

# Islamic Banking Bulletin

February 2007

State Bank of Pakistan

## Mission

*To promote and regulate Islamic Banking Industry  
in line with best international practices, ensuring  
Shariah Compliance and transparency*

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State Bank of Pakistan

# Islamic Banking Bulletin

## Islamic Banking Sector

The Islamic Banking Sector continued to grow which is reflected by the increasing branch network of the Islamic Banking Institutions. The network details can be seen in the Annexure-I.

Islamic Banking Bulletin gives an overview of the Islamic Banking Industry and provides information regarding the developments taking place in this industry locally and internationally.

### Consolidated Balance Sheet for 3rd & 4th Quarter

Description	Rs. In "000"		% Change
	Sep-06	Dec-06	
<b>ASSETS</b>			
Cash and balances with treasury banks	12,164,803	15,266,243	25%
Balances with other banks	15,191,421	16,383,041	8%
Due from financial institutions	300,000	5,602,000	1767%
Investments	6,642,160	7,053,163	6%
Financings	52,620,814	65,137,207	24%
Operating fixed assets	2,151,084	2,517,543	17%
Deferred tax assets	123,189	192,259	56%
Other assets	5,826,290	6,031,374	4%
<b>Total Assets</b>	<b>95,019,761</b>	<b>118,182,830</b>	<b>24%</b>
<b>LIABILITIES</b>			
Bills payable	1,127,126	1,259,513	12%
Due to financial institutions	5,052,380	6,547,021	30%
Borrowings from Head office	2,858,400	4,193,833	47%
Deposits and other accounts	66,010,905	83,741,910	27%
Sub-ordinated Loans	-	-	-
Liabilities against assets subject to finance lease	-	-	-
Deferred tax liabilities	431,746	491,450	14%
Other liabilities	6,762,028	6,101,835	-10%
<b>Total Liabilities</b>	<b>82,242,585</b>	<b>102,335,562</b>	<b>24%</b>
<b>NET ASSETS</b>	<b>12,777,176</b>	<b>15,847,268</b>	<b>24%</b>
<b>REPRESENTED BY</b>			
Paid-up capital/Head office capital account	11,087,161	14,465,290	30%
Reserves	735,463	528,851	-28%
Unappropriated/Unremitted profit	829,239	756,148	-9%
<b>Sub Total</b>	<b>12,651,863</b>	<b>15,750,289</b>	<b>24%</b>
Surplus /(Deficit) on revaluation of assets	125,313	96,979	-23%
<b>Equity</b>	<b>12,777,176</b>	<b>15,847,268</b>	<b>24%</b>

#### Inside this issue:

Analysis of Balance Sheet	2
Industry Progress and Market Share	3
Modes of Financing	4
Deposit Structure	5
Ratio Analysis	6
Book Review	7
Developments at IBD	8
Local News	9
International News	10
Branch Data	12

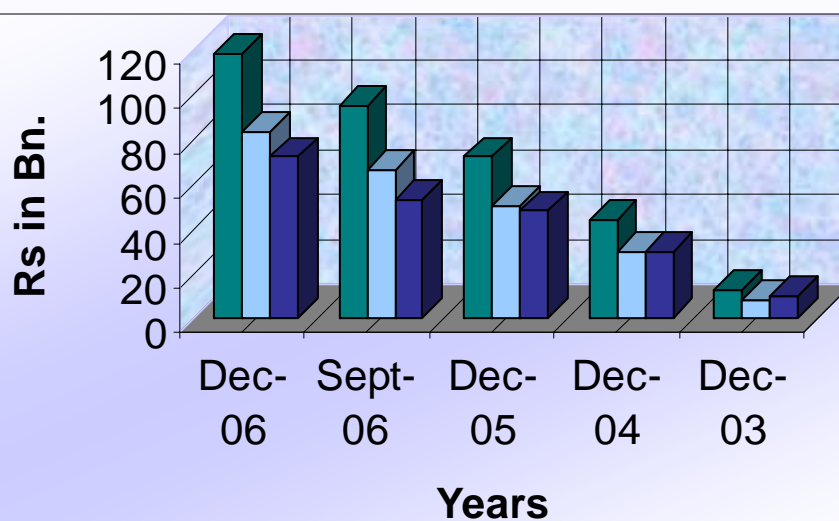
## Analysis of the Consolidated Balance Sheet

- The Balance Sheet footing of the Islamic Banking Industry increased during the past quarter. The total assets portfolio in the Islamic Banking Sector expanded by 24% to Rs. 118.183 billion in December 2006 from Rs. 95.020 billion in September 2006.
- Financings comprised of 55% of total assets and stood at Rs. 65.137 billion in December 2006 compared with Rs. 52.621 billion in September 2006 showing an increase of 24%.
- Total assets have shown an increase and there is substantial increase in “Cash and Balances with Treasury Banks” and “Balances with other banks.”. Cash held by Islamic Banking Institutions at the Treasury Banks increased by 25% to Rs.15.266 billion from Rs. 12.164 billion.
- This shows that banks have excess liquid funds which could not be properly utilized due to non availability of Shariah Compliant money market instruments.
- Deposit liabilities increased by 27 % to Rs. 83.742 billion as at the end of December from Rs. 66.011 billion in September 2006.
- Islamic Banking Sector equity increased by 24% to Rs. 15.847 billion in September from Rs. 12.777 billion in September.
- Minimum Capital Requirement for conventional banks also applies on Islamic Banking Institutions of Pakistan because of which the equity of Islamic Banking Institutions has increased in the last quarter of 2006.
- Unappropriated / unremitted profit for the quarter ending December 2006 decreased by 9% to stand at Rs. 756,148 billion compared to last quarter which was at Rs. 829,239 billion. This decline in profit took place due to the merger of Habib Bank AG Zurich Pakistan with Metropolitan Bank Limited.

## Industry Progress and Market Share

					(Rs.in Bn)
Description	Dec-06	Sept-06	Dec-05	Dec-04	Dec-03
Total Assets	118	95	72	44	13
%age of Banking Industry	2.9%	2.5%	2.1%	1.4%	0.5%
Deposits	83	66	50	30	8
%age of Banking Industry	2.8%	2.3%	1.9%	1.2%	0.4%
Financing. & Invest.	72	53	48	30	10
%age of Banking Industry	2.4%	2.5%	1.8%	1.3%	0.5%
Full Fledge Islamic Banks	6	6	2	2	1
Conventiaional Banks with Islamic Banking Branches	12	11	9	7	3
No. of Branches	150	114	70	48	17

### Islamic Banking- 2003 To 2006



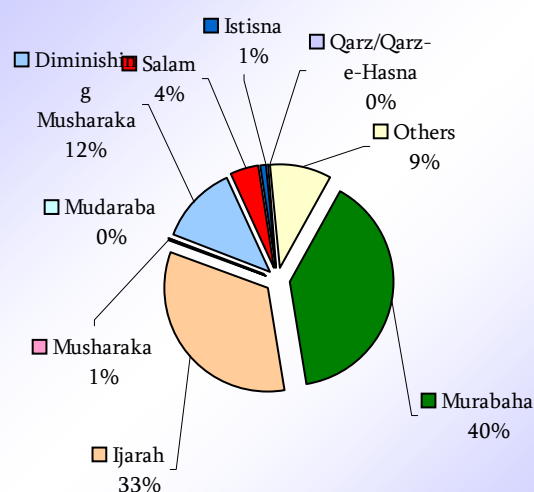
■ Total Assets   
 ■ Deposits   
 ■ Financing. & Invest.

# Modes of Financing

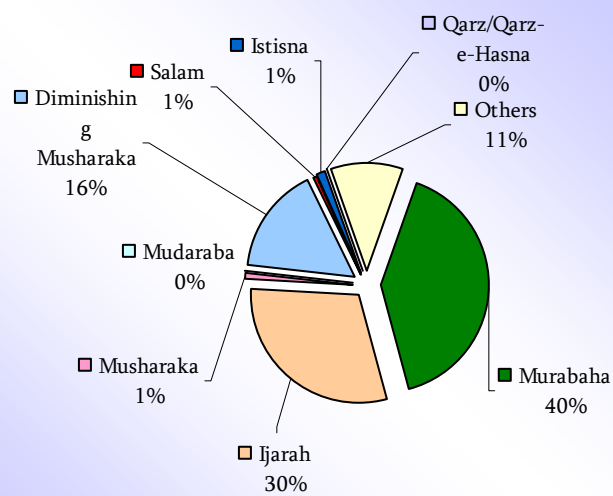
Rs. In "000"

	Sep-06	Dec-06	% Change
Murabaha	20,627,469	26,505,838	28%
Ijarah	17,618,377	19,633,599	11%
Musharaka	351,535	533,029	52%
Mudaraba	-	-	-
Diminishing Musharaka	6,549,520	10,597,750	62%
Salam	2,365,729	464,755	-80%
Istisna	642,547	899,919	40%
Qarz/Qarz-e-Hasna	6,874	7,486	9%
Others	5,000,131	7,099,640	42%
<b>Total</b>	<b>53,162,182</b>	<b>65,742,016</b>	<b>24%</b>
Amount of Non performing Finances	916,340	820,391	-10%
Provision against Non Performing Fin.	541,368	604,809	12%
<b>Net Non performing Fin.</b>	<b>374,972</b>	<b>215,582</b>	<b>-43%</b>
<b>Gross Financing</b>	<b>53,162,182</b>	<b>65,742,016</b>	<b>24%</b>

- Murabaha has remained the most favoured mode of finance of all the Islamic Banking Institutions not only in Pakistan but at the global level as well.
- Murabaha Financing is almost 40 % of the total financing done by the IBI's in the quarter ending December 2006.
- Second most widely used mode of Finance is Ijarah Financing it makes almost 30% of the total financing.



Mode of Finance-Sep-2006



Mode of Financing- Dec 2006

# Deposits

Rs in 000

	Sep-06	Dec-06	% Change
<b>Deposits and Other Accounts</b>	<b>66,010,907</b>	<b>83,741,909</b>	<b>27%</b>
<b>A) Customers</b>			
Fixed deposits	24,079,859	30,444,259	26%
Savings deposits	18,849,292	21,371,285	13%
Current accounts -Non Remunerative	15,083,576	18,281,568	21%
Others	1,064,078	881,083	-17%
Total of A	59,076,805	70,978,195	20%
<b>B) Financial Institutions</b>			
FI-Remunerative deposits	6,621,735	12,752,137	93%
FI-Non Remunerative deposits	312,367	11,577	-96%
Total of B	6,934,102	12,763,714	84%
<b>Particulars of deposits</b>			
In local Currency	61,483,322	77,896,068	27%
In Foreign currency	4,527,585	5,845,841	29%
<b>Total</b>	<b>66,010,907</b>	<b>83,741,909</b>	<b>27%</b>

- Total Deposits have increased by 27% from 66.011 to 83.742 Rupees.
- Deposits by customers have increased by 20 % and by financial institutions by 84%.
- The increase in Remunerative Deposits by Financial Institutions has been the most substantial increase which is almost 93%.

## Ratio Analysis

<u>Earnings and Profitability Section</u>	<u>Sep-06</u>	<u>Dec-06</u>
Net Mark-up Income to Gross Income	74.6%	72.8%
Non-Mark-up to Gross Income	25.4%	27.2%
Operating Expense to Gross Income	64.3%	73.1%
Mark-up Income to Total Assets	4.8%	5.4%
Mark-up Expense to Total Assets	2.5%	3.0%
Net Mark-up Income to Total Assets	2.2%	2.4%
Non-Mark-up Income to Total Assets	0.8%	0.9%
Non-Mark-up expense to Total Assets	1.9%	2.4%
<u>Assets Quality Ratio</u>		
NPLs to Finances	1.7%	1.2%
Net NPLs to Net Finances	0.7%	0.3%
Net NPLs to Total Assets	0.4%	0.2%
Provisions to NPLs	59.1%	73.7%
Net NPLs to Total Capital	2.9%	1.4%

- The ratio analysis show a strong financial position of the Islamic Banking Industry.
- Earning and Profitability Ratios have improved as compared to the last quarter.
- The asset quality ratios reflect that the NPLs in the last quarter are very less which signifies that a very small portion of Financing is going bad.

## Book in Focus

# Thirty Years Of Islamic Banking: History, Performance, And Prospects

**Authors:** Munawar Iqbal, Philip Molyneux

**Format:** Hardcover

**Publication Date:** March 2005

**Publisher:** Palgrave Macmillan

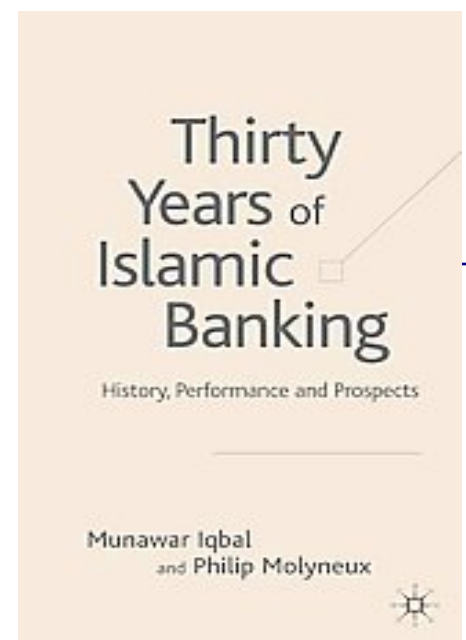
**Availability:** This book is available at the Library of State Bank of Pakistan

This text explains how Islamic banking works and what it offers as an alternative model of financial intermediation. Important questions addressed include: Why Islamic banking started and where it is going; who the main players are at present and whom it will attract in future; what its strengths and weaknesses are; whether Islamic banks will survive in highly competitive and globalized financial markets; what their prospects and potentials are; and how the relative performance and efficiency of Islamic banks compares to conventional banks?

### About the Authors

**Munawar Iqbal** is Dean School of Islamic Banking & Finance, International Islamic University Islamabad.

**Philip Molyneux** is Professor in Banking and Finance, and Director of the Institute of European Finance at the University of Wales, Bangor.







## Developments at Islamic Banking Department, State Bank of Pakistan

### **State Bank issues Islamic Banking Branch License to NBP (19.09.2006)**

The State Bank of Pakistan issued a license to National Bank of Pakistan in respect of its first ever Islamic Banking Branch, which is located at Cotton Exchange Building, Karachi. Dr. Mahmood Ahmed Ghazi, Chairman, Shariah Board of the State Bank of Pakistan handed over the license to Anwar Ahmed Meenai, Head of Islamic Banking Division, National Bank of Pakistan at a ceremony held at SBP, Karachi which was also attended by Mr. Pervez Said, Advisor to Governor and Director, Islamic Banking Department, State Bank of Pakistan and Mr. Asif. K. Brohi, Group Chief, Operations Group, NBP.

### **Dr. Shamshad named deputy chairperson of IFSB (29.11.2006)**

Governor State Bank of Pakistan Dr Shamshad Akhtar has been appointed as Deputy Chairperson of Islamic Financial Services Board (IFSB) for 2007 while Dr Zeti Akhtar Aziz, Governor, Bank of Negara, Malaysia, has been appointed as Chairperson. IFSB, a body of central banks of Muslim countries, is mandated to promote Shariah-compliant banking and financial services. The election of Dr Akhtar was announced at the 9th meeting of the council of IFSB, held at Jeddah, Saudi Arabia. A message received from the conference and transmitted by SBP said that Dr Akhtar will be appointed as chairperson of IFSB for 2008.

### **SBP guidelines on Islamic micro-finance (07.12.2006)**

State Bank of Pakistan (SBP) has formulated draft guidelines for provision of Islamic micro-finance services and products by financial institutions. These draft guidelines will allow establishment of full-fledged Islamic micro-finance banks, Islamic micro-finance services by full-fledged Islamic banks, Islamic micro-finance services by conventional banks and Islamic micro-finance services by conventional micro-finance banks.

### **IIFM's 16<sup>th</sup> Meeting of Board of Directors held on 23<sup>rd</sup> January 2007 at SBP, Karachi.**

The 16<sup>th</sup> meeting of IIFM's board of directors was held on Tuesday i.e. 23<sup>rd</sup> of January 2007 at State Bank of Pakistan, Karachi. The board, inter alia, discussed on IIFM's new initiatives i.e. implementation of ISDA/IIFM Islamic Derivative Master Agreement and master agreement on Inter-bank Murabaha (one of the mode of financing under Islamic injunctions) contracts. IIFM's alliance with International Capital Market Association (ICMA) also came under discussion. It is anticipated that the local Islamic financial industry will benefit from the efforts being made by IIFM for promotion of Islamic finance.

## Local News

### **DIBPL unveils sukuk in Pakistan**

Dubai Islamic Bank (DIB) announced the launch of two new Sukuks in Pakistan. Addressing a Press conference, Saad Zaman, Chief Executive Officer of the Dubai-based bank declared that the first Sukuk amounting to Rs4.2 billion would be launched for reactivation of state-owned Karachi Shipyard and Engineering Works (KSEW). The Sukuk amount will help in installing much needed state of the art technologies for KSEW. The second Sukuk worth \$35million will be arranged with syndication of a financial institution for an oil exploration company.

### **JBIC to launch Sukuk bonds in Pakistan**

The Japan Bank for International Corporation (JBIC) will launch Shariah-compliant Sukuk bonds in Pakistan to tap the potential for the growth of Islamic banking, said banking sources. "The JBIC is looking for Islamic funds and they are planning to enter Pakistan in February next year," Dr Imran Usmani who is one of the counsels of the Shariah Board of the JBIC told. Saudi Arabia could be their first destination for launch of these bonds, he said and added Malaysia was also on their target and Pakistan could be third destination. For this purpose a MoU was signed between the two in Tokyo on May 25, 2006. The JBIC also appointed two other renowned Shariah scholars as members of its Shariah Counsel Group.

### **Takaful Pakistan gets 'Shariah Compliance' certification**

Takaful Pakistan Limited, the Leading Islamic insurance provider, in a ceremony held at a local hotel, was recently awarded 'Shariah Compliance' certification from its Shariah Supervisory Board (SSB).

### **International Islamic Financial Market (IIFM) to held specialized event in Pakistan**

The International Islamic Financial Market (IIFM) organized a highly specialized, technical conference and workshops on Islamic financial markets on 24 & 25 January 2007. The 'Islamic Financial Markets Conference & Specialized Workshops', focused on sukuk (Islamic bonds), Islamic real estate investment trusts (I-REITs) and market uniformity and standardization issues, was held in Karachi, Pakistan, under the patronage of State Bank of Pakistan. The theme of the event was 'Setting the foundation of a robust and sustainable Islamic financial market'.



## International News

### **Qatar to fund Islamic university in Europe**

Qatar has pledged that it will take part in financing the first Islamic university to be established in Europe. The university, named the 'Ibn Sina Institute for Human Science', will be opened in the French city of Lilie, located in the northern part of the country. Mohammed Al Bishari, head of the French Muslims General Federation, said that the institute will take the responsibility of qualifying imams and guides in order to tackle issues related to Muslim minority issues. He added that the system, which will be applied according to European norms offering Bachelor's and Master's degrees and doctorates. The system will also focus on teaching French and qualifying students in Shari'a law to enable the imams able to interact with European realities in order to address both Muslims and non-Muslims in France. Another subject, civics, will be presented to ensure imams are aware of French laws. Al Sharq reported. Mohammed said that the total number of students being enrolled this year will range from 50 to 60 students and the institute is also open to non-Muslims. The French government has already pledged part of the institute's budget and has allotted land for the institution.

### **DIB develops Investment Product**

Dubai Islamic Bank (DIB) announced yet another innovative investment product — Shariah compliant 3-year Capital Protected DFM (Dubai Financial Market) Note. Conceptualized by DIB's Wealth Management Division, The 3-year Capital Protected DFM Note will have a minimum investment of \$10,000 and will offer investors protection on their capital while participating in a diversified basket of stocks on the Dubai Financial Market. Besides, DIB will offer a maximum potential return of 12 percent per annum. The basket of stocks will comprise some of the most actively traded stocks such as [Emaar](#), Amlak, Dubai Investment Company, Tamweel and DIB among others.

### **QIB preparing to launch Islamic Investment Bank of Qatar**

Qatar Islamic Bank (QIB) was in the process of launching the Islamic Investment Bank of Qatar (IIBQ) with a capital of \$1bn, Salah Mohammed Jaidah, CEO of QIB said. "The bank (\$500m paid-up capital) will be licensed by the Qatar Financial Centre (QFC) and we have been already developing a lot in this direction. We have already submitted an indicator to the Doha Securities Market (DSM) on the issue. We will be announcing more about the bank soon", he told reporters on the sidelines of the 1st Annual World Islamic Infrastructure Finance Conference.

### **DIB to launch first Shariah consultancy**

**Dubai Islamic Bank** (DIB) will shortly launch the world's first Shariah legal and financial consultancy firm to provide a one-stop centre for solutions to all financial structuring, legal documentation and product development needs of the Islamic finance industry. The new entity will also carry out research and development and provide Shariah training. In due course, the entity will also undertake Shariah audit and Shariah rating functions.

## **NAB eyes 'untapped' Islamic finance market**

National Australia Bank will look at introducing Islamic financing into its product range to capture an "untapped" market that could be worth millions of dollars. A \$25,000 post-graduate scholarship will also be offered to a member of the Muslim community next year to further NAB's understanding of Islamic banking. Shariah law forbids the collection or payment of interest - usury - known in Arabic as riba. In a typical Islamic mortgage set-up, the bank would buy the property and then resell it to the borrower at a profit. NAB chief executive Ahmed Fahour said Australia's 300,000-strong Islamic community was under-served. "The bank is going to try to create products and services that the community needs," said Mr Fahour.

## **INCEIF to help train Lankan Islamic banking experts**

Malaysia's International Centre for Education in Islamic Finance (INCEIF), which has been conferred university status after only six months in operation, will help Sri Lanka to produce Islamic banking and financial professionals, its chief executive officer Agil Natt said.

## **Khazanah Sukuk Sets New Benchmark for Global Investors**

The drive toward innovation in the burgeoning global Sukuk (Islamic bond) market is gathering momentum with the closing recently of the world's first exchangeable and effectively equity-linked Sukuk - the \$750 million Islamic Exchangeable Trust Certificates issued in October 2006 by Khazanah Nasional Berhad, the wholly-owned investment subsidiary of the Malaysian Finance Ministry, and jointly arranged by CIMB of Malaysia; HSBC Amanah and UBS Investment Bank. This follows another recent securitization involving the first Sukuk with both a call and put option - the \$150 million Musharaka Trust Sukuk issued by Kuwait's The Investment Dar lead managed by Bahrain-based Unicorn Investment Bank and WestLB in the UK. The Khazanah Sukuk, for attracted a third of the subscriptions from the Middle East, mainly the Gulf Cooperation Council (GCC) region. This, despite the fact that GCC investors are not familiar with exchangeable instruments, including bonds. The issue was virtually guaranteed by the Malaysian government, because the Sukuk had recourse to the Obligor, Khazanah, but for the nascent global Islamic capital markets industry it is both encouraging and important to see a much greater level of cross-border interaction between the Middle East and South East Asia.

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## Annexure-1

Number of Licensed Islamic Banks and IBBs as at 24 Feb 2007	
Bank's Name	No. of Branches
<b>A) Islamic Banks</b>	
1 Meezan Bank Limited	62
2 Albaraka Islamic Bank	11
3 BankIslami Pakistan Limited	10
4 Dubai Islamic Bank Pakistan Limited	10
5 Emirates Global Islamic Bank Limited	6
6 First Dawood Islamic Bank*	-
<b>Total of A</b>	<b>99</b>
<b>B) Islamic Banking Branches</b>	
1 MCB Bank Limited	6
2 Bank of Khyber	5
3 Bank Alfalah Limited	23
4 Habib Metro Bank	4
5 Standard Chartered Bank	3
6 Bank Al Habib Ltd	3
7 Habib Bank Ltd	1
8 Soneri Bank Limited	2
9 Prime Commercial Bank	2
10 Askari Commercial bank	6
11 National Bank of Pakistan	1
12 United Bank Limited	1
13 ABN AMRO	1
<b>Total of B</b>	<b>58</b>
<b>A+B</b>	<b>157</b>
<i>* This bank is expected to start operations soon.</i>	