Islamic Banking Bulletin

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Islamic Banking Department

State Bank of Pakistan

ISLAMIC BANKING DEPARTMENT

Vision

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

Mission

To promote and regulate Islamic banking industry in line with best international practices, ensuring Shariah compliance and transparency

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Deputy Governor's Speech

Inaugural Speech by Yaseen Anwar
Deputy Governor, State Bank of Pakistan
A talk with Dr. Abbas Mirakhor
Learning Resource Center, SBP, Karachi
February 10, 2011

Ladies and gentlemen, I feel great pleasure in welcoming Professor Dr. Abbas Mirakhor to the State Bank of Pakistan and thank him for sparing his precious time and accepting our invitation to talk on "Narrowing gap between philosophical underpinnings of Islamic finance & its practices". Dr. Mirakhor has done decades of exemplary work in the field of Islamic economics and finance and is regarded as one of the best authority in this field. I think we are very lucky to be in his distinguished company and I am sure that after his talk we will be able to appreciate the real value of Islamic economics and finance.

Now, I will briefly touch upon the success of Islamic finance services industry (IFSI) and highlight some of its strengths and the future direction it may take to further establish its viability and authenticity as an alternate means of finance.

IFSI has made substantial inroads in the past decade and has successfully graduated from a niche market for Muslims to a mainstream market. The growth of IFSI has consistently outpaced that of the conventional banking both domestically and globally. Resultantly, the share of IFSI has gradually increased. Though the Islamic finance industry is aided by a smaller base, sustained growth trajectory for an extended period evidences the success of IFSI. In Pakistan, Islamic banking institutions (IBIs) now boast a share of 6.7 percent as of December 2010, starting from a mere 0.3 percent in 2003.

Coupled with this growth IFSI has shown resilience during the current global financial markets turmoil that triggered trillions of US$ losses and comparable bailout packages in the conventional financial markets worldwide. The asset based nature of IFSI and prohibition from acquiring speculative positions in the assets markets acts as shock absorber in the first round of any financial crises. Moreover, the asset backing means ownership in equity thus losses have to be shared amongst all the concerned parties. Recent literature on Islamic finance (IF) has highlighted the resilience and also pointed out the inherent stability that IF instill in the overall financial system. These are the inherent benefits besides excessive liquidity of Middle East region that has attracted the conventional financial markets stalwarts and international financial hubs to start taking IFSI seriously. So much so that UK, Singapore and some other non-Muslim countries are even amending their laws and regulations to accommodate IFSI in their respective jurisdictions.

IFSI has effectively adopted a strategy to offer products that are well-known to the generation of customers brought up on conventional financial products. As a first step, as suggested by many Shariah scholars and by the Council of Islamic Ideology, the IBIs are effectively providing Shariah complaint alternates of the conventional products. On the deposit side, Mudaraba is being widely used, the return on which is benchmarked to the conventional deposits of comparable maturities. On the asset side the most widely used financing modes by IBIs are Murabaha—cost plus profit, Ijarah—imitating conventional lease, and Diminishing Musharika—hybrid of Musharika and leasing. These financing modes are effectively satisfying the financial needs of businesses and households alike. The IBIs are extending financing for trade—both domestic and international, housing, and car & machinery leasing. The range of product in IFSI is rich enough to accommodate all the modern financing needs of various sectors and segments of the economy.

Besides these largely short term banking need, IFSI has a flexible and powerful long-term financing tool in Sukuk—broadly on lines of a conventional bond but based on asset ownership through securitization of existing and future real assets. It would not be false to say that the global acceptability of IFSI is primarily coming from potential of Sukuk to fund medium to long-term financing needs of the public and private sectors. The governments in developing countries like Pakistan can use Sukuk to fund the infrastructure and developmental needs of the economy efficiently. Pakistan has successfully launched local and foreign currency Sukuk in an efficient and cost effective way.

With regards to the future potential opening for Islamic banking I would like to state that a large majority of the population is unbanked which can also be attributable to a general disliking for markup based transactions of conventional banks. A significant proportion of this unbanked population is available for IBIs to offer Shariah compliant financial services. A significant potential for Islamic Microfinance (MF) is also there to exploit. SBP expects that growth in Islamic microfinance will pick up gradually as Islamic banking expands to new areas. Similar opportunities are available in agriculture and SME sectors.

By taping the unbanked and underserved segments, the future growth of Islamic banking hinges upon an effective and viable awareness and capacity building drive. Collaborative efforts by all stakeholders would be needed for creating greater awareness about Islamic banking and dispel common misconception and apprehensions about Shariah compatibility of Islamic banking. Besides, capacity building needs to be given significant focus. The IBIs, central bank and academia will have to collaborate to offer various programs at various levels, on various topics (ranging from concepts to technicalities).

In the end, I would thank Dr Mirakhor again and hope that he will further elaborate on these issues. I am sure that Dr. Mirakhor’s talk will connect the current status of IFSI to the future direction besides help in addressing some of the common misconceptions, apprehensions and misunderstanding towards IFSI.

Industry Progress and Market Share

Overview

The Islamic banking industry maintained its growth trajectory during the last quarter of CY 2010 despite various challenges being faced by the economy. The industry's assets base during the quarter increased by 12.5 percent to Rs 477 billion from Rs 424 billion as at the close of September 2010; the YoY growth in the assets was 30 percent. The deposits during the quarter increased to Rs 390 billion from Rs 338 billion in September 2010 reflecting a growth of 15.3% on a QoQ basis whereas on the YoY basis, the deposits grew by 38% from Rs 283 billion as on December 2009.

Table 1: Industry Progress and market share

Rupees in billion & shares and growth in percent

	Dec 10	Dec 09	Dec 08	Dec07	Dec 06	Dec 05	Dec 04	Dec 03
Total Assets	*477*	*366*	276	206	119	71	44	13
Share in industry	*6.7*	*5.6*	*4.9*	*4*	*2.8*	*2*	*1.5*	*0.5*
Growth (YoY)	*30.2*	*32.7*	*34*	*73.1*	*65.3*	*63.6*	*238.5*	
Deposits	*390*	*283*	202	147	84	50	30	8
Share in industry	*7.2*	*5.9*	*4.8*	*3.8*	*2.6*	*1.8*	*1.3*	*0.4*
Growth (YoY)	*38.0*	*39.9*	*37.4*	*75*	*68*	*66.7*	*275*	
Net Financing & Investment	*338*	*226*	186	138	73	48	30	10
Share in industry	*6.2*	*4.5*	*4.3*	*3.5*	*2.3*	*1.7*	*1.3*	*0.5*
Growth (YoY)	*49.8*	*21.3*	*34.8*	*89*	*52.1*	*60*	*200*	
Total Islamic Banking Institutions	17	19	18	18	16	11	11	4
Total No. of Branches*	751	651	515	289	150	70	48	17

*Source: Annual Accounts except for December 2010, data for which is based on Unaudited Quarterly Accounts *number includes sub-branches*

The investment and financing activity recorded a big surge during the quarter with 96 percent and 18 percent growth respectively on QoQ basis. The unprecedented surge in investments is attributable to issuance of long awaited GOP Ijarah Sukuk of Rs.89 billion during the quarter, whereas the handy growth of 18% in financing could be attributed to seasonal uptake in credit; the cotton harvesting commences during the October-December quarter that gives significant rise to credit/financing demands by textile sector (share of financing by IBIs to the textile sector increased from 18% to 22% during the quarter). The YoY growth in investments and financing was 144 percent and 33 percent respectively as they increased to Rs 158 billion and Rs 180 billion respectively in December 2010 from Rs 72 billion and Rs 153 billion in December 2009. The pick-up in financing and investment activities during the current quarter is encouraging and would be instrumental in further accelerating the growth momentum as the enlarged investment avenues would give boost to IBIs' drive for deposit mobilization.

Table 1a: Quarterly progress

	Dec-10	**Sep-10**
	Amount in billions	
Asset	476.98	424.09
Deposit	390.06	338.21
Investment	157.80	80.69
Financing	180.39	152.80
	Quarterly Growth (%)	
Asset	12.4	3.1
Deposit	15.3	2.5
Investment	95.6	3.4
Financing	18.0	-2.9

On the international front, the establishment of International Islamic Liquidity Management Corporation (IILM) in Malaysia during the quarter would also help IBIs across the globe to better manage their liquidity. IILM is a supranational body established to develop Shariah compliant liquidity management solutions for Islamic banks. State Bank has also sought membership of IILM to be part of an important international forum which would further enlarge investment avenues for IBIs.

Operating Performance

Despite rapid growth in IBIs' assets and deposits, their profitability, as reflected by the key indicators remained considerably lower than the industry average. The ROA and ROE of IBIs at 0.6% and 5.2% respectively for the quarter ended 31st December 2010 was significantly lower than the industry average of 1% and 9.8% respectively.

Table 2: Performance Indicators

	IBIs			Industry
	Dec 09	**Sept 10**	**Dec 10**	**Dec 10**
Capital				
Capital to Total Assets	11.4%	10.3%	9.7%	9.8%
(Capital - Net NPAs) to Total Assets	9.9%	8.7%	8.4%	7.7%
Assets Quality				
NPFs to Financing	6.3%	8.4%	7.3%	13.9%
Net NPFs to Net Financing	3.1%	4.1%	3.2%	4.5%
Provisions to NPFs	51.7%	54.1%	58.6%	70.6%
Net NPAs to Total Capital	13.3%	14.9%	13.3%	21.3%
Real estate Financing to Total Financing	11.8%	9.0%	8.0%	0.0%
FCY Denominated Financing to Capital	7.3%	7.2%	15.1%	2.0%
Earnings and Profitability				
Net Income to Total Assets(ROA)	0.6%	0.6%	0.6%	1.0%
Return on Equity (ROE)	4.6%	5.3%	5.2%	9.8%
Net Markup Income to Gross Income	79.4%	80.0%	78.5%	74.7%
Non Markup Income to Gross Income	20.6%	20.0%	21.5%	25.3%
Trading & Fx Gains/(Losses) to Gross Income	8.7%	8.3%	9.3%	7.7%
Operating Expense to Gross Income	70.3%	73.9%	72.6%	53.0%
Personnel Expense to Operating Expense	29.5%	31.4%	31.3%	35.4%
Spread Between Financing & Deposit Rate	7.0%	7.7%	7.1%	6.8%
Liquidity				
Liquid Asset to Total Assets	25.1%	26.7%	31.4%	35.0%
Liquid Assets to Deposits	32.5%	33.5%	38.4%	45.9%
Avg. Maturity of Liabilities (Days)	338	387	382	424
Avg. Maturity of Assets (Days)	681	577	669	564

The lower ROA and ROE for IBIs is attributable largely to the growing and evolving stage of IBIs; the industry has expanded its branch network significantly during last couple of years that entails considerable upfront investment/expense, whereas the new branches take time to acquire customers, achieve breakeven and then start earning profits for the bank. This is evident from the operating expense to gross income ratio for IBIs which is at 73% as compared to 53% for the industry.

Asset Quality

Table 3: Non-Performing Financing & Assets

Rupees in million

				Growth in %	
	Dec 09	**Sept 10**	**Dec 10**	**YoY**	**QoQ**
NPF	10,005	13,511	13,829	38.2	2.4
Provisions	5,173	7,306	8,108	56.7	11.0
Net NPF	4,831	6,206	5,721	18.4	-7.8
Recovery (year to date)	790	261	1,249	58.1	379.3
NPA	11,685	15,147	15,782	35.1	4.2
Net NPAs	5,574	6,499	6,175	10.8	-5.0

Encouragingly the pace of growth in Non-Performing Financing (NPF) slowed down significantly during the quarter and reduced to just 2.4% as compared to almost 27% during the last quarter. The NPF increased marginally during the quarter to Rs. 13.8 billion from Rs.13.5 billion as at the beginning of the quarter. Moreover, the amount of recovery has also increased to Rs. 1.25 billion as compared to last years' figure of Rs. 0.8 billion; the growth rate of recoveries was in negative during the last quarter. The YoY growth in NPF was however significantly high at 38.2% as the NPF increased to Rs.13.8 billion as on December 2010 from Rs.10 billion as on December 2009.

Capital

The capital to total assets of Islamic banks stands at 9.7% as compared to 9.8% for the industry as a whole. Capital net of net NPFs to total assets of IBIs is 8.4% as compared to the industry average of 7.7%. The higher capital of Islamic banking industry compared to the industry as a whole may be attributed to asset based and prudent/conservative financing policy and resultantly lower NPFs of IBIs.

Financing Portfolio

The financing type wise mix of IBIs' financing portfolio shows that Murabaha based financing further strengthened its dominance in IBIs portfolio with almost three percentage points increase in its share in the IBIs' portfolio. This also lead to increase in share of Murabaha, Ijarah and Diminishing Musharaka to 88% from 85% as at the beginning of the quarter.

The share of Musharaka financing declined to 2.9% during the quarter from 3.7% as at the beginning of the quarter. Shares of Salam and Istisna meanwhile marginally increased to 1.4% and 5.8% respectively from 1.0% and 5.4% in the previous quarter.

Table 4: Financing Mix

Rupees in billion

	Dec 09	Sept 10	Dec 10
Murabaha	67.1	67.5	85.4
Ijarah	22.6	22.2	24.1
Musharaka	2.8	5.9	5.5
Mudaraba	0.6	0.4	0.3
Diminishing Musharaka (DM)	48.2	47.6	56.1
Salam	1.9	1.6	2.7
Istisna	9.8	8.6	11.0
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	5.7	5.6	4.9
Total	**158.6**	**159.4**	**190.2**
% Share			
Murabaha	42.3	42.3	44.9
Ijarah	14.2	13.9	12.7
Musharaka	1.8	3.7	2.9
Mudaraba	0.4	0.2	0.2
Diminishing Musharaka (DM)	30.4	29.9	29.5
Salam	1.2	1.0	1.4
Istisna	6.1	5.4	5.8
Qarz/Qarz-e-Hasna	-	-	-
Others	3.6	3.5	2.6
Total	**100.0**	**100.0**	**100.0**

Sectoral Concentration of Financing

The table 5 gives sector wise distribution of IBIs' financing portfolio. The largest share of financing went to textile sector (22%), followed by 17% to individuals and 7% to chemical and pharma sectors in comparison to the industry average of 19%, 12% and 3.9% respectively for these sectors.

Table 5: Financing Concentration Percent share

	Dec 09	Sept 10	Dec 10	Industry
Agribusiness	0.81	0.94	2.56	5.9
Automobile and transportation equipment	3.06	2.53	1.68	1.3
Cement	2.01	3.63	4.10	2.6
Chemical and Pharmaceuticals	8.54	9.91	7.14	3.9
Electronics and electrical appliances	0.77	0.95	1.78	1.7
Financial	1.64	0.96	1.25	1.1
Individuals	18.82	18.83	16.54	12.0
Insurance	0.01	0.03	0.02	0.0
Production & Trans of Energy	4.44	6.40	6.55	9.4
Shoes and leather garments	1.46	1.19	1.49	0.6
Sugar	2.84	2.30	2.30	2.0
Textile	21.52	17.91	21.80	19.0
Others	34.06	34.41	32.79	40.5
Total	100	100	100	100

Financing to Production and Transmission of Energy and Cement sectors constituted 7% and 4% of IBIs financing portfolio respectively as compared to the industry average of 9% and 3%. The IBIs' financing to the energy and cement sectors witnessed significant growth during the year as their share in the IBIs' financing portfolio increased by 3 and 2 percentage points respectively to 7% and 4%.

Investments

During the quarter ended December 2010, the Net Investments reached to Rs. 158 billion with YoY growth of 144% and the QoQ growth of 96%. The unusual spike in investments during the quarter is attributable to the issuance of long awaited GoP Ijarah Sukuk of Rs 89 billion. The IBIs' investments in equity markets also increased significantly during the quarter and partly contributed in the unprecedented growth in investments. The issuance of GoP Sukuk during the quarter enabled IBIs to place their surplus liquidity in much needed Shariah complaint GoP security. The regular issuance of such securities would be instrumental in improving tradability of Sukuk thus enabling IBIs to use them for managing short term liquidity. It would also give a big boost to IBIs deposit mobilization drive and thus help the industry in enlarging its footprint in the country's financial market.

Table 6: Investments

Rupees in million

				Growth (in Percentage)	
	Dec 09	**Sept 10**	**Dec 10**	**YoY**	**QoQ**
Federal government securities	25,644	27,030	78,623	206.60	190.88
Fully paid up ordinary shares	1,718	1,809	2,158	25.60	19.29
TFCs, Debentures, Bonds, & PTCs	21,428	28,510	35,973	67.88	26.17
Other investments	17,365	24,143	41,990	141.81	73.92
Investments by type					
Held for Trading	58	-	200	245.52	-
Available for Sale	49,884	65,998	133,900	168.42	102.88
Held to Maturity	12,288	12,928	14,597	18.79	12.91
Surplus /(deficit) on revaluation	205	286	1,917	834.92	571.20
Net Investments	**64,678**	**80,691**	**157,803**	**143.98**	**95.57**

Deposit Mobilization

The deposits of IBIs increased to Rs 390 billion as at close of the quarter under review with a YoY and QoQ growth of 38% and 15% respectively. The fixed deposits at Rs 143 billion had the largest share of 37% in IBIs deposit mix followed by savings deposits which at Rs. 126 billion constituted 32% of total deposits. The deposits in current accounts constitute more than 23% of IBIs deposit base. While the fixed and savings deposits grew by about 11% each during the quarter, the growth in current deposits at 23% was more than double than the savings and fixed deposits growth. In terms of currency denomination, the local currency deposits constitute over 95% of the total deposits and had reached at Rs 372 billion with an increase of 39.7% and 15.97% on YoY and QoQ respectively.

Table 7: Break up of Deposits

Rupees in million and growth in percent

				Growth	
	Dec 09	**Sept 10**	**Dec 10**	**YoY**	**QoQ***
Deposits	**282,632**	**338,217**	**390,060**	**38.01**	**15.33**
Customers	**263,465**	**318,256**	**363,207**	**37.86**	**14.12**
Fixed Deposits	103,715	128,155	142,696	37.58	**11.35**
Saving Deposits	90,911	113,229	126,291	38.92	**11.54**
Current accounts - Remunerative	251	0.0	30	(88.24)	
Current accounts - Non-remunerative	66,581	74,266	91,517	37.45	**23.23**
Others	2,007	2,606	2,673	33.17	**2.60**
Financial Institutions	**19,167**	**19,961**	**26,853**	**40.10**	**34.53**
Remunerative Deposits	18,413	19,735	26,752	45.29	**35.55**
Non-remunerative Deposits	754	225	101	(86.58)	**(55.11)**
Currency Wise					
Local Currency Deposits	266,067	320,519	371,703	39.70	**15.97**
Foreign Currency Deposits	16,565	17,697	18,358	10.82	**3.73**

Maturity Profile of IBI's Assets and Liabilities

The review of maturity profile of assets and liabilities of different tenors of IBBs reveals significant mismatches particularly in shorter tenors. The assets in three month tenor constitute 36.7% of assets while 54.5% liabilities are maturing in the same tenor showing a significant mismatch of 18%. Likewise the assets maturing from 1 to 5 years have 33.4% share in assets whereas just 15.2% of liabilities would mature within this tenor which reflects a gap of 18.2%. The gap is reflective of the industry practice of financing longer tenor assets with relatively shorter tenor liabilities (deposits). This mismatch however does not give rise to risk associated with changes in monetary stance of central bank as bulk of the longer tenor assets have floating rate pricing structure.

Table 8: Maturity of Assets and Liabilities

percent share

	Dec 09	Sept 10	Dec 10	Industry Dec 10
Assets				
Maturing upto 3 months	40.8	48.0	36.7	41.64
Maturing from 3 months to 1 yr	21.0	17.9	20.8	29.16
Maturing from 1 yr to 5 yrs	25.7	25.0	33.4	17.18
Maturing after 5 yrs	12.5	9.1	9.1	12.02
Liabilities				
Maturing upto 3 months	57.6	52.9	54.8	55.54
Maturing from 3 months to 1 yr	26.1	27.2	24.9	22.23
Maturing from 1 yr to 5 yrs	11.5	14.7	15.2	16.11
Maturing after 5 yrs	4.8	5.3	5.1	6.12
Gap--asset share minus liability share				
Maturing upto 3 months	-16.8	-4.8	-18.0	-13.9
Maturing from 3 months to 1 yr	-5.1	-9.3	-4.1	6.9
Maturing from 1 yr to 5 yrs	14.2	10.4	18.2	1.1
Maturing after 5 yrs	7.7	3.7	4.0	5.9

Branch Network

The IBIs' branch network increased to 751 branches during the quarter from 684 as at the beginning of the quarter.

The significant growth in number of branches is attributable to the opening of branches planned in the Annual Branch Expansion Plan (ABEP) for the calendar year 2010. The permission for branches, given in ABEP lapses if branches are not opened by 30th November each year.

The province wise distribution of the branch network reveals that Punjab and Sindh have the bulk of IBIs branch network (79%), with 339 and 253 branches in Punjab and Sindh respectively. The review of the branch network in these two provinces further reveals that Lahore, Rawalpindi and Faisalabad account for 127, 34 and 30 branches respectively, which constitutes around 56% of the total branches of IBIs in Punjab. Similarly, Karachi alone with 210 branches accounts for 83% of the total branches located in Sindh (Annexure –III).

Table 9 : Islamic Banking Branches

	Dec-09	Sep-10	Dec-10
Islamic Banks	400	437	479
Islamic Branches of Conventional Banks	168	197	223
Sub-Branches	81	50	49
Total	649	684	751
Province-wise			
	Dec-09	**Sep-10**	**Dec-10**
Punjab	290	306	339
Sindh	218	231	253
Khyber Pakhtonkwa	70	73	75
Balochistan	32	33	35
Federal Capital	31	33	39
City-wise			
	Dec-09	**Sep-10**	**Dec-10**
Karachi	180	193	210
Lahore	109	117	127
Rawalpindi	31	33	34
Peshawar	28	29	30
Faisalabad	26	28	30
Multan	23	24	23
Quetta	21	22	22
Other	231	238	275
Total	649	684	751

The conversion of the conventional branches into Islamic banking branches has picked up pace and in the last seven months 15 conventional banking branches have been converted into Islamic banking branches.

The full fledged Islamic banks are gradually increasing their branch network in second tier cities while conventional banks are expanding their outreach to such cities both by establishing stand alone branches and Islamic banking windows. It is expected that gradually IBIs' branch/windows network would expand to wider geographic territory of the country.

Events & Developments at IBD/SBP

Lecture series with Dr. Abbas Mirakhor

Dr. Abbas Mirakhor, an eminent scholar in the field of Islamic banking was invited by SBP to share his views on Islamic banking and finance with SBP and the stakeholders.

The first session titled "Narrowing the gap between philosophical underpinnings of Islamic finance and its practices" was held on February 10, 2010 at Learning Resource Center, SBP. The audience consisted of SBP officials, senior executives from banking sector, academia, chamber of commerce, trade associations and members of Shariah Board of SBP etc. The second session on "Financial System and Monetary Policy in an Islamic Economy" was held on February 11, 2011 at SBP. The audience consisted of senior management of SBP with the Governor, SBP in chair. The third session, was held on February 12, 2011 with Monetary Policy and Research Cluster of SBP.

SBP Membership in International Islamic Liquidity Management

The Central Board of SBP has approved to acquire the membership of International Islamic Liquidity Management Corporation (IILM), Malaysia. IILM is an international institution which has been formed to develop liquidity management solutions for Islamic banking and finance industry in collaboration with governments and central banks of member countries.

Council Meeting of IFSB

The Governor SBP has attended the council meeting of Islamic Financial Services Board (IFSB) held in Dec 2010 in Jeddah, Saudi Arabia. IFSB is an apex institution, which is engaged in the development of prudential standards for Islamic banking and finance industry.

Meeting of Islamic Finance Focus Group in Hyderabad

Development Finance Support Unit (DFSU) at SBP BSC, Hyderabad, arranged the first meeting of the Islamic Finance Focus Group at Hyderabad on Feb 29, 2011. Director IBD, participated in the meeting of the said focus group. The strategies with reference to the promotion of Islamic banking were discussed which included awareness, creation, taking into confidence Shariah scholars at regional level, frequent seminars, translation of Islamic banking FAQs into Urdu and development of incentive framework for improving Musharaka and Modaraba based financing.

The other DFSUs at SBP BSC are also planning to take various initiatives for the promotion and development of Islamic banking and Finance in their respective jurisdictions.

Meeting of Task force on Musharaka

SBP has established a task force on Musharaka financing which includes SBP officials, Shariah scholars, Islamic bankers and other industry experts. It is an endeavor on part of SBP to increase the participatory modes of financing and two meetings of the task force on Musharaka mode of financing have been held so far.

SBP raises Rs 89 billion from GOP Ijara Sukuk

During the quarter, SBP raised Rs 89 billion in 3 year GOP Ijara Sukuk in the domestic market. The cut off margin is the six months treasury bill weighted average yield. In order to ease the liquidity management of the IBI's, GOP Ijara Sukuk are also planned in the coming quarters.

Islamic Banking News

Islamic principles of finance proved their viability worldwide

Islamabad, Feb 8 PPI: Finance Minister Dr Abdul Hafeez Shaikh says Islamic principles of finance have proved their viability worldwide and Islamic banking and finance are growing at a rapid pace globally. He said while inaugurating two-day international conference on Islamic Business & Finance here Tuesday organized by Riphah International University. The said size of Islamic Banking is expected to reach US$1.3 trillion worldwide in near future. At present over 1,100 institutions offer Islamic finance service across the globe. Size of investments in Islamic banking system reached Rs.424 billion till 2010 in Pakistan and the government is taking measures to encourage it. He called for modernizing country's overall banking system for economic progress.
http://www.onepakistan.com/finance/news/pakistan-business-general-news/9937-islamic-principles-of-finance-proved-their-viability-worldwide.html

Islamic income funds record 158% growth

Assets under management cross Rs15 billion mark.
KARACHI: Islamic income funds have recorded an increase of 158 per cent in their asset size during the first seven months of the current fiscal 2010-11 and this segment of the mutual fund industry is now worth more than Rs15 billion, said a research analyst.
The mutual fund industry has recorded a growth of 19 per cent so far in fiscal year 2011 to reach Rs238 billion. The size of open-end funds, which contribute more than 87 per cent to the industry, appreciated by 24 per cent during the seven months to reach Rs209 billion.
tribune.com.pk/story/.../islamic-income-funds-record-158-growth/ -

Global Sukuk Issuance To Surpass US$35 Billion This Year, Says Zeti

KUALA LUMPUR, Feb 21 (Bernama) -- Bank Negara is optimistic the global sukuk issuance this year will surpass US$35 billion recorded in 2007 when it sustained the highest issuance level, says Governor Tan Sri Dr Zeti Akhtar Aziz. Of the US$35 billion, Malaysia contributed US$13.8 billion, she said.She said Malaysia was leading in the global Islamic finance industry, followed by the United Arab Emirates (UAE), Saudi Arabia, Indonesia and Bahrain, with the global sukuk (Islamic bond) market share standing at 62 per cent.
www.myclear.org.my/media/File/BPA/Bernama_sukuk_inssuance.pdf

Early introduction of Islamic banking sought

JAIPUR: The Rajasthan Muslim Forum has called upon Union Minister of State for Finance Namonarain Meena to facilitate introduction of "interest-free Islamic banking windows" within the existing regulations in the conventional banks through a proposal in the 2011-12 Union Budget to be presented in the Parliament's session beginning on Monday.A delegation of the Muslim Forum, an apex body of Muslim groups in the State, had met Mr. Meena in New Delhi a few months ago to raise the issue and handed over to him some reports and documents for action in the matter.
http://www.hindu.com/2011/02/21/stories/2011022162020600.htm

Disclaimer: The news section of Islamic Banking Bulletin is based on information obtained from local and international print and electronic media and may not necessarily reflect SBP views and policy.

Bank in Focus

Faysal Bank Ltd Islamic Banking Division[1]

Bank's Performance at a Glance	
	(Rs in billions)
Deposits	3.9
Financing	4.0
Total Assets	5.2
Number of branches	13

Faysal Bank is a new entrant in the field of Islamic banking in Pakistan. It has commenced its Islamic banking operations in September 2009 under the brand name of "Barkat" Islamic Banking. The first Islamic banking branch was opened in Karachi and within a period of one year the number of branches has increased to 10. The branches have further increased to 13 with the acquisition of Royal Bank of Scotland Limited (RBS Pakistan). Currently the branch network spans seven cities and is located in Karachi, Lahore, Rawalpindi, Faisalabad, Quetta, Peshawar and Swat.

The Islamic banking product line at Faysal Bank consists of consumer financing on Diminishing Musharaka, commercial banking products based on Murabaha, Ijarah and Diminishing Musharaka, current account on Qard, savings and Islamic term deposits in multiple tiers of 1 to 12 months on Mudarabah basis. Barkat Kamil Business Account, which targets the business community, is a hybrid of current and savings products on Mudarabah basis. The financial position of the bank's Islamic banking segment as on September 2010 reveals a deposit base of Rs 3.9 billion which is supported by financing and investment of Rs 4 billion.

The Shariah Advisor of the bank, Mufti Mohib ul Haq, has a post graduate degree from Jamia Dar-ul-uloom, Karachi and specialization in Islamic jurisprudence. The major subjects studied by Mufti Mohib in Bachelors / Masters include Tafseer, Hadith, Fiqh and Economics.

[1] Contributed by Faysal Bank-IBD.

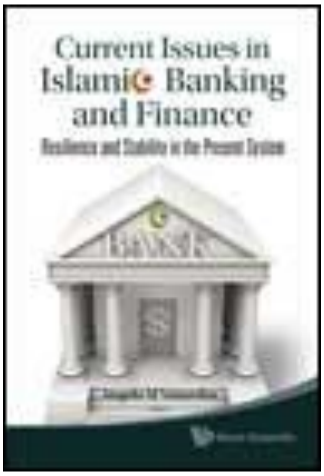
For more information please visit http://faysalbank.com/islamicbanking.html

Book Review:

Current Issues in Islamic Banking and Finance

By: Angelo M Venardos

ISBN: 978-981-283-392-



Angelo M. Venardos, the editor of the book had also earlier written a book on Islamic banking titled as Islamic Banking and Finance in East Asia. The current book is a collection of fourteen different articles / research papers, written by different authors. These articles cover a range of topics regarding Islamic banking. Most of the authors are based in Asia working as managing director, director, senior executive, partner etc of their respective firms thus having first hand knowledge about the issues in the local markets..

The book starts with an article on ***Resilience and Stability: Socio Economic Response in South East Asia*** by Angelo M Venardos discussing the current financial crisis and the response from the Islamic banking fraternity. ***Legal and Regulatory changes to Promote the development of Islamic Banking and Finance*** by Arafat Selvan discusses the advent of Islamic banking in Singapore and the regulatory changes to promote it. ***Brunei: A niche market for offshore Islamic Finance*** by Khairul A. Khairuddin and Sukor Ashak discusses the diversification of Brunei's economy and the role Islamic banking played in it. ***The risk profile of Mudaraba and its Accounting Treatment*** by Hajah Salma Latif gives an in depth analysis of Mudaraba and the structure of balance sheet and the different risks which are being faced by Mudarabas including accounting risk. ***Legal and Regulatory Issues concerning Islamic Finance's Development in Malaysia*** by Dato Dr Nik Norzul and Madzlan Hussain discusses the primary legal infrastructure incentives and the regulatory bodies for Islamic finance in Malaysia. ***Recent Legal and Regulatory Developments for Islamic Banking and Finance in Indonesia*** by Hanim Hamzah discusses the advent of Islamic banking in the world's most populous Muslim country, Indonesia. It also discusses the Indonesian Sukuk market and capital market.

Making sense of the fast growing Islamic Finance Market by Tadashi Maeda discusses the soaring oil prices and the impact of petro dollars on the economy of Muslim countries. An overview of Malaysia in the Islamic finance is given coupled with the role of IFSB in standardization. ***The Growth of Islamic Finance in Southeast Asia: Regulatory Challenges and Opportunities for the United States*** by Mercy A. Kuo provides a broad outline of how practitioners and regulators in Southeast Asia and the United States are managing the growth of Islamic Finance amid changes in the financial world. ***An Introduction to the laws and Practices of Islamic Trusts and the distribution of a trust upon Maturity*** by Angelo M. Venardos and Aimi Z. Abdul Rashid discuses the different types of Islamic laws and Islamic financing in a contemporary setting coupled with Trust concept in Islam and commercial law. ***Islamic Structured Products: Issues and Challenges*** by Aznan Hasan initially discusses the structured products which is followed by types of conventional structured products and outlines way to Islamic structured products and its legal issues. ***Islamic Capital Markets: A growing area for Investments*** by Micheal Mahlknecht describes the Islamic concept of derivatives and hedging, current trends in replication of conventional certificates and the standardization. ***Short Selling Replication in Islamic Finance: Innovation and debate in Malaysia and beyond*** by Ryan Calder looks into the Islamic alternatives to short selling including those being developed in Malaysia.

The book also includes two articles from Pakistani authors namely ***"Lessons from Pakistani Model"*** by Bilal Rasul, and ***"Islamic banks: Resilience and Stability – Not immune from crisis"*** by Dr. Shamshad Akhtar. Mr. Bilal Rasul, in his article has given chronology of different events including efforts of Government of Pakistan, mainly with reference to the Modaraba sector in our country. Dr. Shamshad Akhtar, has started by giving an account of the financial crisis in the conventional system and how the Islamic finance has remained immune from it. The balance sheet and off balance sheet risks for IBIs are discussed and it is explained that how the markets can safeguard themselves against the risk being faced by the conventional system if they follow the philosophy of Islamic banking in letter and spirit.

The book containing a good collection of articles about divergent areas of Islamic banking and finance, can serve as a reference guide for people who want to build upon their existing knowledge base about Islamic banking & finance and the questions which may come to their minds. Even those people who do not have indepth knowledge of Islamic finance would find it as an important reference guide because of the simplicity of the narration.

Frequently Asked Questions[2] (Part VIII-last)

PART 4: AN ECONOMY-WIDE APPLICATION OF ISLAMIC BANKING AND FINANCE

Question No.47) Can a Muslim country transform its economy according to the principles Islamic finance in a successful manner? What are the prerequisites for success?

Answer: The conventional banking still holds sway over the overwhelming part of the banking operations internationally. However, over the last thirty years, some of the Muslim countries have started Islamic banking which is running parallel to the conventional banking system. Islamic banking is yielding a reasonable success as evident by its growth (around 15%) annually. The current success of Islamic banking and finance has been accomplished despite the unavailability of an ideal legal and institutional set up which is imperative to support the operation of these banks. There is no doubt that once an appropriate institutional infrastructure is completed, their degree of success will be even greater. Provision of enabling framework which may include compatible national and banking laws, rules and regulations, tax regime, accounting system and relevant disclosures etc. are the prerequisites of Islamic financial system,

Question No. 48) In case all interest-based transactions are abolished from the economy, what would be the economic implications on national and international level?

Answer: In case all interest based transactions are abolished from the economy, the implications at the national and international level may be visualized as follows:

A. Implications at the national level:

The following will be the implications at the national level.

i. Adopting the operating method of Islamic banking:

The economic consequences of eliminating interest at the national level could be anticipated on the basis of considering the nature of the business operations of Islamic banks. As previously pointed out, Islamic banks can undertake financing through partnership modes as well as sales-based modes involving fixed returns. Therefore, Islamic banking offers a wider scope of operations where it can follow up and monitor more closely the activities and performance of the enterprises it finances. It can employ various monitoring techniques and procedures including sitting on boards of directors to obtain information in its capacity as partner who has a stake in the capital of those companies. Economists believe that Islamic banks face fewer risks than purely commercial ones regardless of whether the national economy is undergoing a period of economic recession or upswing. Hence, the greater the ability of Islamic banks to employ the monitoring techniques the less amenable they become to moral hazards. This gives Islamic banking an edge in profitability over commercial banks.

Islamic banking has valuable opportunity of using proper mix of financial modes. They can choose the proper mix of partnership and fixed-return modes that would afford them more effective monitoring at lower costs. For this reason, they can become relatively more profitable as well as efficient and as a result the national economy as a whole would gain.

[2] FAQs are included in order to create awareness about Islamic banking. These FAQs are already published and are available on SBP website (http://www.sbp.org.pk/departments/ibd/FAQs.pdf)

ii. Resource allocation on production bases

The most important aspect characterizing Islamic financing at the macro economic level is its unique method of financial resource allocation. The allocation of financial resources in a conventional economy revolves around the rate of interest and where the credit worthiness of the borrower is the main criterion for lending funds. In an interest-free economy, financial resources are allocated on the basis of production and commercial criteria. This implies that under Islamic finance, the vital factor of obtaining the financing facilities is the ultimate results of the enterprise whose operations are being financed whereas the credit worthiness is the secondary factor. Resource allocation on the basis of production and commercial criteria is more oriented towards growth and development wherein the financial sector remains in harmony with economic fundamentals.

Islamic finance modes are of two types: partnership and markup. Once an agent obtains finance of the second type, he ends up owing a loan to the finance provider. Nonetheless, an Islamic banking system does not face problems associated with debt accumulation because the debt generated is used to finance real transactions i.e. the purchase of real commodities and assets. In addition, the markup is set once and it is not cumulative. Furthermore, the debt is not marketable, as it is sellable only at face value. This makes debt renewal or accumulation much more difficult. In this context, it is inconceivable that Islamic financing could generate debts to the extent that their volume would exceed the volume of the commercial and production activities financed. Furthermore, the bulk of debts in a conventional economy, mostly government debt, would be replaced in an Islamic economy by financing through Islamic modes. There is no room for a large volume of transactions in debt instruments (bonds) as appears in conventional economies, where the volume of such transactions reaches multiples of GDP. Unlike a capitalist economy, the Islamic economy is not heavily leveraged. Thus, such an economy would be well protected against shocks resulting from debts.

iii. Relative stability of the banking system

Conventional banks hold assets resulting from personal and business finance which can generally be riskier than their liabilities to their depositors. The conventional banking system would therefore face some measure of instability especially during the downturn of the business cycle or generally during periods of low aggregate demand. At such time, higher rates of business failures and bankruptcy could bring the average rate of return on banks' investments below the average rate of interest they have to pay on time deposits. This exposes banks themselves to business failures. By contrast, Islamic banks guarantee only demand deposits and shares the risks with investment depositors. An Islamic bank may not generally be expected to incur losses, even at times of low levels of aggregate demand, because of its wider scope of activities. When the rates of return on its investments decline, so does the rate of return paid out to the depositors. The possibility of business failure faced by Islamic banking is therefore lesser as compared to its conventional counterpart. We can, therefore, conclude that Islamic banking is more stable which in turn gives an added measure of stability to the domestic economy.

B) Advantages of Islamic Financing at the International Level

The present age of globalization has witnessed the narrowing/eliminating the gaps of communication. Further, the market disclosures are also getting enhanced which would expose the economies to the influences of external factors that pass through trade as well as capital flow channels. A single country cannot place trade controls without consulting the World Trade Organization (WTO). After repeated international financial crises, especially that which befell the South East Asian countries, economists found themselves compelled to reconsider their preference for free capital flows, especially short-term. This cannot be ignored that such flows are associated with interest-based financing, where debt becomes marketable and free moving.

In a conventional economy, debt financing comes in a pyramid-shaped chain, where foreign banks lend local banks, which in turn lend individuals and local enterprises. Most of this lending is on short-term basis. Once foreign banks face a problem, they recall their loans from local banks, which in turn recall their loans from domestic borrowers. Thus the pyramid of debts starts to collapse and a financial crisis ensues.

An Islamic economy would receive external capital flows using only Islamic modes of finance. Whether based on partnership or markup, those flows would be contractual and are neither marketable nor recallable on notice. It can, therefore, be imagined that those who wish to provide external capital flows to an Islamic economy would have to wait until the maturity dates of their debts before withdrawal. Those interested in providing external funds on a partnership basis would have to abide by the partnership contracts. Therefore, Islamic financial system is not prone to those risks which the conventional banking system is exposed to.

Question No. 49) A large number of Muslim countries depend heavily on foreign loans from other countries as well as from international financial institutions like the World Bank and the IMF. If interest is totally abolished from the economy of a Muslim country, how can it deal with foreign countries and foreign financial institutions?

Answer: This question has three parts as follows:

a. How to deal with current debts
b. Economic effects of borrowing
c. Alternatives to borrowing

Each of these three dimensions is discussed as follows:

a) Dealing with current debts

To begin with it should be noted that the shift to the Islamic economic system does not mean the outstanding debt under conventional system would not be settled. It is a basic principle of the Shariah that Muslims should fully honour their contracts/promises. Therefore, the principal and interest amounts of such debts that had risen from past contracts and obligations should be settled regardless of whether they were contracted with domestic or foreign parties.

Should a country find it difficult to secure the liquidity required to settle all its outstanding debts, it could resort to one of the following courses of action:

The outstanding debts of developing countries facing economic difficulties are usually offered in markets at prices less than their nominal value. The amount of discount given varies with the economic conditions of each indebted country. It is therefore possible to negotiate directly with creditors swapping debts with equity participation and at the same time achieve some discount.

Meanwhile, governments of developing countries usually have a large public sector, which could be privatized in the course of a comprehensive structural adjustment program. Part of the proceeds obtained from selling some of its public enterprises can be used in purchasing foreign debt at a discount. In addition, debt can be swapped for equity in public enterprises within the desired limits of keeping the majority holding of key enterprises in the hands of nationals.

b) The harmful effects of borrowing

Having said that all outstanding debt must be settled, Muslim governments should strictly avoid future borrowing on the basis of interest. In this regard, the global debt crisis can be recalled that started during 1982 which was accompanied by the inability of developing countries to settle their debts. The crisis continued until 1990 when the developing countries returned quickly to borrowing. The debt problem rose again in 1997 in the Asian countries and it was accompanied this time with a crisis in the foreign exchange market. This renewed heated discussions among economists. Some suspected that those crises indicated that a number of developing countries had fallen victim to the greed of some creditors on the one hand and to the unsound economic policies of these countries on the other.

Generally, leveraged economies face the open economy dilemma under which the countries that allow free capital movements have to choose between independent monetary policies and fixed exchange rates. Nonetheless, South East Asian countries fixed their exchange rates, while attempting to have independent monetary policies. What compounded their problem was the fact that heavily leveraged economies inevitably face two problems. The first is that business borrowers face disproportionately high risks (in relation to the size of equity) during periods of slow economic activities as debts have to be repaid regardless of business conditions. This scenario increases the rate of business failures. Secondly, expectations in the debt market are non-segmental, implying that when debts in one part of the market (a sector or a whole country) become non-performing, pessimistic expectations would not be restricted to that segment as it will spread all over. This phenomenon of contagion is basically due to the fact that conventional debt is marketable. It exposes heavily indebted economies to business problems. The problem is compounded when the debt is short-term and when lenders of a group of countries are the same. It has become evident from the last debt crisis that South East Asian countries allowed excessive borrowing that was predominantly short-term. On these grounds, there are reasons that would make foreign capital flows a source of instability resulting from the herding effect. It would, therefore, be wise to steer away from borrowing as much as possible and to use Islamic modes of financing instead.

c) Alternatives to foreign borrowing

What could an Islamic country do to benefit from foreign financial resources? The key to answering this question lies in the innovative utilization of financial markets to attract foreign capital. Such innovative utilization should be made alongside a dialogue with foreign financing institutions to familiarize them with the advantages of using the Islamic modes of finance. Those modes directly finance the purchase of real assets and commodities in contrast with conventional lending which provides enterprises with general funds which could be used on bureaucratic expansion or inefficient conglomeration. The use of foreign funds through Islamic modes would have a direct impact on economic activities, thereby impacting economic development in a more efficient and effective manner. If Muslim countries can put their houses in order, there is no reason why they cannot attract some of these funds.

In this context, the following methods may be considered for attracting foreign capital:

i. The issue of Islamic financial instruments in foreign currencies.
ii. The design of special funds to cater to the needs of specific projects and sectors.

Examples could be:

- An infrastructure fund for use in financing roads, transport projects, building of airports and seaports, power stations etc.;
- An Ijarah fund;
- A trade financing fund;
- An agricultural investment fund;
- An industrial investment fund
- A housing investment financing fund, and
- A fund for financing a specific project

d) When is it permissible to borrow?

It must first be noted that borrowing as such is not prohibited by the Shariah. Borrowing is acceptable if the debtor has the means and resources to pay back. When Islamic modes of finance are used, even if they are debt-based, there is a possibility of the debtor being able to service the debt. However, question arises as "Should a country resort to interest based borrowing if it is not succeeding in satisfying financial requirements for meeting the "needs" of the society? The answer to this question is based on the general Islamic juridical rule providing that, "Necessity renders legitimate that which is originally illegitimate". The doctrine of darurah (necessity) allows temporary suspension of normal law in case of dire need. Since this doctrine can often be misused, a word of caution is in order.

The doctrine of necessity is meant to be used in dire cases as it is a rule to handle emergencies. Even in emergencies, it does not provide an automatic and unrestricted suspension of the law. First of all, it has to be determined that situation has arisen where the doctrine can be invoked. While in individual cases, it is the individual conscience which will determine this whereas in case of public application, a ruling must be given by Shariah scholars after consulting with the experts of the concerned field. Secondly, the suspension of the normal law is not absolute as there are limits and conditions to be observed. The Quranic text providing for the doctrine, itself lays down two basic conditions: the user must accept the sanctity of the original law (implying a return to it as soon as possible) and in the meanwhile use the exception to the minimum possible extent. The application of the principle of necessity to foreign borrowing should be left to the discretion of the `ulama' in each country to decide after their full and accurate understanding of the country's real conditions. Interest-based foreign borrowing can only be resorted to in cases of compelling need for development purposes, which amounts to "necessity" as determined by the `ulama'. Even when such permission is granted, feasibility studies in respect of the projects to be financed by way of foreign borrowing should be undertaken, scrupulously reviewed and evaluated. Borrowing should be made to the extent of such necessity only and accompanied by a plan and schedule for repayment from the returns of the project to be financed.

Question No. 50). Can Islamic banks play any role in economic development of the Country?

Answer: While functioning within the Shariah framework, Islamic banks can perform a crucial task of resource mobilization and efficient allocation using either profit sharing (Musharaka and Mudarabah) or trading & Ijarah based categories of Islamic modes of financing. Profit sharing modes can be used for short, medium and long-term project financing, import financing, pre-shipment export financing and working capital financing transactions. In order to ensure maximum role of Islamic finance in the development of economy it would be necessary to create an environment which may induce financiers to earmark more funds for Musharaka/Mudaraba based financing.

The non-PLS techniques, as acceptable in the Islamic Shariah, not only complement the PLS modes but also provide flexibility of choice to meet the needs of different sectors of the society based on their risk profile. Trade-based techniques like Murabaha with lesser risk and better liquidity options have several advantages vis-à-vis other techniques but may not be as fruitful in reducing income inequalities and generation of capital goods as participatory techniques would do. Ijarah related financing which requires Islamic banks to purchase and maintain the assets and afterwards dispose them off according to Shariah rules, require the banks to engage in activities beyond financial intermediation.

Salam has a vast potential in financing the productive activities in crucial sectors, particularly agriculture, agro-based industries and the rural economy as a whole. It provides incentive to enhance production as the seller would spare no effort in producing, at least the quantity needed for settlement of the loan taken by him as advance price of the goods. Salam can also lead to creating a stable commodities market especially the seasonal commodities and therefore to stabilize their prices. It would enable savers to direct their savings to investment outlets without waiting. This would help them to invest their surplus funds till the harvesting time of agricultural products or the time when they actually need industrial goods and without being forced to spend their savings on consumption.

On the basis of the above it can be said that supply and demand of capital would continue in an interest-free scenario with additional benefit of greater supply of risk-based capital alongwith more efficient allocation of resources and active role of banks and financial institutions as required in asset based Islamic theory of finance. Islamic banks can not only survive without interest but also could be helpful in achieving the objective of development with distributive justice by increasing the supply of risk capital in the economy, facilitating capital formation, growth of fixed assets and real sector business activities.

Banks might engage in fund and portfolio management through a number of asset management and Ijarah and trading companies. Such companies/entities can exist in the economy on their own or can be an integral part of some big companies or subsidiaries. They can manage Investors Schemes to mobilize resources on Mudarabah basis and to some extent on agency basis and use the funds so collected on Murabaha, Ijarah or equity participation basis. Subsidiaries can be created for specific sectors/operations which would enter into genuine trade and Ijarah transactions. Low-risk 'Funds' based on short-term Murabaha and Ijarah operations of the banks in both local as well as foreign currencies would be best suited for risk-averse savers who cannot afford possible losses in PLS based investments. Under equity based funds, banks can offer a type of equity exposure through specified investment accounts where they may identify possible investment opportunities from existing or new business clients and invite account-holder to subscribe. Instead of sharing in the bank's profit, the investors would share the profits of the enterprise in which funds are placed with the bank taking a management fee for its work.

Small and medium enterprises (SME) sector has a great potential for expanding production capacity and self-employment opportunities. Enhancing the role of financial sector in development of SME sub-sector could mitigate the serious problems of unemployment and low level of exports.

Keeping in view the above, it can safely be said that Islamic banking has a great potential of playing an effective role in the development of the country.

Annexure: I

Islamic Banking Branch Network

(As of December, 31, 2010)

Type	Name of Bank	No of Branches[3]
Islamic Banks	Al Baraka Islamic Bank	87
	BankIslami Pakistan Limited	70
	Dawood Islamic Bank Limited	42
	Dubai Islamic Bank Pakistan Ltd	57
	Meezan Bank Ltd	223
	Sub Total	479
Islamic Branches of Conventional Banks	Askari Bank Limited	29
	Bank Al Habib Ltd	8
	Bank Alfalah Ltd	80
	Faysal Bank Limited	10
	Habib Bank Ltd	19
	Habib Metropolitan Bank	4
	MCB Bank Ltd	14
	National Bank of Pakistan	8
	Soneri Bank Ltd	6
	Standard Chartered Bank	15
	The Bank of Khyber	21
	The Royal Bank of Scotland	3
	United Bank Ltd	6
	Sub Total	**223**
	Al Baraka Islamic Bank	2
Sub Branches	Askari Bank Limited	2
	BankIslami Pakistan Limited	32
	Dawood Islamic Bank Limited	8
	MCB Bank Ltd	2
	The Bank of Khayber	3
	Sub Total	**49**
	Grand Total	**751**

[3] *Source: Banking Policy & Regulations Department, State Bank of Pakistan.*

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of December, 31, 2010)

Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Khyber Pakhtunkhwa	Northern Areas	Punjab	Sindh	Grand Total
Albaraka Islamic Bank (Pakistan) Limited	1	3		4	9		42	28	87
BankIslami Pakistan Limited	1	8		2	5	1	30	23	70
Dawood Islamic Bank Limited		1		2	2		17	20	42
Dubai Islamic Bank Pakistan Limited	1	3		3	3		29	18	57
Meezan Bank Limited	2	5		11	20		107	78	223
	5	**20**		**22**	**39**	**1**	**225**	**167**	**479**
Askari Bank Limited		2		1	5		14	7	29
Bank AL Habib Limited		1			1		2	4	8
Bank Alfalah Limited		2		6	3		50	19	80
Faysal Bank Limited		1			2		4	3	10
Habib Bank Limited		1		2	2		8	6	19
Habib Metropolitan Bank Limited							1	3	4
MCB Bank Limited		1		1	1		6	5	14
National Bank of Pakistan	2				1		3	2	8
Soneri Bank Limited		1		1	1		1	2	6
Standard Chartered Bank (Pakistan) Limited		1		1	3		4	6	15
The Bank of Khyber		2	1		13		3	2	21
The Royal Bank of Scotland							1	2	3
United Bank Limited					1		3	2	6
	2	**12**	**1**	**12**	**33**		**100**	**63**	**223**
Albaraka Islamic Bank (Pakistan) Limited				1				1	2
Askari Bank Limited				1				1	2
BankIslami Pakistan Limited	1	3		3	2		9	14	32
Dawood Islamic Bank Limited							3	5	8
MCB Bank Limited							1	1	2
The Bank of Khyber					1		1	1	3
	1	**3**		**5**	**3**		**14**	**23**	**49**
	8	35	1	39	75	1	339	253	751

Annexure: III

City wise Break-up of Islamic Banking Branch Network

As of December, 31, 2010)

S.No	Province	Cities	No of Branches
1	Sindh	Badin	1
2		Hyderabad	18
3		Karachi City	210
4		Larkana	1
5		Matiari	1
6		Mirpur Khas	4
7		Nawabshah	4
8		Sakrand	1
9		Sanghar	3
10		Sukkur	7
11		Tando Adam	1
12		Tando Allahyar	2
	Sindh Total		**253**
13	Punjab	Arifwala	1
14		Attock	3
15		Bahawalpur	7
16		Chakwal	3
17		Daska	1
18		Dera Ghazi Khan	3
19		Faisalabad	30
20		Gujar Khan	1
21		Gujranwala	11
22		Gujrat	14
23		Hafizabad	2
24		Jaranwala	2
25		Jhang	4
26		Jhelum	4
27		Kamoki	1
28		Kasur	2
29		Khanewal	3
30		Khushab	4
31		Lahore City	127
32		Lodhran	1
33		Mandi Bahauddin	1
34		Mian Channu	2
35		Mianwali	1
36		Multan	23
37		Muzaffargarh	1
38		Okara	3
39		Pakpattan	1
40		Pindi Ghaib	1
41		Rahim Yar Khan	6
42		Rawalpindi	34
43		Sadiqabad	2
44		Sahiwal	4
45		Sargodha	8
46		Sheikhupura	4
47		Sialkot	13
48		Texila	1
49		Toba Tek Singh	3
50		Vehari	4
51		Wah Cantt	2
	Punjab Total		**339**

S.No	Province	Cities	No of Branches
52	Northern Areas	Gilgit	1
	Northern Areas Total		**1**
53	Khyber Pakhtunkhwa	Abottabad	10
54		Banu	1
55		Batkhela	1
56		Charsadda	1
57		Chitral	1
58		Dera Ismail Khan	3
59		Hangu	1
60		Haripur	3
61		Kohat	2
62		Mansehra	6
63		Mardan	5
64		Mingora	1
65		Nowshera	3
66		Peshawar	30
67		Swabi	3
68		Swat	1
69		Tank	1
70		Timergara	1
71		Upper Dir	1
	Khyber Pakhtunkhwa Total		**75**
72	Federal Capital	Islamabad	39
	Federal Capital Total		**39**
73	FATA	Khyber Agency	1
	FATA Total		**1**
74	Balochistan	Chagi	1
75		Chaman	1
76		Gawadar	1
77		Hub Chowki	1
78		Kuchlack	1
79		Loralai	2
80		Muslim Bagh	1
81		Pishin	2
82		Qilla Abdullah	1
83		Qilla Saifullah	1
84		Quetta	22
85		Zhob	1
	Balochistan Total		**35**
86	Azad Kashmir	Mirpur AJK	5
87		Muzaffarabad	3
	Azad Kashmir Total		**8**
	Grand Total		**751**

Contacts Details of IBD Officials

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