Islamic Banking Bulletin

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Islamic Banking Department

State Bank of Pakistan

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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Governor's Welcome Note

On the occasion of a Talk with Dr. Zamir Iqbal on

'What needs to be done for Islamic Finance to Succeed?'

It is real pleasure to welcome Dr. Zamir Iqbal in this important talk on Islamic Banking; my colleagues and I at State Bank are grateful to him for accepting our invitation to spare some time for SBP and Banking Industry and share his deep insights into Islamic Banking. As mentioned by Mr. Saleemullah, Dr. Iqbal is a well-known Islamic finance scholar who has made significant contribution in promotion of Islamic finance as a viable and relatively more stable financial system. I am sure the talk with Dr. Iqbal will give us some new ideas and directions for moving the industry to the next level of growth.

The Islamic banking industry in Pakistan has come a long way since 2002, when it was introduced as an alternate and parallel to the conventional banking to give option to the masses to do banking with the system of their choice. Starting from almost scratch in early this decade, the industry now constitutes about 6 percent of the banking system in the country and is likely to double its share during next about 3 years. Presently we have 6 full fledge Islamic banks and 13 conventional banks having Islamic Banking Divisions; the total branch network has also risen to more than 650, more than 100 branches were added only during last one year. The robust growth trends since the recent past coupled with heightened global acceptability of Islamic banking as a viable and prudent system particularly in the post financial crisis period, gives me optimism about continuation of the growth momentum at an even faster pace at least in the medium term.

The sustenance of this optimism will however, be subject to resolution of some key issues and challenges faced by the industry both domestically and globally. while Dr. Iqbal would discuss the issues and their solutions in detail, I would highlight a few which are more relevant to our environment:

The first immediate challenge is to improve and diversify the avenues for short term liquidity management. The Islamic Banking Institutions commonly known as IBIs in Pakistan are particularly facing this issue as only a few instruments like placements with other IBIs are presently available to manage the short term liquidity. This not only adversely impacts the profitability of IBIs but also inhibits aggressive deposit mobilization by them. The SBP is actively working with the industry to develop Shariah compliant instruments/mechanisms to fix this issue and given the work so far completed, I am confident that very soon we shall have some flexible and convenient mechanism for managing the surplus liquidity in the Islamic banking industry. This will also be instrumental in development of Islamic interbank money market in the country besides providing a platform for developing benchmark for pricing of Islamic finance products.

Another key challenge faced by the industry is the gross absence of participatory modes of financing. Presently the industry, both in Pakistan and elsewhere, has an exclusive and overwhelming focus on debt/trade based modes of Murabaha and Ijarah. These modes, though minimize the Islamic banks' risk to almost equivalent to that of conventional banks, are however not sufficient to achieve the socio economic objectives of Islamic finance. The participatory modes like Musharkah and Mudarbah on the other hand not only ensure risks sharing between the banks and entrepreneurs but also promote equitable distribution of rewards amongst the entrepreneurs and investors (the IBIs and their depositors). There are however, risks like moral hazards, adverse selection, no or limited record keeping etc which discourage IBIs to build Islamic finance portfolio based on participatory modes. SBP have plans to facilitate and catalyze gradual movement of the industry towards build-up of PLS based financing portfolio and I hope that the discussion today would explore possible strategies for moving towards participatory modes of financing.

The limited capacity, particularly the scarcity of trained Islamic bankers is another important challenge that poses serious threat to the growth and development of the industry on sound footings. A very large majority of the Islamic Bankers has conventional banking background and thus besides having conventional mindset have very limited understanding of Islamic finance and its inherent strengths and benefits for the business community and society as a whole. While SBP has taken a number of initiatives in the past to train the Islamic bankers, however the pace of growth of the industry is much faster than the supply of trained and well qualified Islamic bankers. A multi pronged strategy is therefore, being developed to improve the skills mix of the Islamic banking industry which includes collaboration with reputed national and international institutions offering/sponsoring Islamic banking trainings. We would like to listen Dr. Iqbal on the possible solutions for addressing the capacity issues in the industry.

In the end I will again express my gratitude for Dr. Zamir Iqbal for accepting our invitation to lead the discussion on ‘What Needs to be Done for Islamic Finance to Succeed’. We wish him pleasant stay in Pakistan.

Industry Progress and Market Share

Overview

Islamic banking industry has sustained the high growth rates of assets, deposits and financing & investment during the quarter ended-March 2010. The YoY growth in assets, deposits and financing & investment was 33, 40 and 25 percent, respectively in March 2010. The share of Islamic banking has further improved as assets and deposits of Islamic banking Institutions (IBIs) stood at around 6 percent each of the banking sector in Pakistan (**Table 1**). During Q1-2010, the assets and deposit showed positive growth compared with a negative growth in both asset and deposit of the banking industry. This primarily reflects the depositors' confidence and keen interest in Islamic banking offerings.

Table 1: Industry Progress and market share

Rupees in billion & industry share in percent

	Mar.10^	Dec. 09	Dec.08	Dec.07	Dec.06	Dec.05	Dec.04	Dec.03
Total Assets	*371*	*366*	276	206	119	72	44	13
Share in industry	*5.8*	*5.6*	*4.9*	*4*	*2.8*	*2*	*1.5*	*0.5*
Growth	*33.3*	*32.7*	*34.0*	*73.1*	*65.3*	*63.6*	*238.5*	
Deposits	*289*	*283*	202	147	84	50	30	8
Share in industry	*6.1*	*5.9*	*4.8*	*3.8*	*2.6*	*1.8*	*1.3*	*0.4*
Growth	*40.2*	*39.9*	*37.4*	*75.0*	*68.0*	*66.7*	*275.0*	
Net Financing & Investment	*229*	*226*	186	138	73	48	30	10
Share in industry	*4.6*	*4.5*	*4.3*	*3.5*	*2.3*	*1.7*	*1.3*	*0.5*
Growth	*25.5*	*21.3*	*34.8*	*89.0*	*52.1*	*60.0*	*200.0*	
Total Islamic Banking Institutions	19	19	18	18	16	11	11	4
Total No. of Branches**	654	651	515	289	150	70	48	17

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

Operating Performance

As shown in **Table 2**, the earning and profitability ratios shows mixed picture. The ROE and ROA of IBIs remained lower than the industry at 7 percent and 0.8 percent respectively. The intermediation cost of IBIs is on the higher side as compared to the industry. The operating expense also remained high compared to the industry; the operating expense to gross income ratio of IBIs was 70 percent compared to 52 percent for the industry.

Table 2: Performance Indicators

	Mar-09	Dec-09	Mar-10	Industry
Capital				
Capital to Total Assets	13.1%	11.4%	11.4%	10.3%
(Capital - Net NPAs) to Total Assets	11.8%	9.9%	9.6%	8.3%
Assets Quality				
NPFs to Financing	4.5%	6.3%	7.3%	13.1%
Net NPFs to Net Financing	2.3%	3.1%	3.8%	4.2%
Provisions to NPFs	50.5%	51.7%	50.0%	70.9%
Net NPAs to Total Capital	9.7%	13.3%	15.8%	19.3%
Real estate Financing to Total Financing	12.1%	11.8%	11.3%	2.4%
FCY Denominated Financing to Capital	7.1%	7.3%	5.8%	13.1%
Earnings and Profitability				
Net Income to Total Assets(ROA)	0.8%	0.6%	0.8%	1.1%
Return on Equity (ROE)	5.9%	4.6%	7.0%	10.9%
Net Income to Gross Income	88.0%	79.4%	81.1%	74.0%
Non-interest Income to Gross Income	12.0%	20.6%	18.9%	26.0%
Trading & Fx Gains/(Losses) to Gross Income	1.6%	8.7%	7.0%	9.0%
Operating Expense to Gross Income	66.0%	70.3%	70.2%	51.8%
Personnel Expense to Operating Expense	30.3%	29.5%	32.2%	37.4%
Spread Between Financing & Deposit Rate	7.2%	7.0%	7.7%	6.6%
Liquidity				
Liquid Asset to Total Assets	22.4%	25.1%	26.8%	32.4%
Liquid Assets to Deposits	30.2%	32.5%	34.5%	43.7%
Avg. Maturity of Liabilities (Days)	321.64	337.79	387.61	370.96
Avg. Maturity of Assets (Days)	775.15	680.91	638.72	602.65

The higher operating/intermediation cost is largely attributable to the expansion phase of the IBIs; the branch network of IBIs more than doubled during last two years, which would take some time to achieve break-even and start making profits. Further, the limited investment avenues to place the growing deposit base and low ADR at 52% also contributed in relatively lower income and thus higher operating expenses to gross income ratio of IBIs

Outreach Expansion

The branch network of IBIs has increased to 654 branches in March 2010. The geographical coverage of Islamic banking extends across the four provinces and Azad Kashmir, Northern areas and Federal capital covering 81 cities. In terms of bank and unbanked areas, the Islamic banking coverage is highly skewed towards banked areas as unbanked area only account for 2.2 percent of the Islamic banks' branches.

The bulk of branches are concentrated in Punjab and Sindh with major concentration in the big cities like Karachi, Lahore, and Faisalabad etc. This is however in line with the evolutionary phase of Islamic finance; initially the IBIs would focus on major business centers/cities. The expansion of the Islamic banking branches to second tier cities and towns is expected in the second phase both through new branches and conversion of existing conventional branches into Islamic banking branches. The demand of Islamic banking particularly on deposit side has been growing at reasonably fast pace and the trend is likely to continue in the foreseeable future. This would also translate into future expansion of the industry as well as its branch network. Most of the growth in the branch network during next 2-3 years would however come through conversion of existing branches of conventional banks into Islamic banking branches.

Asset Quality

The asset quality of IBIs continued exhibiting signs of weakness during the quarter with non-performing financing (NPF) increasing to Rs 11.87 billion, which is almost double the level in March 2009. The NPFs to financing ratio increased to 7.3% during the quarter from 6.3% in December 2009 and 4.5% in March 2009. The rising trend in NPFs, is attributable to the overall slowdown and weakness in the economy which has been under stress since last couple of years due to some adverse developments both on domestic and international front. When compared with the non-performing portfolio of the overall banking industry, the position of IBIs is however relatively better, the level of infected portfolio of the industry has reached to 13.1% of total financing as compared to 7.3% for IBIs.

The relatively better asset quality of the IBI viz-a-viz the industry could be attributed largely to cautious approach adopted by IBIs in assets acquisition (financing). The IBIs have

been selective in their financing decisions to book a better risk even at the cost of significantly lowering their profit margins; the declining ADR of IBIs also highlights their

Table 3: Non-Performing Financing & Assets

Rupees in million

	Mar-09	Dec-09	Mar-10	Growth YoY	Growth QoQ*
Non-Performing Financing	6,288.0	10,004.6	11,871.3	88.8	18.7
Provisions Held Against Financing	3,176.7	5,173.2	5,935.7	86.9	14.7
Net Non-Performing Financing	3,111.3	4,831.4	5,935.6	90.8	22.9
Recovery Against NPFs (year to date)	250.0	790.0	452.0	80.8	(42.8)
Non-Performing Assets (NPAs)	7,438.5	11,685.2	13,628.6	83.2	16.6
Net NPAs	3,517.7	5,574.2	6,659.8	89.3	19.5

cautious approach in asset acquisition. This conservatism though sounds good in regulatory perspective, however, may not be good for long term sustainability and growth of IBIs. The low profitability ratios of IBIs viz-a-viz the overall banking industry among others are also attributable to this over conservatism. The improvement in profit margins of IBIs will thus require some diversification in asset mix, improvement in risk appetite, product innovation, and expansion of outreach to new areas/sectors like SMEs, Agribusiness which are so far largely un-tapped.

Table 4: Assets Quality Ratio

	Mar-09	Dec-09	Mar-10
NPFs to Financing	4.5%	6.3%	7.3%
Net NPFs to Net Financing	2.3%	3.1%	3.8%
Provisions to NPFs	50.5%	51.7%	50.0%
Net NPAs to Total Capital	9.7%	13.3%	15.8%
FCY Financing to Capital	7.1%	7.3%	5.8%

Financing Products

The financing mix remained concentrated in Murabaha, Ijarah and Diminishing Musharakah—all fixed income modes. Some financing activity has been initiated through Salam and Istisna, which together constituted about 10% of IBIs financing mix as of March 31, 2010. However, negligible activity was observed in participatory modes like Musharakah and Mudarbah. IBIs, despite having excess liquidity have shown reluctance to venture into non-traditional areas like agriculture and SMEs and diversify their product mix from totally fixed returns to a mix of fixed and variable returns. While there has been relatively lower demand for participatory products, the IBIs' cautious approach in assets acquisition also partly explain the absence of Musharaka/Mudarbah in IBIs financing mix.

Table 5: Financing Mix

Rupees in billion

	Mar.09	Dec.09	Mar,10	% Change
Murabaha	52.5	67.1	60.8	-9.4
Ijarah	29.7	22.6	22.7	0.6
Musharaka	1.3	2.8	2.8	-0.5
Mudaraba	1.6	0.6	0.4	-32.1
Diminishing Musharaka	44.0	48.2	51.3	6.4
Salam	3.1	1.9	6.5	248.3
Istisna	4.5	9.8	10.6	9.2
Others	2.6	5.7	7.0	21.3
Total	**139.4**	**158.6**	**162.1**	2.2
		shares (percent)		
Murabaha	37.6	42.3	37.5	
Ijarah	21.3	14.2	14.0	
Musharaka	0.9	1.8	1.7	
Mudaraba	1.2	0.4	0.2	
Diminishing Musharaka	31.6	30.4	31.7	
Salam	2.2	1.2	4.0	
Istisna	3.2	6.1	6.6	
Others	1.9	3.6	4.3	
Total	**100.0**	**100.0**	**100.0**	

Sectoral Concentration of Financing

The IBIs financing concentration is largely in line with the overall banking industry except chemical & pharmaceutical sector and individuals, where IBIs have 10% and 20% concentration compared to 4% and 13% respectively by banking industry.

Table 6: Financing Concentration - percent share

	Mar-09	Dec-09	Mar-10	Industry
Chemical and Pharma	6.7	8.5	10.3	4.0
Agribusiness	1.0	0.8	0.6	4.5
Textile	19.7	21.5	20.2	18.3
Cement	2.3	2.0	2.8	2.6
Sugar	3.2	2.8	5.9	3.2
Shoes & leather garments	1.5	1.5	1.2	0.6
Auto & transport equipment	2.7	3.1	2.0	1.5
Financial	1.2	1.6	0.9	1.6
Electronics/electrical appliances	0.9	0.8	1.0	1.5
Energy Prod.& transmission	3.7	4.4	4.4	10.1
Individuals	23.3	18.8	19.8	13.3
Others	33.6	34.1	31.0	38.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

Investments

The lack of investment avenues has been one of the major problems faced by IBIs. Since Islamic banks cannot invest in conventional interest based debt instruments, like T-bills, PIBs, liquidity management has been a key challenge. Inception of Government of Pakistan Ijarah Sukuk in 2008 though gave some relief to Islamic banks; however, they are rarely traded in the secondary market.

Table 7: Investments

Rupees in million

-	Mar-09	Dec-09	Mar-10	YoY	QoQ*
Federal government securities	15,108.6	25,643.5	27,081.1	79.2	5.6
Fully paid up ordinary shares	1,610.0	1,909.7	1,997.9	24.1	4.6
TFCs, Debentures, Bonds, & PTCs	21,265.7	26,530.5	24,866.2	16.9	(6.3)
Other investments	11,513.7	18,742.6	19,564.4	69.9	4.4
Total Investments	49,498.0	72,826.4	73,509.6	48.5	0.9
Less: Prov & deficit/ (surplus) against HFT Sec.	(527.9)	(593.3)	(616.9)	16.9	4.0
Investments (Net of Provisions)	48,970.1	72,233.0	72,892.7	48.9	0.9
Other Fed. Gov. Sec.	15,108.6	25,643.5	27,081.1	79.2	5.6
Total	15,108.6	25,643.5	27,081.1	79.2	5.6
Investment by Type					
Held for Trading	127.6	-	-		
Available for Sale	35,554.2	58,526.1	59,147.0	66.4	1.1
Held to Maturity	11,135.9	11,420.7	11,465.8	3.0	0.4
Total Investments	49,639.3	72,632.3	73,230.3	47.5	0.8
Less: Provisions for diminution	(475.5)	(593.3)	(591.9)	24.5	(0.2)
Surplus /(deficit) on revaluation	(193.6)	194.1	254.3	(231.3)	31.0
Net Investments	48,970.1	72,233.0	72,892.7	48.9	0.9

The SBP is collaborating with domestic and international Islamic banking community to develop effective and efficient liquidity management solution for IBIs. Moreover expansion and diversification of investment and financing avenues have to be explored to deploy the increasing liquidity (deposit base).

Capital Adequacy

Though most of the full-fledged IBIs (4 out of 6) are facing difficulties in meeting the Minimum Capital Requirement, which is to be increased to Rs. 10 billion by 2013, the CAR of all the IBIs is well above the minimum regulatory requirements as well as that of their conventional counterparts. The higher CAR of IBIs is attributable largely to a) infancy stage of Islamic Banking Industry and b) cautious approach of IBIs in assets acquisition as reflected by low ADR with some of the IBIs extending financing facilities mostly to high rated enterprises, which attract relatively lower capital requirements.

Maturity Profile

Table 8 shows the maturity profile of assets and liabilities of IBIs. The average maturity of assets as of March 2010 shows that bulk of the IBIs assets are under 3-month maturity. However, IBIs have higher proportion of longer term assets than the conventional banks; the assets having 1 year and above maturity constitute around 37 percent IBIs' assets mix as compared to around 30 percent for the banking industry as a whole. The average maturity of assets of IBIs is however showing declining trends, which suggest that Islamic banks are failing to effectively park their funds in longer term assets.

On the liability side, the average maturity is also concentrated in shorter tenor, though much lower than the industry. Specifically, the less than 3-month maturity liabilities for IBIs are 52 percent compared with 61 percent for the banking industry.

Table 8: Maturity of Assets and Liabilities (percent share)

	Islamic Banking Institutions			Banking Industry
	Mar-09	Dec-09	Mar-10	
Maturity	**Assets**			
upto 3 months	39.3	40.8	40.1	40.9
3 months to 1 yr	16.0	21.0	22.8	29.3
1 yr to 5 yrs	29.9	25.7	26.7	17.6
over 5 yrs	14.8	12.5	10.4	12.1
	Liabilities			
upto 3 months	57.8	57.6	51.7	61.2
3 months to 1 yr	24.3	26.1	28.2	19.9
1 yr to 5 yrs	15.0	11.5	14.9	13.1
Over 5 yrs	2.9	4.8	5.2	5.8
	Gap--asset share minus liability share			
upto 3 months	(18.43)	(16.81)	(11.67)	(20.33)
3 months to 1 yr	(8.31)	(5.10)	(5.32)	9.46
1 yr to 5 yrs	14.90	14.17	11.75	4.55
Over 5 yrs	11.84	7.75	5.24	6.31

Events & Developments at IBD

A Talk with Dr. Umer Chapra

Dr. Umer Chapra, a renowned international scholar in Islamic economics and finance, delivered a talk on *Current Islamic Banking Paradigm and Way Forward* at SBP, Karachi on 7th April 2010. He said that there is a greater acceptability of Islamic finance in the world after the recent global financial crisis. Dr. Chapra said that Islamic Finance is now more respected all over the world because of several economic crises created by the global financial system in the last four decades. He said the recent financial turmoil was the most severe of all involving approximately $3 trillion to $4 trillion in bailout funds.

He said that primary cause of the recent crisis was excessive and imprudent lending by the banks which happened because of inadequate market discipline and lack of regulation and supervision. He gave a complete run down on how the international financial crisis evolved and highlighted salient features of the Islamic financial system which can prevent occurrence of such a crisis in future.

Dr. Chapra said that risk-sharing and equitable allocation of credit are the hallmark of Islamic financial system based on Islamic principle of justice. He said the Islamic financial system lays greater emphasis on equity and profit and loss sharing which make banks more cautious in lending and added that in Islamic system debt is not created through direct lending and borrowing but rather through the sale and purchase of real goods and services.

He said the Islamic financial system puts several conditions on debt financing which, inter alia, include that the asset being sold or leased must be real and not notional or imaginary. Similarly, debt cannot be sold and the risk of default associated with it must be borne by the lender himself which will motivate creditor to be more careful in lending, he added. He said the market discipline that Islam imposes put a check on excessive expansion of debt. Dr. Chapra said that Islamic finance is still in its infancy stage but there is a lot potential of its growth. “Islamic financial system has showed the world why conventional system failed and this system can save the international financial system,” he added.

Earlier, Syed Salim Raza, Governor, State Bank of Pakistan in his welcome address acknowledged the valuable contributions made by Dr. Chapra in the field of Islamic economics and finance. Dr. Chapra is currently a Senior Research Advisor at Islamic Research and Training Institute (IRTI) of the Islamic Development Bank. Before joining IRTI, he worked as Senior Economic Advisor at the Saudi Arabian Monetary Agency where he served for 35 years. He has authored 10 books and monographs, and more than 70 papers and book reviews.

Syed Salim Raza opined that from a modest start in 2002, Islamic banking in Pakistan has made good progress, and has reached 6% market share now. Though we may fall short of our original target of 12% by 2012, the heightened global interest in the subject, particularly after the recent financial crisis, leads one to expect that Islamic banking will make more rapid strides now, globally and in Pakistan. The recent crisis was aggravated by extreme use of financial leverage as a source of profit in itself, which is the antithesis of the Islamic principle of equity and real economic activity based returns on investment.

He suggested that progress will require concerted and focused effort by all stakeholders to address issues and challenges faced by the industry, in order to broaden and deepen the industry’s operational framework. The Governor identified following challenges for Islamic banking:

- An immediate objective is to improve and diversify avenues for short term liquidity management. IBs in Pakistan have to live with the big constraint of only being able to place their surplus funds with other IBs, in the absence of suitable investment opportunity. This market gap both limits earnings, and inhibits aggressive deposit mobilization drives.

- Clearly, we will continue to need more diversification in Islamic Banking products. What we may see happening often is simple replication of conventional products, without the use of innovation based on Islamic principles that can both provide structures and products that can give attractive alternatives and improvements on the conventional markets.
- There is perhaps also a need to improve understanding among investors more broadly, about those principles in Islamic finance that provide investors assurance about risk evaluation, risk management framework and practices that improve upon most conventional counterparts

Islamic banking industry needs to focus on developing innovative products: Dr. Zamir Iqbal

Dr. Zamir Iqbal, a renowned scholar on Islamic Finance, has stressed upon the need for developing mechanism to enhance the liquidity and innovative Islamic financial products in order to cater to the growing demands of Islamic finance in the world.

Delivering a Talk on ‘What Needs to be Done for Islamic Finance to Succeed’ at the State Bank of Pakistan, Karachi today, Dr. Iqbal observed that current business model of the Islamic banking industry needs to be reviewed to cater to the demand for more sophisticated products, which is likely to grow rapidly.

He said that it would be better for the Islamic banking industry to innovate rather than replicate the conventional banking products and noted that no or limited collective efforts have been made so far to develop such products. Highlighting some factors for sustainable growth of Islamic Finance, Dr. Iqbal emphasised upon the need for consolidation of Islamic banking; expanding the scope, services and products, strengthening the risk management systems and reducing reliance on commodity/fixed income-like products.

Referring to legal and regulatory issues, Dr. Iqbal asserted that there is a need to improve corporate and Shariah governance, and supervision & monitoring systems. He also stressed upon the need to promote risk-sharing through participatory instruments like Musharaka and Mudaraba.

Dr. Iqbal said that over the years Islamic Finance has grown into a global phenomenon and Islamic Finance market in the world is estimated at $1 trillion. “Islamic Finance is just not a phenomenon restricted to only Muslim countries,” he said and added that there is a growing recognition and acceptance of Islamic finance in the world.

He said that several factors have contributed towards global acceptance of Islamic finance, which include increased demand for Shariah-compliant products fuelled by increased liquidity in the market, successful track record of Shariah compliant financial intermediation, commitment by Islamic Development Bank, AAOIFI and IFSB to promote Islamic finance industry etc. Dr. Iqbal said the development of Sukuk also had a positive impact on the development of Islamic finance.

Earlier, Mr. Yaseen Anwar, Acting Governor State Bank of Pakistan welcomed Dr. Iqbal and presented him a souvenir. Mr. Saleemullah, Director, Islamic Banking Department, State Bank of Pakistan, who also spoke on the occasion, highlighted the achievements of Dr. Zamir Iqbal in the field of Islamic finance.

Criteria for Conversion of Conventional Banking Branches into Islamic Banking Branches

In order to streamline the process and facilitate conventional banks in conversion of their existing conventional branches into Islamic banking branches, a criterion for conversion of conventional branches into Islamic banking branches has been developed. Only those conventional commercial banks which have got Islamic Banking license can apply for conversion of their existing conventional branches into Islamic Banking Branches (IBBs); no new licensing fee will be applicable on conversion of a conventional branch into Islamic banking branch. The Conventional banks having Islamic banking license and interested in conversion of conventional branch into Islamic branch shall submit a detailed conversion plan duly approved by bank's Shari'ah Advisor to SBP for in-principle approval and issuance of license for Islamic banking branch. The converted branch shall only start accepting and offering Islamic Banking products & services after getting license from SBP as Islamic Banking Branch.

It is pertinent to mention that SBP has been constantly engaged in development of Islamic banking in Pakistan through policy, regulatory and promotional initiatives. It has issued detailed criteria for establishment of Islamic Banks, Islamic Banking subsidiaries and Islamic banking branches/Division at conventional commercial banks. While the Branch Licensing Policy covers opening of new Islamic banking branches and Islamic banking windows but it does not cover the conversion of conventional banking branches into Islamic banking branches. The issuance of conversion criterion will facilitate conventional banks in of their branch expansion plans for Islamic banking. Details of the conversion criterion are available at www.sbp.org.pk/ibd/2010/C2.htm.

Islamic Banking News

Adaptation of Islamic economic system to alleviate poverty

http://www.dailytimes.com.pk/default.asp?page=2010%5C06%5C27%5Cstory_27-6-2010_pg5_5
June 27, 2010

Ex Governor State Bank, Ishrat Hussain has said that Islamization of economic system, if adopted and practiced in its true form, at any time in the future will strengthen the economy particularly income distribution and poverty alleviation which have proved elusive under the present western economic model.

This will, in fact, eliminate the sources of instability, violence and propensity towards terrorism arising from a sense of deprivation. He expressed these views while delivering a speech on *Islam and the Future of Economic* at a Conference on 'Islamic Economics and Finance' organized by IBA at State Bank Building on Saturday.

"We need to explore the unique features of Islamic finance for the larger good of the society particularly in the context of economic growth and poverty alleviation. Islamic finance can be a powerful tool for inclusive growth and amelioration of the conditions of poor in the Muslim countries," said Hussain.

Leading Islamic finance experts and Shariah advisors speaking at the Conference said that the phenomenal growth in Islamic Financial sector worldwide is a testimony to its potential and Islamic Economic system could be a role model for the world economies.

Currently, there are over 500 Islamic financial institutions with a total size of $1.2 trillion, over 250 Shariah compliant mutual funds with $300 billion funds; over 133 Takaful companies with $8.8 billion in contribution. Some 207 International Islamic Sukuk were issued till 2007 with a 73 percent growth in comparison with 2006. The speakers and panelists discussed impact of ideology on economic system, Islam and the future of economics, Global & local Islamic banking scenarios, Takaful Models & practices, etc.

Speakers said that Islamic finance and economics is a reality, which is being recognized by IMF, World Bank and Basel Committee. Establishment of bodies like IIFM, IFSB, CIBAFI etc as well as Islamic indices such as Dow Jones and FTSE is a sign of its acceptance while global hubs of Islamic finance include London, Bahrain & Malaysia.

IFSB Secretary-General receives IDB Prize for Islamic Banking and Finance

http://www.zawya.com/story.cfm/sidZAWYA20100624055906
June 24, 2010

The Islamic Development Bank Group (IDBG) awarded Professor Rifaat Ahmed Abdel Karim, Secretary-General of the Islamic Financial Services Board.(IFSB)

The aim of the Prize is: *"to recognize, reward and encourage any activity of outstanding merits in promoting outstanding works in Islamic Economics, Banking and Finance which are directed towards the realization of the Islamic values. Such activity may take the form of research, teaching, training, mobilization of intellectual opinion or any other activity promoting the purpose of the Islamic Research and Training Institute/IDBIDB".*

Professor Rifaat is the 27th individual, and the first Sudanese, to receive this Prize. Established in 1988, the Prize, alternating between Islamic Economics and Islamic Banking and Finance, is awarded annually by the IDB Group.

Professor Rifaat's contribution to the Islamic financial services industry is exemplary. He is the first Secretary-General of the Islamic Financial Services Board, a post he has held since the IFSB started to operate in 2003. Under his stewardship, the membership of the IFSB expanded from nine founding members in 2003 to almost 200 members in 2010, from 40 countries. Prior to his current post, he was the first Secretary-General of the Accounting and Auditing Organization for Islamic Financial Institutions, a post he held of eight years. He has been a member of the Consultative Advisory Group of the International Auditing and Assurance Standards Board since 2004. He is also a member of the International Liaison Group, Basel Committee for Banking Supervision. He previously served as a member of the Standards Advisory Council of the International Accounting Standards Board, for two consecutive terms, ending November 2008.

Professor Rifaat is a Visiting Professor at the ICMA Centre, Henley Business School, University of Reading, UK, and is a Member of the Governing Council of the International Centre for Education in Islamic Finance, Malaysia. He is the co-author of Business and Accounting Ethics in Islam, Islamic Finance: Innovation and Growth, Islamic Finance: The Regulatory Challenge and Takaful Islamic Insurance: Concepts and Regulatory Issues. He was also the first recipient of the Euromoney Outstanding Contribution to the Development of Islamic Finance Award, and other distinguished awards.

Abolition of interest in Government dealings recommended by Council of Islamic Ideology

http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/business/abolition-of-interest-in-govt-dealings-urged-860

June 08, 2010

The Council of Islamic Ideology (CII), while presenting some sweeping recommendations on the Islamic banking system, has called for taking steps to first abolish dealing in interest from the state institutions before going to adapt to the Islamic banking system in the country.

The CII said that the dealing procedure of an Islamic bank should be clean, transparent and simple and the relations between clients and the bank should be different from the traditional commercial banks. The recommendations released after 178th meeting of CII on June 4-5, pertain to the procedure of investment in an Islamic bank, which should be based on trade and business instead of interest (Riba).The council called for elimination of interest (Riba) from state institutions first of all.

The commercial banks should not have any powers of writing off their loans the CII recommended. The Islamic banks should be made bound to clearly mention to the investors as to how and where their money was utilized and how much profit it had earned and also whether this profit/loss is distributed among the investors. The Islamic banks must take the responsibility of stating clearly the details of any agreement while getting signatures from the client.

Islamic bank's staff members and their atmosphere of working should be in accordance with Islamic traditions and different from traditional banks. It said that so far, maximum emphasis of the Islamic banks was laid on 'Murabaha' leaving aside the use of 'Mudarbah' and Musharakah' in entering into Islamic business based on profit-loss dealing.

Islamic Bank Enters Germany

www.arabnews.com/economy/islamicfinance/article47229.ece

April 25, 2010

The European Union's largest and strongest economy, Germany, is finally edging toward facilitating Islamic finance in its jurisdiction. Germany has a Muslim population of 4.3 million, the second largest Muslim population in the EU after France with 5.5 million.

Reports from Germany stress that the country's banking regulator, the Federal Financial Services Authority (BaFin), has issued a limited banking license to Kuveyt Turk Participation Bank, one of Turkey's four so-called participation (Islamic) banks. Kuveyt Turk is majority-owned (62 percent) by Kuwait Finance House, one of the largest Islamic banks in the world in terms of capital and assets. The Islamic Development Bank (IDB) also has a 9 percent stake in Kuveyt Turk Participation Bank.

At the same time, Cologne-based Meridio AG has recently launched the Meridio Global Islamic Multi Asset Fund, a Luxembourg-domiciled mutual fund, which the promoters claim is the "first approved, actively managed, international, ethically compliant, balanced mutual fund under European investment laws" and is aimed at retail and institutional investors in Germany and the Euro zone countries initially, and later in the Middle East, Malaysia, Russia, India, Pakistan and East Asia. The investment pool comprises Shariah-compliant equities and sukuk.

These developments come after the first-ever Islamic finance conference held by BaFin in October 2009 in Frankfurt-an-Main, which was addressed inter alia by Jochen Sanio, president of BaFin, Muhammad Al-Jasser, governor of the Saudi Arabian Monetary Agency (SAMA) and Nik Ramlah Mahmood, managing director of the Securities Commission of Malaysia.

Educate Nigerians on Islamic Bank, World Bank Chief Urges Central Bank of Nigeria

www.nigerianbestforum.com/generaltopics/?p=44087

According to World Bank expert, Mr. Ismail Rawdan, an Egyptian, who spoke to The Sun on the subject in Abuja, Islamic finance is not restricted to muslim population only. He observed that Africa has witnessed an expansion of Islamic finance across the region with Islamic banks currently operating in Botswana, Djibouti, the Gambia, Guinea, Kenya, Mauritania, Niger, Senegal, South Africa and Sudan.

He said that on the supply side, the rush into the Middle East of petro-dollars in the 1970's and the resultant banking expansion in the region helps fuel this growth. This, Rawdan noted, was followed by the post 9/11 repatriation of capital from Western Europe and the United States of America as well as the expansion into Africa. On the demand side, the World Bank chief insisted that the growth of Islamic banking was driven by the appeal of a "faith based banking system" that was anchored on the principles of Shariah coupled with distrust of conventional banking following numerous scandals and frauds.

The World Bank chief stressed that, "I think it should be made very clear from the beginning that it should be open to people of all religions. I think there's a lot of explaining to do that as a financing institution it should be open to everybody".

On the side of the World Bank, Rawdan said that the International Financial Institution has anchored its approach to the issue on five key pillars.

1. Capacity building, knowledge management, sharing and dissemination
2. Advocacy to influence policy direction in market development, regulatory approaches and new instruments
3. Diagnostic and analytical work in Islamic focused finance
4. Technical assistance to support the development of Islamic finance in client countries
5. Islamic financing by the World Bank Group

Bank in Focus

Habib Bank Limited Islamic Banking Division [1]

Table: Bank's Performance at a Glance	
	(Rs in Millions)
Deposits	90.3
Financing	159.7
Total Assets	579.9
Branch Network	11
Position as of March 31, 2010,	

The inspiration for launching Habib Bank Limited Islamic Banking Division (HBL-IBD) has its roots in the growing realization both on national and international levels regarding the economic and social benefits of Shariah Compliant Products and Services. The inspiration lead to the establishment of HBL-IBD in 2000 with a vision of providing the most preferred and a wide range of Shariah Compliant Products and Services to a cross-section of society.

The first Stand Alone Islamic Banking Branch was established at Finlay House Karachi in 2005. Upon successful initiation of the Pilot Project at Karachi, Islamic banking network is in continuous expansion phase and will continue to expand through conversion of Conventional Banking Branches (CBB) into Islamic Banking Branches (IBB), opening of new branches on need basis and establishment of Islamic banking windows in existing CBBs throughout the country. HBL-IBD has planned to leverage the outreach of HBL network for its expansion through Hub and Spooks Approach. Presently, HBL-IBD network is spread over 11 branches with a presence in 9 different cities of the Country and 5 Islamic Banking windows. HBL plans to extend the branch network to 100 with 200 Islamic Banking Windows at conventional branches throughout Pakistan by 2012.

Shariah Compliance Mechanism

At HBL-IBD a Shariah Supervisory Committee (SAC) comprising of Shariah Advisor and a Member Shariah Advisory Committee with a defined role of each, assisted by a Secretary to the Shariah Advisory committee is working. In addition to the SAC a Shariah Compliance Manager has also been engaged to monitor Islamic banking operations.

Mufti Muhammad Yahya Asim is the Shariah Advisor. He has an M.A. in Islamic Studies, Arabic and International Relations and has graduated as a scholar from Jamia Darul Uloom, Karachi, Pakistan. He has also completed the specialization course in Islamic Jurisprudence from Jamia Darul Uloom, Karachi, Pakistan. Previously, he remained associated with various institutions in different capacities including Administrator and member of Shariah Audit Team at Centre for Islamic Economics (CIE), member Shariah Board at Atlas Investment Fund etc.

Business Segment

The Islamic banking will cater to the needs of individuals, SMEs (Small and Medium Enterprises) Corporate & Retail. The focus of HBL-IBD is on attracting and retaining SME customers due to the vast potential of this business segment as well as maintaining healthy relationship with corporate sector.

Products and Services

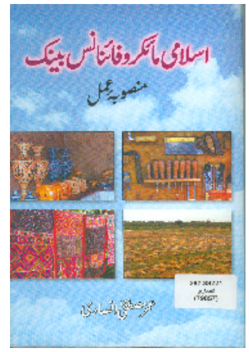
Besides the traditional services, HBL-IBD is offering various remunerative liability side products. On the asset side Islamic banking is currently offering Ijarah, Murabaha and Diminishing Musharakah based products.

For more information please visit www.hbl.com/business-customers-islamic.php

[1] The write up is contributed by Habib Bank Limited. The section is included to create awareness about Islamic banking institutions and their products.

Book Review:

Islami Microfinance Bank: Mansooba E Amal
(اسلامی مائکرو فائنانس بینک منصوبہ ٔ عمل)



Author:	Omer Mustafa Ansari
Publisher:	Time Management Club
	(1st Ed – Sept 2009)
Pages:	145p
Price:	Rs. 200

This book is also available in SBP Library

The book under review is a valuable addition to the current literature on Islamic Finance, particularly Islamic Microfinance. As a piece of literature, it is unique and appreciable in a lot of ways. The author has tried to present a broad, yet brief, account of the way(s) an Islamic Microfinance Institution can operate. He has presented his arguments with respect to Financial, Economic and Islamic points of view on this subject matter. As a qualified Chartered Accountant specializing in Islamic Finance, Omar Mustafa Ansari is one of the most competent people to enlighten us on the subject and his treatment of technical issues involved in such an enterprise demonstrates his exceptional abilities.

Where only a few reports and articles constitute the total universe of Islamic Microfinance literature in English; the book is *sui generis* in Urdu language. No matching account of the subject matter is currently available in Urdu. Another remarkable feature of the title is its emphasis on the dialectic, which shows that the Socratic question-and-answer method is still quite popular. Chapters are mostly titled as questions and their answers form the text.

In Foreword to this book, it has been stated that the first practicable idea of Islamic Bank based on Shariah principles was presented by Hazrat Allama Ahmad Raza Khan in 1912, which is available in a booklet named "Tadbir e Falah O Nijat". The book begins with an introduction to Islam and quickly moves to the central themes of Islamic Economics. An all-encompassing account of Islamic Economics by detailing its pillars viz. Zakat and Ushr, Sadaqa and Khairat, Qard-e-Hasna, Bukhl, Riba and Law of Inheritance is also given. The first section also contains the author's take on various other issues like self-interest based rationality of modern capitalism and contrasts it with Islam's emphasis of business and commerce based on fairness. Another valuable addition is a brief account of history of Islamic Banking in Pakistan. Efforts to promote an Islamic Banking System have been analyzed and their merits and demerits discussed in detail with a lot of sincerity. However, at some places there exists room for debate. The author exhibits how the Islamic Banks operating today in Pakistan are different from the banks that were (supposedly) Islamized in the 1980s. He appreciates the efforts of the stakeholders involved in making the current practice of Islamic Banking in Pakistan possible. A few pages are reserved for a discussion on the need for Islamic Banking, its socio-economic impact and its limitations.

The next section deals with microfinance and its Islamic version. It begins with a brief on microfinance and proceeds to give an outline of the Consultative Group to Assist the Poorest (CGAP) Principles. Various models of microfinance viz. the Grameen Bank Model, the Village Bank Model, the Credit Union Model and the Self-Help group have been discussed. Of particular focus is the Grameen Bank Model, firstly, due to its pioneering role and secondly due to its success and international recognition.

The focus of the next section is the proposed Islamic Microfinance Bank model. It begins with an analysis of the relationship between borrowing and self-sufficiency. The author narrates some traditions of the Holy Prophet (S.A.A.W.A.W), where borrowing to attain

Microfinance Bank is inevitable for Muslim societies seems to be a valid proposition. He emphasizes that helping needy Muslims is a 'Fard-e-Kifaya'. The discussion then proceeds to the differences between an Islamic Microfinance Bank and a conventional one. The main areas of difference are the Shariah-compliant investments and the institution's orientation of creating balance between business and charitable lending. A list of possible areas of financing is also given. Conditions of the business modes of financing are detailed and contrasted with that of a conventional microfinance bank. Another valuable addition is the concept of Zakat fund that will operate as a trust with Zakat contributions of the depositors and investors. The author also details the products that may be offered for business-financing before proceeding to give an account of its operational mechanism. In the model of an Islamic Microfinance Bank, he proposes an institution that is not only commercially viable but socially responsible and Shariah compliant as well.

At the end of this section, the discussion is devoted to a model for Islamic Micro-takaful. Takaful is the Islamic variant for conventional insurance and Micro-takaful is Takaful for the vulnerable sections of the society. The author argues that Micro-Takaful is essential to build a society based on welfare of the common man. Since, the well-to-do classes of the society have assets to fall on in times of distress, it is the poor sections of the society that are vulnerable to financial shocks due to their lack or unavailability of assets. Therefore, their wellbeing should include some sense of security in times of need. Micro-takaful is the most important way to address such concerns. Operational modalities of Micro-takaful are then discussed along with a comparison with conventional insurance.

In the end, an extremely useful glossary of various terms used in Islamic Finance is given. Also notable is the inclusion of model agreements for Islamic Microfinance.

Let us pray that Allah (S.W.T) may make it a leading light for all present and future Islamic Microfinance Institutions and practitioners and turn this model into reality.

(Reviewed by Mr. Mahmood Shafqat, Additional Director, BP&RD, SBP)

About Author:

Omar Mustafa Ansari is a Fellow member of the Institute of Chartered Accountants of Pakistan. With an experience of 17 years of professional services, he is presently serving as a Partner at Ernst & Young Ford Rhodes Sidat Hyder - A member firm of Ernst & Young in Pakistan, and heading their Islamic Financial Services Group.
Omar's key area of expertise is assurance and advisory services to Islamic financial institutions, including Audits, Shariah Audits, Corporate Finance Advisory, Structuring of Shariah Compliant Transactions, Accountancy and Financial Reporting, Islamic Finance Training, Financial Modeling, Risk Management & Development and Review of Manuals and Systems.

Omar also has considerable experience of carrying out special assignments in the areas of Sales Tax, Investigative Auditing, Internal Controls and Mergers. Besides all these, he remains involved in imparting training in various training institutes offering training in Islamic Finance and related fields like National Institute of Banking and Finance (NIBAF-SBP), Sheikh Zayed Islamic Center – Karachi University, Institute of Bankers Pakistan (IBP), Shariah Academy – International Islamic University and various professional bodies.

He is author of two books on Islamic finance, namely *"Managing Finances - A Shariah Compliant Way"* and "اسلامی مائکرو فائنانس بینک منصوبۂ عمل" (in Urdu). He has also contributed articles in various journals, periodicals and newspapers primarily on the topics of Islamic finance and banking. Omar is a member of ICAP's committee responsible for development of Islamic financial accounting standards and was a part of the committee formed by SECP for revision of Takaful Rules.

Frequently Asked Questions[2] (Part VI)

Question No. 31- Interest rates are subject to unknown variations and linking the amount of rent with interest rate will create uncertainty (Gharar) impermissible in Shariah. How would the Ijarah contract remain valid under this scenario?

Answer: It is one of the basic requirements of Shariah that the parties to the contract must exactly know its considerations. Under Ijarah agreement, amount of rent is one of the prime considerations of the agreement. So far as the parties are agreed with mutual consent upon a well-defined benchmark which would serve as a criterion for determining the rent, and whatever amount is determined, based on such benchmark, will be acceptable to both parties, therefore, there should not be any dispute.

However, in order to save the parties from unforeseen losses due to the either way movement in the interest rate, the scholars have advised that there should be a floor and cap for the amount of rentals stipulated in the contract in case variable benchmarks is taken to determine the rental amount.

Question No.32- What is Ijarah-Wal-Iqtina?

Answer: It is allowed in Shariah that the lessor signs a separate promise, (but not an agreement or contract) to gift the leased asset to the lessee at the end of the lease period, subject to his payment of all amounts of rent. There can also be a unilateral promise by the lessee to purchase the asset at the end of the Ijarah period. Alternatively, there may be an undertaking by the bank to sell the asset to the lessee at the end of the Ijarah period. However, Ijarah agreement should not be dependent either on the promise by the lessee (to purchase) or the undertaking by the bank (to sell). This arrangement is called 'Ijarah wa iqtina and it has been allowed by a vast majority of contemporary scholars and is widely used by the Islamic banks[23].

However, the validity of this arrangement is subject to two basic conditions:

a) The agreement of Ijarah should not have the clause regarding the lessor's promise to gift or sell the leased property to the lessee at the end of the Ijarah period. Therefore, there should be a separate document stipulating this promise by the lessor.
b) The promise should be unilateral and binding on the promisor only. It should not be a bilateral promise binding on both parties because in this case it will be a full contract becoming effective on a future date, which is not allowed in the case of sale or gift.

Question No. 33- What is Bai Salam?

Answer: Salam means a contract in which advance payment is made for goods to be delivered at a future date. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute. Bai Salam covers almost everything which is capable of being definitely described as to quantity, quality and workmanship. For Islamic

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[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)

banks, this product is ideal for agriculture financing, however, this can also be used to finance the working capital needs of the customers.

The permissibility of Salam is an exception to the general rule that prohibits forward sale. Bai-Salam has been permitted by the Holy Prophet (PBUH) himself, without any difference of opinion among the early or the contemporary jurists, notwithstanding the general principle of Shariah that the sale of a commodity which is not in the possession of the seller is not permitted. Upon migration from Makkah, the Prophet (PBUH) came to Madinah, where the people used to pay in advance the price of fruit or dates to be delivered over one, two or three years. However, such sale was carried out without specifying the quality, measure or weight of the commodity or the time of delivery. The holy Prophet (PBUH) ordained: "Whoever pays money in advance for fruit to be delivered later should pay it for a known quality, specified measure and weight (of dates or fruit) of course along with the price and time of delivery"[24]

The Salam transaction is subject to the strict conditions as follows:

1. It is necessary for the validity of Salam that the buyer pays the price in full to the seller at the time of affecting the sale. In the absence of full payment, it will be tantamount to sale of a debt against a debt, which is expressly prohibited by the Holy Prophet (PBUH). Moreover the basic rationale for allowing Salam is to facilitate the "instant need" of the seller. If it is not paid in full, the basic purpose will not be achieved.
2. Only those goods can be sold through a Salam contract in which the quantity and quality can be exactly specified e.g. precious stones cannot be sold on the basis of Salam because each stone differ in quality, size, weight and their exact specification is not possible.
3. Salam cannot be affected on a particular commodity or on a product of a particular field or farm e.g. Supply of wheat of a particular field or the fruit of a particular tree since there is a possibility that the crop is destroyed before delivery and given such possibility, the delivery remains uncertain.
4. All details in respect to quality of goods sold must be expressly specified leaving no ambiguity, which may lead to a dispute.
5. It is necessary that the quantity of the commodity is agreed upon in absolute terms. It should be measured or weighed in its usual measure only, meaning what is normally weighed cannot be quantified and vice versa.
6. The exact date and place of delivery must be specified in the contract.
7. Salam cannot be affected in respect of things, which must be delivered at spot.

Question No. 34- What is Istisna?

Answer: It is a specific kind of a Bai (sale) where the sale of the commodity is transacted before the commodity comes into existence. The legality of Istisna is accepted by the Shariah scholars because it does not contain any prohibition, As far as the financing mode, it has been legalized on the basis of the principles of Istihsan (public interest)[25].

Istisna is an agreement culminating in a sale at an agreed price whereby the purchaser places an order to manufacture, assemble or construct (or cause so to do) anything to be delivered at a future date. It becomes an obligation of the manufacturer or the builder (as the case may be) to deliver the asset of agreed specifications at the agreed period of time. As the sale is executed at the time of entering into the Istisna contract, the contracting parties need not renew an exchange of offer and acceptance after the subject matter is prepared. Istisna can be used for providing the facility of financing the manufacture or construction of houses, plants, projects and building of bridges, roads and highways etc. After giving prior notice, either party can cancel the contract before the manufacturing party has begun its work. Once the work starts, the contract cannot be cancelled unilaterally.

Question No. 35- What is the difference between Istisna and Ijarah?

Answer: Under Istisna, the manufacturer either uses his own material or he arranges for the material himself whereas under Ijarah the material is provided by the customer and the manufacturer uses only his labour and skill meaning that his services will be hired for a specified fee paid to him. Further, under Istisna the purchaser has the right to reject the goods after inspection if these are not according to the specifications agreed at the time of contract whereas under Ijarah this right of inspection does not exist.

Question No. 36- What is the difference between Istisna and Salam?

Answer: The following are the main differences between Istisna' and Salam:

1. In case of Istisna, the subject on which transaction of Istisna' transaction is based is always a thing which needs manufacturing/assembling/processing etc., whereas in case of Salam, the subject matter can be a thing that does not necessarily need manufacturing etc.
2. The price in Istisna' does not necessarily need to be paid in full in advance. It is not even necessary to pay the full price at delivery. It can be deferred to any time according to the agreement of the parties. The payment may also be made in installments. In case of Salam, the price has to be paid in full in advance.
3. The time of delivery does not have to be necessarily fixed in Istisna' whereas in case of Salam the time of delivery is an essential part of the sale.
4. Istisna contract can be cancelled before the manufacturer starts the work. Salam contract cannot be cancelled unilaterally.

(Excerpt from FAQs published by IBD, SBP and available at http://www.sbp.org.pk/departments/ibd/FAQs.pdf)

Footnotes/references

23 Dr. Muhammad Imran Ashraf Usmani, Meezan bank's Guide to Islamic Banking, Darul Ishaat, 2002, p 161
24 The hadith reported by Imam Bukhari, Muslim and others, See AAOIFI, 2004 -5a, p.171. For the legal status and permission of Salam as a special case, see zuhayli, 2003, 1, p. 256
25 Islamic Fiqh Council of the OIC, Resolutions No. 65(3/7), pp. 137, 138; AAOIFI, 2004-5a, p.191.

Islamic Banking Branch Network

(As of March, 31, 2010)

Type	Name of Bank	No of Branches[3]
Islamic Banks	Al Baraka Islamic Bank	29
	BankIslami Pakistan Limited	70
	Dawood Islamic Bank Limited	42
	Dubai Islamic Bank Pakistan Ltd	35
	Emirates Global Islamic Bank Ltd	58
	Meezan Bank Ltd	180
	Sub Total	**414**
Islamic Branches of Conventional Banks	Askari Bank Limited	29
	Bank Alfalah Ltd	60
	Bank Al Habib	6
	Faysal Bank Limited	8
	Habib Bank Ltd	4
	Habib Metropolitan Bank	4
	MCB Bank Ltd	11
	National Bank of Pakistan	8
	Soneri Bank Ltd	6
	Standard Chartered Bank	11
	The Bank of Khyber	18
	The Royal Bank of Scotland	3
	United Bank Ltd	5
	Sub Total	**173**
Sub Branches	Askari Bank Limited	2
	BankIslami Pakistan Limited	32
	Dawood Islamic Bank Limited	8
	Dubai Islamic Bank Pakistan Ltd	1
	Emirates Global Islamic Bank Ltd	2
	Meezan Bank Ltd	21
	The Bank of Khyber	1
	Sub Total	**67**
	Grand Total	**654**

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

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of March, 31, 2010)

Type	Bank Name	Azad Kashmir	Balochistan	Federal Capital	Northern Areas	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks.	Albaraka Islamic Bank B.S.C. (E.C.)	1		2		3	15	8	29
	BankIslami Pakistan Limited	1	8	2	1	5	30	23	70
	Dawood Islamic Bank Limited		1	2		1	18	20	42
	Dubai Islamic Bank Pakistan Limited		3	2		3	16	11	35
	Emirates Global Islamic Bank Limited		3	2		6	27	20	58
	Meezan Bank Limited	2	4	9		17	83	65	180
	IB. Total	**4**	**19**	**19**	**1**	**35**	**189**	**147**	**414**
Islamic Branches of Conventional Banks	Askari Bank Limited		2	1		5	14	7	29
	Bank AL Habib Limited		1			1	2	2	6
	Bank Alfalah Limited		1	3		3	39	14	60
	Habib Bank Limited					1	1	2	4
	Habib Metropolitan Bank Limited						1	3	4
	MCB Bank Limited		1	1		1	5	3	11
	National Bank of Pakistan	2				1	3	2	8
	Soneri Bank Limited		1	1		1	1	2	6
	Standard Chartered Bank(Pakistan)		1	1		3	3	3	11
	The Bank of Khyber		1			12	3	2	18
	The Royal Bank of Scotland						1	2	3
	United Bank Limited					1	3	1	5
	Faysal Bank Limited		1			1	4	2	8
	SAIBBs Total	**2**	**9**	**7**		**30**	**80**	**45**	**173**
Sub Branches	Askari Bank Limited			1				1	2
	BankIslami Pakistan Limited	1	3	3		2	9	14	32
	Dawood Islamic Bank Limited						3	5	8
	Dubai Islamic Bank Pakistan Limited					1			1
	Emirates Global Islamic Bank Limited			1				1	2
	Meezan Bank Limited		1			2	11	7	21
	The Bank of Khyber					1			1
	Sub Branches Total	**1**	**4**	**5**		**6**	**23**	**28**	**67**
	Grand Total	**7**	**32**	**31**	**1**	**71**	**292**	**220**	**654**

Annexure: III

City wise Break-up of Islamic Banking Branch Network

As of March, 31, 2010)

S. No	Province	Cities	No of Branches
1	Sindh	Badin	1
2		Hyderabad	17
3		Karachi	182
4		Larkana	1
5		Matiari	1
6		Mirpur Khas	3
7		Nawabshah	4
8		Sakrand	1
9		Sanghar	2
10		Sukkur	5
11		Tando Adam	1
12		Tando Allahyar	2
Sindh Total			**220**
13	Punjab	Arifwala	1
14		Attock	4
15		Bahawalpur	3
16		Chakwal	2
17		Daska	1
18		Dera Ghazi Khan	2
19		Faisalabad	26
20		Gojra	1
21		Gujar Khan	1
22		Gujranwala	10
23		Gujrat	9
24		Hafizabad	2
25		Jaranwala	2
26		Jhang	3
27		Jhelum	4
28		Kamoki	1
29		Kasur	2
30		Khanewal	1
31		Khushab	4
32		Lahore	110
33		Mandi Bahauddin	1
34		Mian Channu	2
35		Mianwali	1
36		Multan	23
37		Okara	2
38		Pakpattan	1
39		Pindi Ghaib	1
40		Rahim Yar Khan	6
41		Rawalpindi	31
42		Sadiqabad	2
43		Sahiwal	3
44		Sargodha	6
45		Sheikhupura	3
46		Sialkot	13
47		Texila	1
48		Toba Tek Singh	1
49		Vehari	4
50		Wah Cantt	2
	Punjab Total		**292**

S. No	Province	Cities	No of Branches
51	Khyber Pakhtunkhwa	Abottabad	11
52		Banu	1
53		Batkhela	1
54		Charsadda	1
55		Chitral	1
56		Dera Ismail Khan	3
57		Hangu	1
58		Haripur	3
59		Kohat	2
60		Mansehra	6
61		Mardan	4
62		Mingora	1
63		Nowshera	3
64		Peshawar	29
65		Swabi	2
66		Tank	1
67		Timergara	1
KP Total			**71**
68	**Northern Areas**	Gilgit	1
Northern Areas Total			**1**
69	**Federal Capital**	Islamabad	31
Federal Capital Total			**31**
70	Balochistan	Chaman	1
71		Gawadar	1
72		Hub Chowki	1
73		Kuchlack	1
74		Loralai	3
75		Muslim Bagh	1
76		Pishin	1
77		Qilla Saifullah	1
78		Quetta	21
79		Zhob	1
Balochistan Total			**32**
80	**Azad Kashmir**	Mirpur AJK	4
81		Muzaffarabad	3
Azad Kashmir Total			**7**
Grand Total			**654**

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