the guidelines are meant to provide a general framework of risk management for mitigating risks associated with the management of collective investment schemes. It is hoped that the guidelines will provide a useful reference for asset management companies in developing and assessing their own risk management systems.
www.islamicfinancenews.com

SBP issues circular

SBP has issued a circular directing Islamic banking institutions to enhance their training and capacity-building measures. According to an announcement, this would include: maintaining, updating and enhancing the knowledge, skills and capabilities of their workforce at strategic, functional and operational levels. Islamic banking institutions have also been advised to maintain a record of training and capacity building measures.
www.islamicfinancenews.com

SECP approves Murabaha share financing

The Shariah Advisory Board (SAB) of SECP approved Murabaha share financing product, which was proposed by the National Clearing Company of Pakistan Limited (NCCPL). The Board had earlier provided in principle approval in its 8th meeting held on July 24, 2017, and had suggested some amendments to the proposed product in line with the Shariah principles. The board approved the final

product with the conditions that NCCPL will appoint a full time Shariah Advisor who will ensure ongoing Shariah compliance of the transactions and will issue its Shariah review report periodically.
https://www.pkrevenue.com/sectoral-news/secp-approves-morahaba-share-financing/

SECP publishes draft takaful accounting regulations
SECP has published the draft General Takaful Accounting Regulations, 2018, to obtain public feedback. The draft regulations provide a framework for the accounting and reporting of the General Takaful business of General Takaful operators and window General Takaful operators.
www.islamicfinancenews.com

Sixth full-fledged Islamic bank in the making in Pakistan as Zarai Taraqiati Bank gets license
Having planned to foray into Islamic finance since 2011 to capture Pakistan's largely untapped agricultural market, Zarai Taraqiati Bank Limited has now secured a license from the State Bank of Pakistan, moving the regulator closer to its targeted 15% Islamic banking market share in 2018. The bank, with assets amounting to PKR82.81 billion at the end of 2016, intends to become the sixth full-fledged Islamic bank operating in Pakistan, but will start its operations by offering Shariah compliant financing products on a branch basis.
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EI launches QuickRemit to Pakistan
Emirates Islamic (EI) has included Pakistan in its 60-second online fund transfer service, according to a statement. The product, called QuickRemit, will allow transfers to any Faysal Bank account in Pakistan in less than 60 seconds, and transfers to other Pakistani banks within one hour. EI is also planning to extend QuickRemit services to other countries and provide this facility to customers from other nationalities.
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B. International Industry News

Iran's SEO mulls green sukuk regulations
The Securities and Exchange Organization of Iran (SEO) has started working on the development of a potential green sukuk framework or regulation as the Islamic Republic seeks financing for the development of renewable energy projects to meet its target of installing 5,000 MW of renewable energy by 2020. Struggling to raise funds, developers of renewable energy projects need new ways of financing.
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S&P Dow Jones Indices quarterly Islamic market review
Most S&P and Dow Jones Islamic indices have outperformed conventional benchmarks through the first half of 2018 driven by underweight to financials. The Dow Jones Islamic Market (DJIM) World and S&P Global BMI Shariah indices rose 1.3% and 1.7%, respectively year-to-date (YTD), outperforming the conventional S&P Global BMI index by about 300 bps. A similar trend was seen in all major regions as Shariah compliant benchmarks measuring the US, Europe, Asia Pacific, MENA and emerging markets each outperformed conventional equity benchmarks by meaningful margins.
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IRTI and BIBF collaborate

The Islamic Research and Training Institute (IRTI) and the Bahrain Institute of Banking and Finance (BIBF) have signed an MoU to explore areas of cooperation in human resource development in Islamic banking and finance. According to a statement, under the provisions of the MoU, the IRTI and BIBF will collaborate to undertake joint programs and activities aimed at developing human capital in the Islamic banking and finance sector globally.
www.islamicfinancenews.com

Islamic finance initiatives in the Philippines

Philippines is reportedly planning to issue sukuk for the first time to finance the country's budget deficit that is expected to widen in 2019. This was announced by National Treasurer Rosalia de Leon. The Philippine government's maiden sukuk issue, which has long been on the drawing board, is expected to materialize next year as part of a PHP1.19 trillion (US$22.23 billion) borrowing program of the country aimed at funding the ambitious infrastructure projects of President Rodrigo Roa Duterte.
www.islamicfinancenews.com

Industry surpasses US$2 trillion

The global Islamic financial services industry exceeded the US$2 trillion mark as of the end of 2017, according to the IFSB's IFSI Stability Report 2018. According to the findings of the report, the global Islamic financial services industry recorded a yearly growth of 8.3%, bolstered by the performance of the Islamic capital markets, particularly sukuk offerings by sovereigns and multilateral institutions.
www.islamicfinancenews.com

IRTI plans Islamic social finance center

The Islamic Research and Training Institute (IRTI), the research arm of the IDB, is looking to team up with other institutions to establish a center of excellence on Islamic social finance. According to a press release, the IRTI is considering partnerships with the United Nations Development Program, the Indonesian Financial Services Authority and the Indonesian Ministry of Finance for the initiative. The effort is part of the IRTI's plan to promote Islamic social finance as part of the IDB's commitment to the UN Sustainable Development Goals.
www.islamicfinancenews.com

The UAE adopts AAOIFI standards

Following the recommendation of the Higher Shariah Authority of the Central Bank of the UAE, the nation has adopted AAOIFI standards in its jurisdictions. According to a press release, all full-fledged Islamic banks, Islamic windows of conventional banks and finance companies offering Shariah compliant products and services in the UAE are required to comply with the AAOIFI standards with effect from 1st September 2018.
www.islamicfinancenews.com

Borsa Istanbul introduces repo-like mechanism for sukuk to aid Islamic banks in managing liquidity

Turkish participation banks are now able to manage their liquidity more efficiently using a newly launched repo like mechanism by the national stock exchange, an initiative to support the country's Islamic banks and stimulate growth in its nascent interest-free capital market. Borsa Istanbul has confirmed the launch of the Committed Transactions Market of Sukuk (CTM) and has begun the trading of Sukuk, or lease certificates as they are colloquially known. Based on the principles of

Shariah, the CTM is open to all banks in the country and has received the greenlight from the Participation Banks Association of Turkey.
www.islamicfinancenews.com

IFSB to build Global Islamic Finance Database tracking takaful, banking and capital market activities

The IFSB will be developing a global database of sector-level Islamic banking data as well as statistics on Islamic insurance and Shariah capital market activities, an effort that could provide useful information to the industry, where Islamic finance data remains largely fragmented, to facilitate more effective monitoring and analysis. The PSIFIs pilot project began in 2007 with only four participating countries and the program began in 2014; it now tracks data in 21 markets including for the first time the UK this year, covering over 95% of global Islamic banking activity.
http://www.mifc.com/index.php?ch=ch_contents_banking_takaful&pg=pg_banking_takaful&ac=26561

C. Articles & Views

Pensions: promising progress in the Islamic space

Due to the lack of demand and understanding, the Islamic pension fund segment has long been seen as lagging behind. Over the past few years, only a small number of countries including Malaysia, Pakistan, Turkey, Iran, Australia and the UK have been offering state-backed Islamic pension funds. However, the landscape is moving with the recent introduction of Islamic retirement schemes in Kenya and market players believe that pension funds will play a key role in the future of the Islamic asset management industry.
www.islamicfinancenews.com

Financial technology: the future is here

Fintech is changing how the finance industry in general, Islamic finance in particular, has been operating over the past decades. Emerging technologies are expected to bring greater security, transparency and market efficiency while reducing cost through the automation of certain tasks. Fintech is a broad term covering businesses that are very different in nature. While they all use technology to deliver cheaper, faster and more user-friendly services, they differ in the type of technology they utilize such as blockchain, artificial intelligence and mobile phones.
www.islamicfinancenews.com

Can consolidation be the answer for industry transformation?

Over the past three years, interest in consolidation strategy in Islamic finance has grown rapidly and become repetitive in several markets and geographies. This was first pioneered in Bahrain, and over a dozen Islamic financial institutions benefited from this overdue needed strategy. The pattern was then followed in the UAE, Saudi Arabia, Qatar, Malaysia and elsewhere in the world. Perhaps the key driver for this consolidation plan could be a combination of business and financial efficiency workaround plans within the increasingly competitive banking and takaful practices.
www.islamicfinancenews.com

Is cryptocurrency investing Halal or Haram?

The Islamic economic model today is one of the most dynamic areas of the modern economy, which is actively moving beyond the Muslim countries. The growth rate of the Islamic finance sector is 12% per year, while the world market of Islamic finance assets has exceeded US$2 trillion and forecasted

to grow to US$3.78 trillion by 2022. According to the Islamic Finance Development Report 2017, the cryptocurrency economy is one of the key innovative areas in the field of Islamic finance, thus creating cryptocurrency projects in Islamic countries, particularly cryptocurrency exchanges established in Indonesia, Malaysia and the UAE.
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Risk management: adapting regulations and standards
Risk management can be defined as forecasting financial risks and taking the necessary measures to minimize their impact. Risk management in Islamic banking is not significantly different from conventional banking. Overall, there are six main risks, namely credit risk, equity investment risk, market risk, liquidity risk, rate of return risk and operational risk. However, there are additional risks that are unique to the Shariah industry, including the possibility of Shariah non-compliance.
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Islamic equity as the underlying asset in Sukuk Ijarah
Equity trading makes up a major part of securities trading in many capital markets. Besides equities, fixed income securities such as bonds and its Shariah compliant counterpart, sukuk are also a big part of daily market trading. So, in Islamic capital markets, equities besides sukuk make up the main components of the market and players do their best to make their portfolio as optimized as can be.
www.islamicfinancenews.com

One size fits all?
Opinion continues to be divided across the Islamic finance industry on whether or not standardization can play a more effective role in an industry where it is inevitable that the personal (or subjective) views of individuals may take precedence when determining certain matters of Shariah. However, there is a general consensus among commentators that some level of standardization is important in order to ensure the continued growth of the industry. There is also the equally compelling argument that consistency and in-principle agreement on the parameters of acceptable structuring techniques could also play an important role in helping to avoid disputes.
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Role of exchanges and regulators in facilitating Islamic capital-raising
The architecture of the Islamic equity capital markets has developed significantly due to the role of financial services regulators and securities exchanges and also to the facilitation of Shariah compliant investment through the growth of Islamic equity indices. Equity capital markets depend upon successfully attracting equity capital at the right valuation. But just as important is creating the right architecture for companies to come to market and for investors to be able to buy and sell their shares freely and transparently.
www.islamicfinancenews.com

SMEs and entrepreneurship: bridging the gap and meeting the needs
Bridging the SME financing gap is a tremendous opportunity for Islamic banks, which have, therefore, developed particular offerings to meet the needs. In developing countries alone, 65 million or 40% of MSMEs cannot find the funds they require for their growth, representing US$5.2 trillion in financing needs.
www.islamicfinancenews.com

Zakat for the SDGs: the UNDP can help

Zakat is a form of philanthropy found around the world. All Muslims eligible to pay it must donate at least 2.5% of their accumulated wealth. As such, it is one of the largest forms of wealth transfer to the poor and needy in existence. Inspired by the Muslim faith, Zakat is now a global phenomenon of relevance.

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Revolutionizing the retail market: the rapid rise of robo-advisors

In August 2018, a new Islamic robo-advice proposition launched in the UK with ambitions to kick-start a revolution in Islamic retail investing. Claiming to be the first and only Shariah compliant product of its kind, Wahed Invest's robo-advisory service marks the latest in a growing trend for online alternatives to conventional wealth managers. But do they represent a realistic threat? Robo-advice is big business. Deloitte and Swiss banking software company Avaloq in 2017 predicted that the robo-advice market could reach US$3.7 trillion by 2020 and US$16 trillion by 2025, an asset under management value three times larger than BlackRock, the world's biggest fund manager.

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Islamic finance in Asia is bright but more regulatory robustness required to live up to full potential, suggests ADB

The Asian Development Bank (ADB) expects the Islamic finance sector in Asia to continue building momentum despite certain challenges and it sees the role of regulators as key in sustaining the promising growth of the industry. The multilateral bank has identified four key factors for Islamic finance growth in Asia: rapidly expanding Muslim population in the region; strong political will by Asian governments to push the Islamic finance agenda; the convergence of Islamic finance with the fast-growing ethical finance sector; and the potential for Islamic financial products to stimulate real economic growth.

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Infrastructure financing: solar projects under the spotlight

The development of basic infrastructure is key in many OIC member countries that have tapped Islamic finance in different ways over the past years to fund their projects. According to estimates, the world invests US$2.5 trillion a year on infrastructure including transportation, power, water and telecommunications systems although it needs to invest on average US$3.3 trillion annually until 2030 just to support currently expected rates of growth. Overall, emerging economies will account for some 60% of that need, according to a McKinsey report. A few Shariah compliant products and structures are a good fit for the funding of these infrastructure projects. A non-exhaustive list includes sukuk, project finance, Mudarabah and syndicated financing, among others.

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Islamic finance: just for Muslim-majority nations?

Islamic finance is today a $2.2 trillion industry spread over more than 60 countries with the bulk of it concentrated in very few markets. Data compiled by the Union of Arab Banks' research department shows that just 10 countries account for 95% of the world's Shariah compliant assets. Iran leads the way with 30% of the total market followed by Saudi Arabia (24%), Malaysia (11%), the United Arab Emirates (10%), Qatar (6%), Kuwait (5%), Bahrain (4%), Bangladesh (1.8%), Indonesia (1.6%) and Pakistan (1%). These countries drive the growth of Islamic finance, set industry standards and foster innovation. Over the past decade, Islamic finance grew at an exponential yearly pace of 10%–12%.

Reuters expects total Islamic assets to reach $3.5 trillion by 2021 but that scenario is tied to the economic well-being of these 10 markets.
https://www.gfmag.com/topics/blogs/islamic-finance-just-muslim-majority-nations

Annexure: I

Islamic Banking Branch Network

(As of September 30, 2018)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	181	-
	BankIslami Pakistan Limited	218	-
	Dubai Islamic Bank Pakistan Limited	200	-
	Meezan Bank Limited	605	-
	MCB Islamic Bank Limited	166	-
	Sub-Total	**1,370**	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	5
	Askari Bank Limited	91	-
	Bank Al Habib Limited	62	132
	Bank Alfalah Limited	152	121
	Faysal Bank Limited	204	-
	Habib Bank Limited	45	495
	Habib Metropolitan Bank Limited	29	215
	National Bank of Pakistan	180	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	20	-
	Standard Chartered Bank (Pakistan) Limited	8	72
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	68	-
	United Bank Limited	93	157
	Sub-Total	**1,211**	**1,284**
	Total Full-Fledged Branches	**2,581**	**-**
Sub Branches	AlBaraka Bank (Pakistan) Limited	8	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	112	-
	The Bank of Punjab	2	-
	Habib Bank Limited	2	-
	United Bank Limited	1	-
	Total Sub-Branches	**128**	**-**
	Grand Total Branches/Sub-Branches	**2,709**	**1,284**

Source: Information/Data obtained from different banks

Annexure: II

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

(As of September 30, 2018)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	6	-	7	1	16	100	48	181
	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	23	-	32	2	36	309	197	605
	MCB Islamic Bank Limited	2	11	1	9	-	11	68	64	166
	Islamic Banks	**21**	**57**	**1**	**68**	**5**	**90**	**657**	**471**	**1,370**
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	-	5	20	31	62
	Bank Alfalah Limited	1	5	-	11	-	8	89	38	152
	Faysal Bank Limited	2	11	1	9	1	24	111	45	204
	Habib Bank Limited	2	1	1	4	-	4	23	10	45
	Habib Metropolitan Bank Limited	-	-	-	1	-	6	8	14	29
	National Bank of Pakistan	9	5	2	5	1	35	90	33	180
	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	3	8	5	20
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1	-	1	1	5	8
	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	-	-	5	-	11	51	-	68
	United Bank Limited	1	4		4	-	19	39	26	93
	Islamic Banking Branches Total	**20**	**45**	**8**	**65**	**7**	**210**	**585**	**271**	**1,211**
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	-	-	-	-	-	-	-	-	-
	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**	**45**	**59**	**128**
	Grand Total	**42**	**109**	**9**	**142**	**12**	**307**	**1,287**	**801**	**2,709**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of September 30, 2018)

S. No	Province	District	No of Branches*
1	Sindh	Badin	2
2		Dadu	6
3		Ghotki	3
4		Hyderabad	54
5		Jacobabad	5
6		Jamshoro	2
7		Karachi City	651
8		Khairpur	3
9		Larkana	5
10		Matiari	1
11		Mirpurkhas	10
12		Naushahro Feroze	1
13		Shaheed Benazir Abad	16
14		Sanghar	13
15		Shikarpur	1
16		Sukkur	17
17		Shahdadkot	1
18		Tando Allahyar	4
19		Tando Mohammad Khan	1
20		Thatta	1
21		Umer Kot	4
Sindh Total			**801**
22	Punjab	Attock	17
23		Bahawalnagar	12
24		Bahawalpur	20
25		Bhakkar	1
26		Chakwal	17
27		Chiniot	5
28		Dera Ghazi Khan	15
29		Faisalabad	101
30		Gujranwala	60
31		Gujrat	50
32		Hafizabad	5
33		Jhang	13
34		Jhelum	16
35		Kasur	17
36		Khanewal	18
37		Khushab	5
38		Lahore City	434
39		Layyah	6
40		Lodhran	5
41		Mandi Bahauddin	13
42		Mianwali	8
43		Multan	74
44		Muzaffargarh	7
45		Nankana Sahib	7
46		Narowal	6
47		Okara	18
48		Pakpattan	9
49		Rahim Yar Khan	35
50		Rajanpur	3
51		Rawalpindi	134
52		Sahiwal	28
53		Sargodha	30
54		Sheikhupura	22
55		Sialkot	41
56		Toba Tek Singh	18
57		Vehari	17
Punjab Total			**1,287**

S. No	Province	District	No of Branches*
58	Khyber Pakhtunkhwa	Abbottabad	20
59		Bannu	7
60		Batagram	3
61		Buner	4
62		Charsadda	10
63		Chitral	6
64		Dera Ismail Khan	13
65		Hangu	5
66		Haripur	8
67		Karak	1
68		Kohat	10
69		Lakki Marwat	1
70		Lower Dir	13
71		Malakand	13
72		Mansehra	12
73		Mardan	20
74		Nowshera	20
75		Peshawar	94
76		Shangla	4
77		Swabi	7
78		Swat	28
79		Tank	1
80		Torghar	1
81		Upper Dir	6
Khyber Pakhtunkhwa Total			**307**
82	Gilgit-Baltistan	Skardu	1
83		Diamir	5
84		Gilgit	6
Gilgit-Baltistan Total			**12**
85	FATA	Bajaur Agency	1
86		Khyber Agency	5
87		Mohmand Agnecy	1
88		Orakzai Agency	2
FATA Total			**9**
89	Federal Capital	Islamabad	142
Capital Total			**142**
90	Balochistan	Chaghi	1
91		Gawadar	6
92		Harnai	1
93		Khuzdar	2
94		Lasbela	5
95		Loralai	5
96		Panjgur	2
97		Pishin	6
98		Qilla Abdullah	6
99		Qilla Saifullah	4
100		Quetta	62
101		Turbat	2
102		Zhob	6
103		Ziarat	1
Balochistan Total			**109**
104	Azad Kashmir	Bagh	1
105		Bhimber	1
106		Dadyal	4
107		Hattian Bala	1
108		Kotli	5
109		Mirpur	17
110		Muzaffarabad	11
111		Poonch	2
Azad Kashmir Total			**42**
Grand Total			**2,709**

*including sub-branches