

Islamic Banking Bulletin

July-September 2007



Islamic Banking Department
State Bank of Pakistan

Islamic Banking Department

Mission

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

Vision

Make Islamic banking the banking of first choice for the providers and users of financial services

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*For Soft copy and previous issues please visit :
<http://www.sbp.org.pk/ibd/Bulletin/Bulletin.asp>*

State Bank of Pakistan

Islamic Banking Bulletin

Vol II No 3

Published on February 06, 2008

SBP Governor's View

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

Inside this issue:

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“ In my assessment, the Islamic Finance now seems to be a reality and is on its way to be institutionalized, albeit at different levels in different countries, and the Western world is also now selectively and cautiously positioning to invest in this system. There are promising signs that Islamic Finance trends are sustainable. It is entrenched in a well conceptualized Islamic economic system whose mysteries are being unfolded with renewed academic interest in the subject. While undeniably faith driven, the Islamic finance system has great potential to meet the financial gaps and requirements of development and society at large and as such its demand would be robust going beyond religious grounds.”

“Islamic Finance has to be recognized as a parallel system which will augment and be augmented by the deeper knowledge and experience of the conventional financial system. As such, the key challenge going forward to its growth and sustainability would lie in how it interfaces and benefits from complementing and supplementing the conventional system and how it adapts and conforms to the international regulations and supervision adequately refined in line with the technicalities and nuisances of the Islamic financial instruments and their associated risks. Exploiting properly the unique features of Islamic finance with appropriate adaptability, without compromising Shariah principles, will be critical to the growth and promising future of Islamic industry.”

Excerpts from “Islamic Finance: Its Sustainability and Challenges CLOSING KEYNOTE ADDRESS Georgetown University, Washington, (USA)” by Dr. Shamshad Akhtar Governor, State Bank of Pakistan, October 18, 2007 . The full text of the speech can be accessed at: <http://www.sbp.org.pk/about/speech/governors/dr.shamshad/2007/Islamic-Finance-25-Oct-07.pdf>

Dr. Shamshad Akhtar appointed as the Chairperson of the IFSB Council

The Council of the Islamic Financial Services Board (IFSB) has resolved to appoint H.E. Dr. Shamshad Akhtar, Governor of the State Bank of Pakistan as the Chairperson of the IFSB Council for a one year term effective 1st January 2008. Dr. Shamshad is the 5th Chairperson of the IFSB Council, and Karachi is hosting the IFSB General Assembly and Council Meetings in 2008.

Industry Progress and Market Share

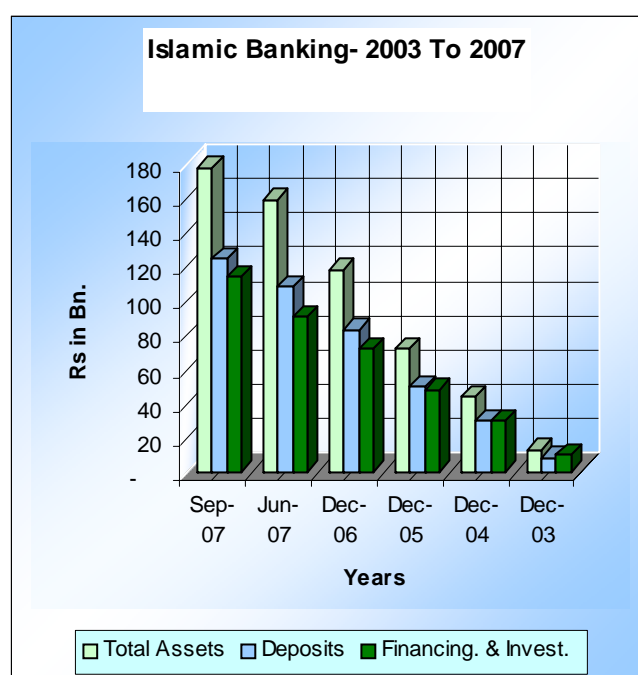
The State Bank of Pakistan has formed a comprehensive regulatory framework aimed at the establishment and promotion of an Islamic banking system in line with best international practices. These measures are primarily demand-driven and provide an option to the customers to choose between the two banking systems in accordance with their preference.

As a first step, a three-pronged strategy was laid out for the promotion of Islamic Banking in Pakistan which allows financial institutions, to decide at their discretion, to establish either full-fledged Islamic banks in the private sector; or Islamic Banking subsidiaries or stand alone Islamic Banking branches of the existing commercial banks. This is in sharp contrast to the earlier attempt, when Islamic Banking was required to be implemented by all banks across the board.

As on December 31, 2007 there were six full fledged licensed Islamic banks having 185 branches. In addition, 12 commercial banks are offering Islamic banking services through 103 branches. The increasing interest of conventional banks in opening Islamic branches and applications for opening full-fledged Islamic banks show the promising future prospects for the growth of Islamic banking in Pakistan

Islamic banking services in Pakistan have recorded a noteworthy progress during the quarter under review

constituting an asset base of Rs. 178 billion and deposits of over Rs. 124 billion at end September, 07 as compared to Rs. 159 billion and Rs. 108 billion respectively at the end of June 07. Although, due to its nascent stage of development, the share of the Islamic Banking industry in the total assets (3.8%) and total deposits (3.6%) of the banking sector remains miniscule, it is expected that this share will grow considerably in the years to come.



(Rs. in billion)

Descriptions	Sep-07	Jun-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	178	159	118	72	44	13
% of Banking Industry	3.8%	3.4%	2.9%	2.1%	1.4%	0.5%
Deposits	124	108	83	50	30	8
% of Banking Industry	3.6%	3.1%	2.8%	1.9%	1.2%	0.4%
Financing. & Invest.	114	90	72	48	30	10
% of Banking Industry	3.2%	2.6%	2.4%	1.8%	1.3%	0.5%
Full Fledge Islamic Banks	6	6	4	2	2	1
Conventional Banks with Islamic Banking Branches	12*	13	12	9	7	3
No. of Branches	207	167	150	70	48	17

* Prime Commercial Bank Limited merged with ABN Amro on September 01, 2007

Islamic Banking Sector

Comparative Consolidated Balance Sheets of Islamic Banking Institutions

Rs. in Million

Descriptions	Jun-07	Sep-07	% Change
ASSETS			
Cash and balances with treasury banks	21,777	16,350	-25%
Balances with other banks	18,464	22,125	20%
Due from financial institutions	12,942	7,807	-40%
Investments	11,519	25,482	121%
Financings	78,834	88,330	12%
Operating fixed assets	5,067	5,873	16%
Deferred tax assets	440	531	21%
Other assets	9,948	11,198	13%
Total Assets	158,990	177,696	12%
LIABILITIES			
Bills payable	1,723	2,192	27%
Due to financial institutions	8,164	5,153	-37%
Borrowings from Head office*	6,166	9,517	54%
Deposits and other accounts	108,293	124,437	15%
Sub-ordinated Loans	-	-	
Liabilities against assets subject to finance lease	43	50	16%
Deferred tax liabilities	932	990	6%
Other liabilities	8,431	9,272	10%
Total Liabilities	133,753	151,610	13%
NET ASSETS	25,238	26,086	3%
REPRESENTED BY			
Paid-up capital/Head office capital account	22,209	23,445	6%
Reserves	1,374	665	-52%
Un-appropriated/Un-remitted profit	1,106	1,449	31%
Sub Total	24,689	25,559	4%
Surplus /(Deficit) on revaluation of assets	549	527	-4%
Equity	25,238	26,086	3%

* For Standalone Islamic Banking Branches.

Analysis of the Consolidated Balance Sheet of Islamic Banking Institutions

- The Balance Sheet footing of the Islamic Banking Industry increased during the past quarter by 12%. The total assets portfolio in the Islamic Banking Sector expanded to Rs. 177.7 billion in September 2007 from Rs.158.9 billion in June 2007.
- Financings constituted 49.7% of the total assets and stood at Rs. 88.3 billion in September 2007 as compared to Rs.78.8 billion at the end of June 2007, showing an increase of 12%.
- There was a increase in “Balances with other banks”. Balances held by Islamic Banking Institutions at the other Banks increased by 20% to Rs. 22.1 billion from Rs.18.5 billion,.
- Deposits increased by 15 % to Rs. 124.4 billion as at the end of September 2007 from Rs.108.3 billion at end June 2007.
- Islamic Banking Sector’s equity increased by 3 % to Rs. 26.1 billion as of September 2007 from Rs.25.2 billion at the end of June 2007.
- Un-appropriated / unremitted profit as at the end of quarter September 2007, increased by 31 % to stand at Rs. 1.5 billion in comparison to the previous quarter’s figures of Rs. 1.1 billion.

“O you who believe, fear Allah and give up what remains of your demand for interest, if you are indeed a believer. If you do not, then you are warned of the declaration of war from Allah and His Messenger; But if you turn back you shall have your principal: Deal not unjustly and you shall not be dealt with unjustly.” (Al Baqarah 278 - Al Quran)

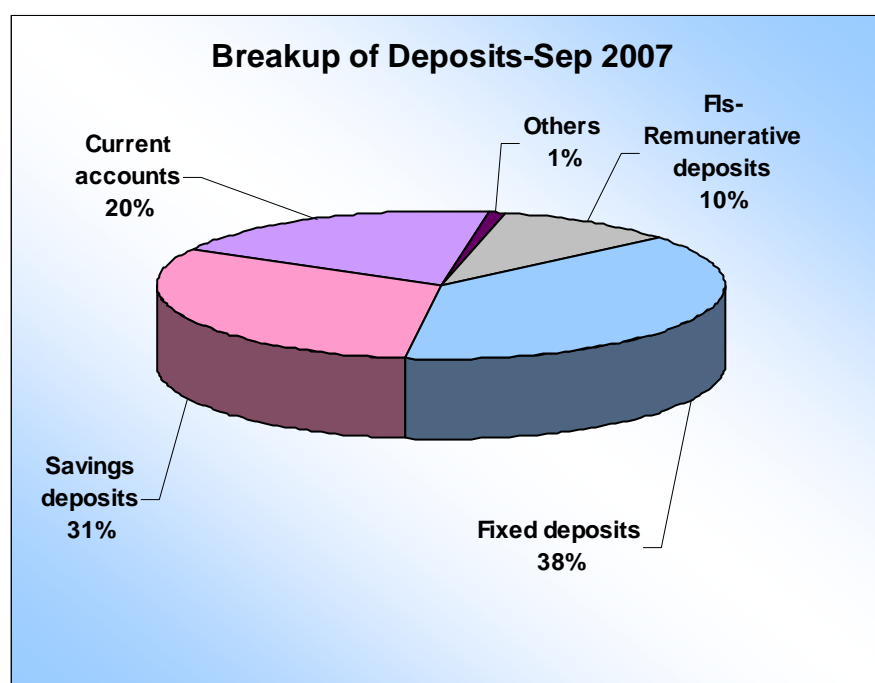
<u>Earnings and Profitability Section</u>	<u>Jun-07</u>	<u>Sep-07</u>
Mark-up Income to Total Assets	6.8%	6.6%
Mark-up Expense to Total Assets	3.7%	3.5%
Net Mark-up Income to Total Assets	3.1%	3.0%
Non-Mark-up Income to Total Assets	1.2%	1.1%
Non-Mark-up expense to Total Assets	3.1%	3.0%
Net Mark-up Income to Gross Income	73.1%	73.5%
Non-Mark-up to Gross Income	26.9%	26.5%
Operating Expense to Gross Income	72.2%	73.3%
ROE (Average Equity)	2.8%	4.0%
ROA (Average Assets)	0.4%	0.6%
<u>Assets Quality Ratios</u>		
NPFs to Financing	1.0%	0.9%
Net NPFs to Net Financing	0.0%	-0.08%
Net NPFs to Total Assets	0.0%	-0.04%
Provisions to NPFs	102.1%	108.4%
Net NPFs to Total Capital	-0.07%	-0.27%

- The overall financial position of the Islamic Banking Industry remains solid as depicted by the ratio analysis.
- Earning and Profitability Ratios remained good in this quarter as well
- The asset quality ratios reflect that the quality of financing of the Islamic Banking Institutions is very strong. NPFs to financing are just 0.9 % which depicts that a minimal part of financing is going bad, which is adequately covered through provisions.

Deposits Structure

(Rs. in million)

Description	Jun-07	Sep-07	% Change
Deposits and Other Accounts	108,293	124,437	15%
A) Customers			
Fixed deposits	39,652	47,423	20%
Savings deposits	31,640	38,582	22%
Current accounts -Non Remunerative	23,792	24,467	3%
Others	998	1,115	12%
Total of A	96,082	111,587	16%
B) Financial Institutions			
FI-Remunerative deposits	12,151	12,819	5%
FI-Non Remunerative deposits	59	31	-48%
Total of B	12,211	12,850	5%
Particulars of deposits			
In Local currency	101,693	117,518	16%
In Foreign currency	6,599	6,919	5%
Total	108,293	124,437	15%

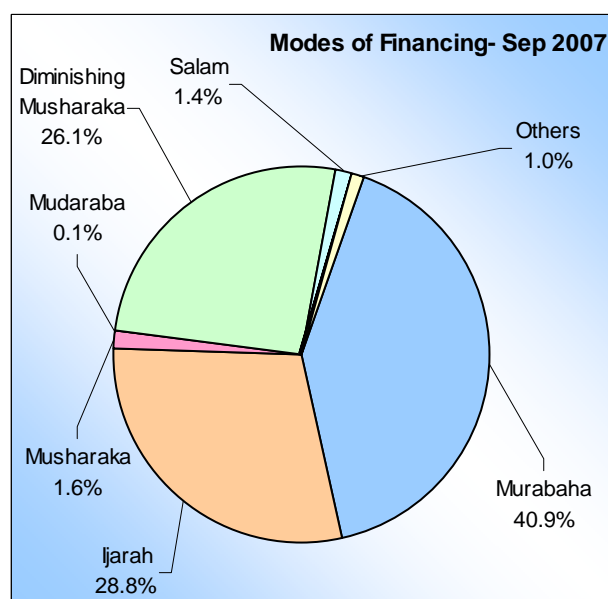
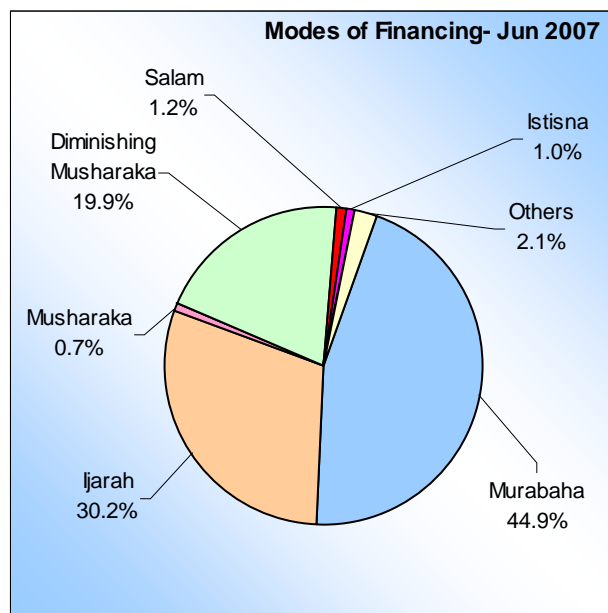


- Total Deposits have increased by 15% from 108,293 million to 124,437 million Rupees.
- Deposits by customers have increased by 16%.
- Deposits by financial institutions have increased by 5%.
- Fixed Deposits by customers constitute 38% of the total deposits depicting customers preference towards long term fixed deposits.

Modes of Financing

(Rs. in million)

Modes of Financing	Jun-07	Sep-07	Inc./Dec.
Murabaha	35,767	36,469	2%
Ijarah	24,038	25,738	7%
Musharaka	582	1,394	139%
Mudaraba	-	84	-
Dimin. Musharaka	15,877	23,314	47%
Salam	952	1,276	34%
Istisna	757	39	-95%
Qarz/Qarz-e-Hasna	6	8	28%
Others	1,663	927	-44%
Gross Financing	79,641	89,247	12%
Amount of NPF	790	846	7%
Provisions	807	917	14%
Net NPF	(17)	(71)	321%
Gross Financing	79,641	89,247	12%
Total No of Finances' accounts	29,204	34,362	18%



- Share of Murabaha Financing has decreased from 44.91% in previous quarter to 40.9% in total financing by the IBI's during the quarter ending September 2007.
- Second most widely used mode of Finance is Ijarah Financing accounting for about 28.8 % of the total financing.
- Diminishing Musharakah has increase by 47% and jumped to 26.1% from 19.9% of total financing in June 2007
- The total number of Finances' accounts increased by 18% , from 29, 204 to 34, 362 in current quarter.

Book in Focus

Islamic Finance & Economic Development

Publisher : Palgrave Macmillan

Pages : 264

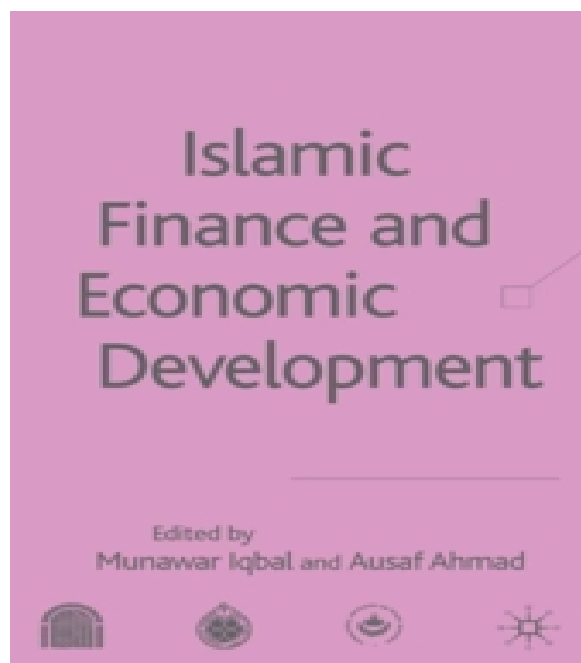
Edited by: Munawar Iqbal and Ausaf Ahmad

Price : £52.00

Published : 2005

Brief Description of the Book

Over the last thirty years, Islamic banking has emerged as a viable and efficient model of financial intermediation. This book highlights some of the benefits that this new model of financial intermediation can bring to society and examines the role that Islamic finance can play in promoting growth and development. It points out some crucial prerequisites in this regard and identifies the areas where more research and development is needed. It underlines the fact that while Islamic banking fulfils the religious requirements of a large portion of global population, it widens the choice set for all. By doing so, it increases efficiency and the resource allocation process. It presents interesting case studies that bring to light certain features of Islamic finance and their relationships with growth, economic and financial stability, allocative efficiency and social justice.



Contents

- Introduction
- Islamic Finance and Development.
- Islamic Financial System and Economic Growth: An Assessment.
- The role of Islamic Financial Institutions in Sustainable Development.
- Efficiency of Islamic Banks in Malaysia.
- An Analysis of Relationships between Interest-Free Financing Systems and Sustainable Development: The Case of Iran
- Effects of Implementing a Non-Interest Banking System on Monetary Policy Controllability and Policy-Goals Links in Iran
- The Role of Islamic Finance in Industrial Projects in the State of Kuwait.
- The Role of Islamic Banks in Economic Growth: The Case of Jordan

Source : <http://www.palgrave.com/products/title.aspx?is=140394718X>

Bank in Focus

Meezan Bank Limited

Company Information

In 2002 the first Islamic banking license was issued to Meezan Bank by the State Bank of Pakistan. Societe Generale', a French commercial bank, operations in Pakistan were acquired by Meezan Bank and concurrently Al Meezan Investment Bank converted itself into a full fledged Islamic commercial bank. The new bank was renamed Meezan Bank Limited.

Shareholding Structure as at February 28, 2007	%	Rs. in millions
Pakistan Kuwait Investment Company (Pvt.) Limited	30	1,134
Shamil Bank of Bahrain B.S.C	26	979
Islamic Development Bank	9	352
Noor Financial Investment Company	16	588
Others	19	727
Paid up Capital	100	3,780

Shariah Board

- Justice (Retd.) Muhammad Taqi Usmani (Chairman)
- Dr. Abdul Sattar Abu Ghuddah
- Sheikh Essam M. Ishaq
- Dr. Muhammad Imran Usmani (Shariah Advisor)

To ensure strict Shariah compliance in all the Bank's operations a dedicated and full fledged Product Development & Shariah Compliance (PDSC) department was formally setup by the bank in March 2005 for the centralization of Product development activities, new product research, Islamic banking training and Shariah Compliance audit functions. The department works under the guidance & supervision of the Bank's Shariah Advisor – Dr. Muhammad Imran Usmani and the Shariah Supervisory Board of the Bank.

Meezan Bank has a large product menu offering a complete range of Islamic banking products and services, such as: Corporate and Investment Banking, Commercial and SME, Consumer Finance, Treasury & Financial Institutions, and Asset Management. The Asset Management

business is managed through a subsidiary Al Meezan Investment Management Limited. The Retail Bank is organized in three Regions across Pakistan, namely South, Central and North Region.

In 2005 Meezan Bank launched the Meezan Islamic Institution Deposit Account (MIIDA), a unique product tailored exclusively for Islamic Financial Institutions (IFIs). The facility was the first of its kind in Pakistan, whereby Islamic Banks (including dedicated, as well as conventional banks' Islamic branches) got the opportunity to manage excess liquidity by maintaining a check-

Meezan Bank	% of Islamic Banking Industry	
	(PKR in Bn)	
Deposits	52	42%
Financing	30	34%
Total Assets	64	36%
Branch Network	100	35%
As of Sept 2007, Except Branch Network		

ing account with Meezan Bank specifically designed for this purpose.

All branches of Meezan bank are 'on-line' and are supported by state of the art 24/7 Banking services to all its customers, which includes 66 ATM's, Internet Banking and a Call Center that operates 24 hours a day seven days a week. The Bank also offers a comprehensive Debit Card that is accepted at over 3,000 outlets across Pakistan. The Bank has a total deposit base of over Rs. 50 billion with more than 150,000 customers.

Meezan Bank has established 100 branches spread over 31 major cities in all four provinces across Pakistan within a span of 5 years. The investment in the branch network is driven by the Bank's vision that is to "establish Islamic Banking as the Banking of First Choice" so as to enable it to reach out to each and every citizen of Pakistan. There are currently six dedicated Islamic Banks operating in Pakistan with a total of 186 branches besides 102 standalone Islamic Banking Branches of Conventional banks.

Source: <http://www.meezanbank.com>

Mode of Islamic Financing in Focus: Ijarah

Definition:

Ijarah is a term of Islamic fiqh. Lexically, it means to give something on rent. In the Islamic jurisprudence, the term Ijarah is used for two different situations. In the first place, it means to employ the services of a person on wages given to him as a consideration for his hired services. The second type of Ijarah relates to the usufructs of assets and properties, and not to the services of human beings. Ijarah in this sense means to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him. In this case, the term Ijarah is analogous to the English term leasing.

Basic rules :

- The subject of lease must have a valuable use which is recognized as Mal-e-Mutaqawwam in Shariah.
 - It is necessary for a valid contract of lease that the corpus of the leased property remains in the ownership of the seller, and only its usufruct is transferred to the lessee.
 - As the corpus of the leased property remains in the ownership of the lessor, all the liabilities emerging from the ownership shall be borne by the lessor, but the liabilities referable to the use of the property shall be borne by the lessee.
 - The period of lease must be determined in clear terms.
 - The lessee cannot use the leased asset for any purpose other than the purpose specified in the lease agreement. If no such purpose is specified in the agreement, the lessee can use it for whatever purpose it is used in the normal course.
 - The lessee is liable to compensate the lessor for any damage to the leased asset caused by any misuse or negligence on the part of the lessee.
- The leased asset shall remain in the risk of the lessor throughout the lease period in the sense that any harm or loss caused by the factors beyond the control of the lessee shall be borne by the lessor.
 - It is necessary for a valid lease that the leased asset is fully identified by the parties.
 - The rental must be determined at the time of contract for the whole period of lease.
 - In the long term lease agreements, it is mostly not in the benefit of the lessor to fix one amount of rent for the whole period of lease because the market conditions change from time to time. For this purpose it is allowed to use benchmark rate to determine the rental amounts. However, rent for the month will be fixed at the start of the month, any change in benchmark rate during the month will not cause rent for that month to change. It is also necessary to define a floor and ceiling.
 - The lessor cannot increase the rent unilaterally, and any agreement to this effect is void.
 - The lease period shall commence from the date on which the leased asset has been delivered to the lessee, no matter whether the lessee has started using it or not.
 - If the leased asset has totally lost the function for which it was leased, and no repair is possible, the lease shall terminate on the day on which such loss has been caused.

(Source: <http://www.meezanbank.com/en/Ijarah.aspx>)

Essential on Ijarah Mode of Financing approved by SBP Shariah Board, can be accessed from the following link:

<http://www.sbp.org.pk/press/Essentials/Essentials%20of%20Islamic.htm>

Developments at Islamic Banking Department, State Bank of Pakistan

IFSB Exposure Draft of “Recognition of Ratings for Shariah Compliant Financial Institutions”

Islamic Financial Services Board (IFSB) has issued Exposure draft on Recognition of Ratings for Shariah Compliant Financial Institutions. SBP has circulated the same to various internal and external stakeholders including banks, SBP departments and others. The comments received from stakeholders will be sent to IFSB by the end of December, 2007.

ADB Funded TA Project on Strengthening Secured Transactions- Feedback from IBIs

Small and Medium Enterprises Department of SBP is implementing Asian Development Bank's Technical Assistance (TA) on building secured transaction framework in Pakistan through an international consultancy firm, namely, ISC, Honk Kong. The TA aimed at developing secured transaction framework that will facilitate the use of both moveable and immovable assets as collateral with the objective to provide access to credit to a larger section of the public particularly to the agricultural and SME sectors. In this regard input from Islamic banking institutions is also being sought on the Draft Secured Transactions Framework Report prepared by the consultants.

Islamic Financial Service Board 13th Annual Meeting, March 2008 : Visit of IFSB Delegation & Meetings of Event Management Committee

A delegation from IFSB visited State Bank of Pakistan and met the higher management and discussed the arrangements to be made for the IFSB Events to be held next year. Various steps are being taken in connection with the Annual meeting of IFSB to be held in Pakistan in November 2008. An event management committee has been constituted and meetings of the committee have also been held to firm up various matters.

“Those who devour Riba shall rise up before Allah like men whom Shaitan has demented by his touch; for they claim that trading is like usury. But Allah has permitted trading and forbidden usury. He that receives an admonition from his Rabb and mends his ways may keep what he has already earned; his faith is in the hand of Allah. But he that pays no heed shall be among the people of fire and shall remain in it forever.” (Al Baqarah 275- *Al Quran*)

Training on Shariah Compliance Inspection Manual.

A Training program on Shariah Compliance Inspection manual was arranged for officers of Banking Inspection Department and Offsite Surveillance & Enforcement Department of SBP from 26th to 29th November 2007 at the Learning Resource Centre. The training program was conducted by Ford Rhodes Sidat hyder & Co. Chartered Accountants (A member firm of Ernst & Young Global Limited)

IBD Circular No. 05 of 2007 - Guidelines for Islamic Microfinance Business

State Bank of Pakistan has formulated guidelines for provision of Islamic microfinance products and services by financial institutions. These guidelines are aimed at broadening the coverage of microfinance products and services to low income segments of the society in a Shariah compliant manner. These guidelines stipulate four types of institutional arrangements for offering Islamic microfinance viz:

1. Establishing Full Fledged Islamic Microfinance Banks (IMFBs)
2. Islamic Microfinance Services by Full-fledged Islamic Banks
3. Islamic Microfinance Services by Conventional Banks
4. Islamic Microfinance Services by Conventional Microfinance Banks (MFBs)

Developments at Islamic Banking Department, State Bank of Pakistan

IBD Circular No.06 of 2007 - Information about Islamic Banking Windows

All banks with Islamic banking Branches have been advised to submit information about Islamic Banking windows before start of window operations to IBD and thereafter information about operations of these windows should be submitted along with quarterly report of condition on a prescribed format. IBBs have been advised through the said circular to submit to Islamic banking department following information before start of each Islamic banking window operations:-

- Details of products & services to be offered in IB window
- Details of systems and controls put in place in compliance with IBD Circular No. 2 of 2004.
- Commission/fee arrangement with authorized branch.
- Details about training of Human Resource in Islamic Banking.
- Contact details of Islamic Banking Window

Further, consolidated information about Islamic banking window shall be submitted to the Director Islamic Banking Department, State Bank of Pakistan along with Quarterly Report of Conditions as per the format enclosed with the circular w.e.f quarter ending 31st December, 2007

IBD Circular Letter No. 05 of 2007— Declaration of Weightages & Profit Sharing Ratios

It has been observed that only few Institutions offering Islamic Banking are regularly updating weightages & Profit sharing ratios, before beginning of the period concerned, on their websites. Therefore all Institutions offering Islamic Banking have been advised through this circular letter to make sure that relevant weightages and ratios are updated regularly, before start of the period concerned, keeping in view the following minimum standards:

- Weightages & Profit sharing ratios must be made

available to all constituents before beginning of the period concerned. The weightages & Profit sharing ratios must be available on website.

- The statement declaring weightages & Profit sharing ratios must at the minimum contain date of declaration, period for which they remain effective, all categories/pools & bank's equity share and their weightage, types, sizes, tiers of accounts and actual rates paid during the preceding period.
- The Statement of weightages & Profit sharing ratios must be prominently displayed in all Islamic Banking Branches.
- All Islamic Banking Institutions are advised to update the weightages & Profit sharing ratios on their websites within 7 days from issuance date of this Circular Letter.

Note : All SBP Circulars and Circular letters can be accessed at SBP website at : <http://www.sbp.org.pk/ibd/index.htm>

Nominations sought for workshop on 'Capital Adequacy' and 'Transparency & Market Discipline

SBP is facilitating a workshop from 28th to 30th January 2008 on 'IFSB Standard on Capital Adequacy' and 'Transparency & Market Discipline' with collaboration of IFSB Secretariat. In this regard Islamic Banking Institutions have been asked to send their nominations for participation in the said workshop.

Presentation to IBA Sukkur students

A presentation was arranged by the department for the IBA Sukkur students on the topic "Emerging Role of Islamic Banking in Pakistan Economy".

Meetings of Sub-Committees on Adoption of AAOIFI's Shariah Standards on Mudaraba and Ijarah

The meetings of the captioned sub-committees were held during the month of November 2007.

Developments at Islamic Banking Department, State Bank of Pakistan

AAOIFI Membership

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an Islamic international organization that prepares accounting, auditing, governance, ethics and Shari'a standards for Islamic financial institutions and the industry. Membership of the same has been obtained by SBP recently.

Call for Papers

Through combined effort of SBP & IRTI Call for papers has been made in connection with the upcoming events of IFSB in Pakistan. The papers received from the Researchers and Scholars would be received till 15th December 2007 and would then be reviewed by the Technical Committee comprised of officials nominated by IRTI and SBP. The event would be held in Karachi, Pakistan in November 2008.

19th Shariah Board Meeting

19th Shariah Board Meeting was held on 15th September 2007. The Karachi Shipyard and Engineering Works Sukuk was analyzed by the Shariah Board and was duly approved and was accepted within the principles of Shariah.

Second Meeting of SECP-SBP Joint Forum on Islamic Financial Services

The second meeting of the Joint forum of State Bank of Pakistan & Securities and Exchange Commission of Pakistan on Islamic Financial Services was held on October 02, 2007 at the Learning Resource Centre, State Bank of Pakistan, Karachi. Various issues were discussed in the meeting and the developments that had taken place since the last meeting of the forum were discussed.

From Hazrat Abu Hurayrah (RA):

The Prophet Muhammad, peace be on him, said: **"Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother."** (Ibn Majah)

Extract from last Sermon of Prophet Muhammad (pbuh) on Hajjatul Wida in the 10th year of Hijrah

"....Allah has forbidden you to take Riba, therefore all Riba obligations shall henceforth be waived. Your capital, however is yours to keep. You will neither inflict nor suffer any injustice...."

Islamic Banking Branch Network

As of December 31, 2007

Sr. No.	Name of Bank	Branches
Full Fledge Islamic Banks		
1	Meezan Bank Ltd	100
2	AlBarka Islamic Bank BSC (EC)	18
3	Dubai Islamic Bank Pakistan Limited	17
4	BankIslami Pakistan Limited	36
5	Emirates Global Islamic Bank Limited	10
6	Dawood Islamic Bank Limited	5
Sub Total		186
Standalone Islamic Banking Branches		
7	Bank Alfalah Ltd	32
8	MCB Bank Ltd	8
9	Bank of Khyber	17
10	Habib Metropolitan Bank	4
11	Habib Bank Ltd	1
12	Standard Chartered Bank	8
13	Bank Al Habib	4
14	Soneri Bank Ltd	4
15	Askari Bank Limited	14
16	National Bank of Pakistan	3
17	United Bank Ltd	5
18	*ABN Amro Bank N.V.	3
Sub Total		103
Grand Total		289

* Prime Commercial Bank Limited merged with ABN Amro on September 01, 2007

City-wise breakup of Islamic Banking Branches

As of December 31, 2007

S.No	City	No of Branches
1	Abottabad	3
2	Bahawalpur	1
3	Banu	1
4	Batkhela	1
5	Chaman	1
6	Charsadda	1
7	Dera Ghazi Khan	1
8	Dera Ismail Khan	2
9	Faisalabad	15
10	Gujar Khan	1
11	Gujranwala	7
12	Gujrat	2
13	Hangu	1
14	Hyderabad	5
15	Islamabad	14
16	Karachi City	92
17	Kasur	1
18	Kohat	1
19	Lahore City	58
20	Larkana	1
21	Mandi Bahauddin	1
22	Mansehra	2
23	Mardan	1
24	Mingora	1

S.No	City	No of Branches
25	Mirpur AJK	2
26	Mirpur Khas	1
29	Multan	11
30	Muslim Bagh	1
31	Nawabshah	2
32	Nowshera	1
33	Okara	1
34	Peshawar	15
35	Pishin	1
36	Qilla Saifullah	1
37	Quetta	7
38	Rahim Yar Khan	3
39	Rawalpindi	14
40	Sadiqabad	1
41	Sahiwal	1
42	Sargodha	1
43	Sheikhupuar	1
44	Sialkot	4
45	Sukkur	2
46	Tando Allahyar	2
47	Tank	1
	Grand Total	289

Local News

Islamic banks asked to declare profit-sharing ratios

(The News/ Business Recorder/ December 01, 2007)

The State Bank of Pakistan (SBP) directed all Islamic banking institutions (IBIs) to update weightages and profit-sharing ratios on their websites by December 6, 2007. Banks use weightages and profit-sharing ratios to calculate distribution of profit as per Shariah laws covering IBIs. The SBP observed that only a few IBIs were regularly updating their weightages and profit-sharing ratios on the websites, before the beginning of the period concerned, which the central bank termed a disappointing situation. Taking a strict notice of this slackness on the part of IBIs, the SBP directed IBIs to make sure that relevant weightages and ratios are updated before start of the period concerned.

SBP said that weightages & profit sharing ratios must be made available to all constituents before beginning of the period concerned besides of making it available on website SBP also directed all banks to prominently display the statement of weightages & profit sharing ratios in their Islamic banking branches. In addition, SBP pointed out that the statement declaring weightages & profit sharing ratios must at the minimum contain date of declaration, period for which they remain effective, all categories/pools & bank's equity share and their weightage, types, sizes, tiers of accounts and actual rates paid during the preceding period.

SBP seeks details of Islamic products

<http://www.thenews.com.pk/print1.asp?id=80034>

The State Bank of Pakistan (SBP) has directed all those banks having Islamic banking branches (IBBs) to submit details of products to be offered on Islamic banking (IB) window before the start of each Islamic banking window operation. The Islamic Banking Division of SBP, through Circular No 06, stated that there was now a growing trend among banks to open Islamic banking windows and in order to strengthen the regulatory framework and maintain information about window operations, the SBP advised the banks to submit details of systems and controls put in place in compliance with IBD Circular No 02 of 2004. The SBP also asked for details of commission/ fee arrangement with the author-

ized branch and training of human resources in Islamic banking. The SBP circular noted that in terms of Para 10(v) of Annexure III to IBD Circular No.02 of 2004, banks having IBBs may authorize some of their branches to sell Islamic banking deposit schemes in order to efficiently utilize the existing branch network provided they comply with conditions mentioned therein. Moreover there is now a growing trend among banks to open Islamic banking windows. In order to strengthen the regulatory framework and maintain information about window operations, all the conventional banks having IBBs are hereby advised to submit to this department all relevant information before the start of each Islamic banking window operations.

Islamic finance can alleviate poverty in Muslim world

<http://www.thenews.com.pk/print1.asp?id=79419>

Chairman National Commission for Government Reforms, Dr Ishrat Hussain has underlined that Islamic finance could be used as a powerful tool for inclusive growth and amelioration of conditions of poor in the Muslim world. He expressed these views while addressing the 3rd World Asia Islamic Capital Conference. He also stressed upon the need of exploring unique feature of Islamic finance for the larger good of society, particularly in the context of economic growth and poverty alleviation. "Most of the attention on Islamic finance has so far been focused on the regulatory framework, products and services offered comparability with conventional finance, risk management characteristics, Shariah compliance beside of expansion and penetration issues while very little work has been done to explore the unique features of Islamic finance," he said. "Economic growth can either be broad based in which the benefits are shared widely and particularly by bottom quintile of the population or highly skewed where the benefits accrue disproportionately to a small elite group of society. The capitalism was the predominant economic model which relies on private property rights of the day that has made impressive strides in improving the living standards of the nations across the world," he remarked. "But capitalist model fails in equitable distribution of income or benefits from growth," Dr Hussain underscored.

Local News

[FWU Group and Pak-Qatar Family Takaful sign agreement to jointly provide Takaful products over bank counters in Pakistan](http://www.ameinfo.com/139166.html)

<http://www.ameinfo.com/139166.html>

The agreement was signed by Mr. Izzat Rasheed who is the vice chairman of the board of Pak-Qatar Family Takaful and FWU's CEO Dr. Manfred J. Dirrheimer. This agreement will bring together the strengths of both of these professional and client focused organizations. FWU will be providing its technology solution, product expertise and global experience in distribution of Takaful products via banking channels. Pak-Qatar will be putting forward its financial strength, its excellent network of relationships, a highly experienced and professional team and immaculate levels of service. Through this relationship Individual Family Takaful products will be available across the counter at a large,

and expanding, number of branches throughout Pakistan. Customers will be able to complete all formalities and get their response during their single visit to the bank branch. All claims and other requests will be handled in a prompt, courteous and professional manner. On top of all this the products are completely halal and so no one will have to compromise on their faith in order to take advantage of the best of what is available for financial protection. This synergy will bring the greatest benefits to the people of Pakistan who will now be able to avail the best in Shariah compliant financial products. The FWU Group is a Munich based organization which specializes in international bancata-kafal, Shariah compliant investments and web based point of sale and administration systems. It is working across the globe with many banks and Takaful product partners to bring value added Takaful products within easy reach to a much larger number of consumers. It was also the 2007 winner of the Euromoney Islamic Finance Award for Best Takaful Provider.

International News

[Hang Seng Bank launches Hong Kong's 1st Islamic fund](http://www.rantburg.com/poparticle.php?D=2007-11-23&ID=208798)

<http://www.rantburg.com/poparticle.php?D=2007-11-23&ID=208798>

Hang Seng Bank, a unit of global lender HSBC Group, launched Thursday Hong Kong's first Islamic fund, in a move that provides Islamic investors with an opportunity to gain exposure to the Chinese and Hong Kong markets while meeting Islamic law. "Islamic finance is one of the fastest growing sectors in the global financial industry," William Leung, Hang Seng's General Manager of Personal Financial Services and Wealth Management, said in a statement. "Global Islamic financial assets are currently worth about USD 1 trillion and this figure is expected to grow by 15 percent per year," said Leung. The new fund, called Hang Seng Islamic China Index Fund, is the only Islamic equity fund in the world that focuses on the mainland China and Hong Kong markets.

[KFH launches Sharia-compliant credit card with Visa](http://www.gulf-daily-news.com/Story.asp?Article=201195&Sn=BUSI&IssueID=30252)

<http://www.gulf-daily-news.com/Story.asp?Article=201195&Sn=BUSI&IssueID=30252>

(KFH-Bahrain) announced the launch of the first Islamic EMV compliant credit card with Visa.

EMV is an internationally recognised standard. The credit card is a Sharia-compliant offering that has been developed by KFH-Bahrain to provide greater convenience and advantages to its customers. Holders of the new credit cards can enjoy a revolving credit facility without incurring any interest costs, just a low transparent service charge. "The Sharia-compliant credit card will offer all the advantages of today's credit cards, while remaining true to the values of Sharia and the principles of Riba-free Islamic banking that KFH-Bahrain proudly represents," KFH-Bahrain consumer banking head Khalid Rafie said. "It is the first Islamic EMV-compliant credit card, providing ultimate security to our customers.

International News

Principle based regulation will help flourish Islamic Finance in UK

<http://islamicfinancepro.wordpress.com/2007/12/01/principles-based-regulation-will-help-islamic-finance-flourish-fsa/>

The FSA says that a move to principles-based regulation will provide the right environment for Islamic finance to flourish in the UK. The regulator has published a paper outlining its future role in the growth of Islamic finance, pointing out that it is now worth around £250bn globally. It says it hopes the UK will be the “major European centre” for Islamic financial products and services. The paper identifies some of the challenges and opportunities specific to Islamic finance and says it has actively encouraged its growth by providing an “open and flexible regulatory environment”, which accommodates both Islamic and non-Islamic financial institutions. It adds it is the first European regulator to authorize a wholly Islamic bank, and points out other Islamic financial institutions have since been authorized. FSA Chairman, Callum McCarthy, says: “Islamic finance is a fast growing force in the world economy and the FSA’s open and principle-based approach to regulation offers the right environment for it to flourish in the UK. “There is huge potential for an expansion of Islamic offerings in the UK’s financial markets, which will in turn boost London’s position as an international financial centre. “We believe in a ‘no obstacles, no special favours’ approach when authorizing new financial institutions and welcome the development of this market as it provides certain UK consumers with financial products that are in line with their beliefs.” The FSA does not regulate the Shariah compliance or otherwise of Islamic financial products.

ONE of the UK’s leading accountancy bodies plans to launch an Islamic finance qualification.

<http://islamicfinancepro.wordpress.com/2007/12/04/cima-takes-islamic-bank-laws-into-account/>

The Chartered Institute of Management Accountants (CIMA) will become the first accountancy body in the UK to train its members in Islamic financial law. Ac-

ording to the Financial Services Authority, the Islamic finance industry is now worth up to £250bn globally. Over the past five years several mainstream UK banks, including HSBC, have started to offer products such as Islamic mortgages and current accounts to Britain’s Muslim communities. Islamic banking had previously been restricted to specialist Islamic banks and some British Muslims complained that it was difficult to find banking practices that would not conflict with their religion. According to Gordan Grant, the Edinburgh businessman who took over as president of CIMA in June, financial companies are now crying out for training to help them deliver Islamic financial services. “Employers are telling us that this is one of the areas that nobody covers at this point in time,” he said. An advisory panel of academics and scholars of Shariah law helped CIMA draw up the self-study qualification. The certificate was also developed in conjunction with Dr Mohd Daud Bakar, chief executive of the International Institute of Islamic Finance.

Shariah equity index debuts on Tokyo bourse

<http://money.cnn.com/news/newsfeeds/articles/newstex/AFX-0013-21376426.htm>

The Tokyo Stock Exchange launched a new Shariah index of shares in companies that comply with Islamic law to meet growing demand from investors, particularly in the oil-rich Middle East. The index of 79 stocks traded in Japan, jointly developed by the TSE and the US rating agency Standard & Poor’s (NYSE:MHP), dipped 0.39 points or 0.04 percent to 1,006.51 on its first day. The index excludes businesses that offer products and services considered unacceptable under Islamic law including alcohol, financial services, gambling, pork, pornography and tobacco. The TSE said all the companies whose shares are included in the index are screened on a daily basis to ensure that they maintain strict Shariah compliance. With demand for Shariah-compliant financial products growing, the index ‘will further enhance the cross-border flow of capital between Japan and many other countries throughout the globe,’ said TSE senior executive Tomoyoshi Uranishi.

International News

Infosys offers Finacle to Shariah-compliant banks

http://www.khaleejtimes.com/DisplayArticleNew.aspx?file=data/business/2007/December/business_December56.xml§ion=business&col=

Infosys, the Indian multinational IT services company headquartered in Bangalore, is marketing its universal online banking platform Finacle for Shariah-compliant financial products and services in the Middle East and Europe. "There will be a tremendous amount of action in Islamic banking in Europe and the Middle East for the next one and a half years," according to Haragopal Mangipudi, vice-president and business head for Finacle at Infosys. He said the company will also make a foray into the Islamic banking for its Finacle platform in the South-east Asian countries of Indonesia, Malaysia, Brunei, Singapore and the Philippines. Already, Infosys has UAE's Emirates Islamic Bank and Arab National Bank, in Saudi Arabia, as clients using its Islamic banking-dedicated Finacle platform, which was fully developed last year. The platform enables financial institutions to provide a wider range of products and more integrated solutions to clients through Web-based cash management systems.

Islamic sukuk market to reach \$140b by 2010

<http://islamicfinancenews.wordpress.com/2007/11/20/islamic-sukuk-market-to-reach-140b-by-2010/>

The global Islamic banking industry has witnessed unprecedented growth of 10 to 15 per cent a year across the board. This growth in the Islamic Financial Institutions (IFIs) has led the Islamic sukuk market to reach to the new heights of development from the size of merely \$8 billion in 2003 to \$70 billion in 2007 with the projections of doubling the size to \$140 billion in three years. The Bahraini Minister of Finance Shaikh Ahmed bin Mohammed Al Khalifa, in his opening remarks at the ninth annual AAOIFI-World Bank Conference on Islamic Banking and Finance, said that the enormous growth also poses serious challenges to the industry players.

Islamic banking deal a first for Japan

http://www.bobsguide.com/guide/news/2007/Nov/26/Islamic_banking_deal_a_first_for_Japan.html

The Boubyan Bank of Kuwait is the first Islamic bank to launch a Shariah-compliant real estate financing structure in Japan, the Kuwait News Agency (Kuna) reports. Three Tokyo offices have been bought by Kuwait's second-largest Islamic lender for \$39.4 million. Speaking to Kuna, Abdulla Al-Mulaifi, Boubyan Bank's executive manager for international real estate, said: "As the world's second-largest property market, we have considered Japan a target investment for a long time with great potential." He said that the bank had spent nearly two years structuring the transaction. "Despite of the absence of Shariah compliant financing in Japan, through our commitment to innovation-driven products and determination to penetrate the Japanese market, we have achieved this breakthrough," Mr Al-Mulaifi added. He said the bank expects to expand its Islamic services in Japan if this investment sees success. Shariah-compliant finance prohibits charging interest, favouring partnerships in trade of services, investment and renting.

Shariah scholar appointed by Deloitte

<http://www.financialdirector.co.uk/accountancyage/news/2204377/deloitte-appoints-shariah>

Deloitte has become the first Big Four firm to appoint a Shariah scholar, in an attempt move in on the burgeoning Islamic finance market. Mufti Hassam Kaleem will be responsible for signing off Deloitte Islamic finance products and confirming that they comply with Shariah law, the FT reports. Islamic finance accounts for 2% of the global finance market and bankers are predicting double-digit growth in Islamic finance products.

Disclaimer

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