Islamic Banking Bulletin

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Islamic Banking Department
State Bank of Pakistan

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SBP's Vision on Economic and Financial Cooperation amongst D-8 Countries for Inclusive Economic Growth

Welcome Address
Mr. Yaseen Anwar
Governor State Bank of Pakistan,
2nd Meeting of D-8 Central Bank Governors of the D-8 Countries
Monetary and Financial Cooperation for Promoting Inclusive Economic Growth
D-8 Summit
21st Nov, 2012

Honorable Governor Dr. Bahmani, Deputy Governors, Secretary-General D-8, and distinguished Delegates!

Welcome to the 2nd D-8 Central Banks Governors meeting!

I would like to begin by expressing my utmost appreciation to the visiting D-8 Governors and expert delegates for gracing us with your presence. I welcome you all to Pakistan and wish you a pleasant and productive stay in our country. I would also like to thank the D-8 members and Secretariat for choosing to host the 8th D-8 Summit 2012 in Pakistan. I am confident that the Summit will further strengthen our ties and particularly help provide the monetary and financial cooperation needed in these uncertain times.

Fellow Governors, this is the 2nd D8 Central Bank Heads meeting. The First meeting of the Central Banks was held in Abuja, Nigeria, in July 2010 in which it was agreed that the next meeting would review the D-8 countries economic situation in the wake of global economic crises and would make recommendations for monetary and financial cooperation among the members.

Some of you may have been to the first meeting of the D-8 central banks in Abuja in 2010. Today, we hope to advance that discussion by exploring not only the areas for future cooperation, but also the means to enhance cooperation for promoting inclusive economic growth among D-8 countries. Together, we hope to learn more about our strengths and vulnerabilities due to global economic and financial crisis and how best to support each other to understand what works and what doesn't and how to share and replicate good policies and practices. Also, we hope to be as concrete and practical as possible in our recommendations.

Fellow Governors, although central banks usually work individually to meet their national objectives i.e. full employment, price and financial stability etc. However, the idea of central bank cooperation is very compelling. There is only one central bank in each country/monetary area, and therefore, it is very logical for central banks to look beyond their national borders for advice and collaboration. However, you would agree that in recent years, increasing globalization has further enhanced the need for central banks' cooperation to tackle risks due to the cross boarder interdependencies and to make the most of emerging opportunities. For instance, the 2008 global financial crisis has given new impetus to central bank cooperation; the major central banks took coordinated action, to ensure that financial markets continue to function under the extreme conditions. In addition, the central bank cooperation has been facilitated through collaborative multilateral forums such as the G20, the FSB and the meetings of the IMF, BIS, and through a number of bilateral and regional initiatives for cooperation. The enhanced role of these forums also reflects the increasingly important role that the central banks of emerging and developing economies are playing at these international forums. Nevertheless, we must also recognize that emerging and developing economies are all distinct and any policies must be adapted to country specific circumstances before adoption for implementation.

Turning now to the today's agenda, I would like to briefly review the global economic challenges and then highlight the need for monetary and financial cooperation for inclusive economic growth among the D-8 economies.

Global economic challenges The global financial crisis has put most of the D-8 economies with the most difficult economic challenges in recent history. The D-8 countries' growth rates fell sharply, therefore increasing unemployment and deprivation adding to their financial and fiscal stress. As a result, poverty reduction efforts also received a severe blow. Overall, it was very clear that the crises were much broader and deeper and more complicated than any of the previous crises impacting our economies in multiple ways, particularly;

Drop in Exports

- The export-dependent emerging and developing economies were hit hardest as exports from the advanced economies dwindled due to the financial and economic meltdown. Across the board, it interrupted the emerging and developing economies' continued economic expansion and social progress as much of these was dependent upon the progress in advanced economies. Particularly, it affected export of electronics and labor intensive export goods like textile, toys, and footwear causing loss of export revenues and reducing incomes. It also cast a doubt on investment in export oriented manufacturing sector. Therefore, dropping consumption and investment spending compounded the problems due to global crisis. Slower growth also translated into job loss, and lowering of wages, consumption, and welfare, therefore severely impacting poverty reduction and increasing social vulnerabilities.

Impact on Banking sector and stock markets

- Although on overall basis the financial sector particularly our larger banks – compared to the large banks in advanced economies – were mostly resilient due to limited direct exposure to the subprime assets, the financial sector were affected indirectly by the crisis. Nevertheless, the D-8 countries did not face the severe credit crunch as in the advanced economies. However, banks may have turned down credit to riskier borrowers due to risk aversion and flight to quality. Therefore, credit to the underserved segments such as micro and SME borrowers may actually have been limited. The D-8 countries' stock markets went through a fall due to dramatic foreign capital flight and drop in inflows thereby depriving the D-8 economies from the needed external financing. This has implications for cost of capital, further dampened business and consumer confidence, and reduced financial wealth.

Foreign Exchange Market pressures

- The dwindling export earnings and receding foreign capital inflows translated into foreign exchange market pressures, therefore, most of us were challenged while stabilizing foreign exchange markets and faced depreciation against the US$ due to weakened payment balances.

Volatile commodity prices

- The global crisis added to the volatility in international commodity prices thereby raising challenges for monetary management to curtain the inflationary pressures and expectations.

Fellow Governors, owing to the above challenges, all of us experienced a sudden drop in the growth rate in 2009 immediately after the 2008 crises. Perhaps it was the principal reason why the D-8 central bank governors in their first meeting agreed to set this meeting agenda on strengthening monetary and financial cooperation. Although the D-8 countries, from 2010 and onwards, barring a few exceptions, have experienced a rebound in their economic growth rates, the implications of the global crisis are far from over. Also, the ongoing Euro area crises, due to deteriorating sovereign and banking sector developments, have raised expectations of further global slowdown. The global growth is projected to further drop from 3.8 percent in 2011 to about 3.3 percent in 2012[1]1. As a result, the real GDP growth in the emerging and developing economies is projected to be further slower from 6.3 percent in 2011 to 5.2 percent in 20122. Therefore, we need continued collaboration to further strengthen our economies[2].

To begin with, we must strengthen policies and devise strategies to sustain the weak global recovery and contain the main down side risks from advanced economies. Particularly, we will need to balance two priorities: continuing with the policy reforms so as to maintain hard-won increases in the resilience of our economies to shocks and supporting domestic activity in response to growing downside risks to external demand. We must continue to rebalance our economies to sustain growth, firstly, through modulating domestic consumption, secondly, through an increase in trade among the emerging and developing countries and, finally, allow capital to flow freely between emerging and developing economies in search of better returns as against investment in debt ridden advanced economies. Needless to mention that macroeconomic policies must be balanced to check overheating pressures from strong recovery, high credit growth, volatile capital flows, elevated commodity prices, and renewed risk of inflation.

Fellow governors, D-8 countries have strong fundamentals to their advantage. Allow me to highlight some of our strengths: the D-8 countries are home to around 1 billion people, with the youth in majority, giving us positive population dynamics for both to grow fast and high debt carrying capacity to continue our economic expansion. Our financial sectors are still underdeveloped and have a low level of financial leverage, yet these are stable and have shown remarkable resilience against the global crisis. Also, low level of financial sector development reflected in low public and private sector debt relative to GDP indicates potential for continued growth in financial sector.

[1] IMF, World Economic Outlook Report, October 2012

[2] ibid

Strengthening Cooperation amongst D-8 countries

Nevertheless, we must not be complacent with these fundamentals, as the recurring global crises have been a constant reminder that we need to strengthen our cooperation to build linkages and effectively diversify our economies. Therefore, I propose the following:

First, the D-8 Secretariat has been a great support and a resource and therefore must be strengthened to collect and maintain information on our economies and their interconnectedness. This would serve dual purpose; first, it would provide regular updates on the state of D-8 economies and second, it would help us in the reviewing and measuring progress of our economies on economic and financial cooperation.

Second, we must work together to formulate a sustainable growth strategy in D-8 countries in the backdrop of an uncertain outlook for the global economy. As a group, D-8 economies face a diverse set of economic challenges. Some of these are structural, while others are cyclical in nature – a direct consequence of the global credit crunch of 2007-08. However, in formulating a growth strategy to deal with these issues – and identify areas of potential cooperation between members – it is necessary to understand them better. In order to achieve this, I suggest the D-8 countries must collaborate and focus on:

- Optimal use of monetary policy tools which are at best the first line of defense against the global crisis.
- The excessive dependence on external demand has its benefits but global crisis have certainly highlighted its risks. The D-8 countries must collaborate on how to rebalance its growth model from export-led growth to diversifying demand through structural changes in their economies that will enable sustainable future growth and make their economies less susceptible to volatility in other financial markets, particularly by raising domestic demand and recycling more of the D-8 countries savings into investments at home.
- Identify and rank economic challenges faced by each member country, including: domestic impediments and constraints; and external vulnerabilities, particularly:
    - Manage trade balances (surplus vs. deficit countries), particularly with respect to managing vulnerability to oil prices; opportunities for barter trade and currency swaps, and
    - Manage balance of payments and dependency on capital inflows – particularly the role of the parallel FX market and managing market sentiment in times of uncertainty.

Third, develop stronger private sector linkages, particularly private banks to facilitate payments to enhance trade and cross boarder linkages. The D-8 summit is a great opportunity for businesses to showcase opportunities to enhance trade and capital flows among the D-8 countries.

Fourth, in order to sustain economic growth and stability, D-8 economies must aim for inclusive financial sector development. This would require markets to work efficiently to provide affordable financial services as well as achieve allocative efficiency. Access to credit is a major constraint for micro, small and medium enterprises which is the main engine of employment and economic growth. Similarly, a significant majority of households are unable to access even the simplest financial services, meaning that they pay more to manage their money, find it harder to plan for the future and cope with financial pressures, and are more vulnerable to financial distress and over-indebtedness. Therefore, I suggest the D-8 central banks may exchange views to highlight experiences of policy and development interventions for financial inclusion, particularly on:

- The need for proportionate regulations and policies for specific sectors/segments i.e. microfinance, SMEs, housing, infrastructure, rural and agricultural finance to ease financial access.

- Increasing number of countries with large unbanked populations are pioneering policy and regulatory innovations that opens space for "Branchless Banking" with new approach to the delivery of formal financial services. This is allowing previously excluded customers the much needed access to an increasing range of basic financial services. Likewise, there are about one billion people with mobile phones in the world with not even a basic bank account. As the costs of information and communications technologies have shrunk, the time is ripe to extend this technology to address financial exclusion. Technological innovation impacts the cost and access equation – making it economically viable for financial service providers, to reach poor people, with a wider range of products and services. I believe, the D-8 cooperation in this regard would provide useful insights and lessons from regulations and policy experience of promoting financial inclusion through transformational branchless banking.

- One of the key challenges that the central banks must deal with is to ensure that financial markets are developed, diversified and accessible to all segments of population. In this regard, financial sector development and inclusion strategies are being pursued by central banks. It would be useful if the central banks experts continue to collaborate on such strategies.

- Strengthening of consumer protection and financial education initiatives would increasingly be needed as low income unbanked persons become clients of financial institutions to safeguard their rights and understand their obligations to make sound financial decisions.

Fifth, the Islamic Finance industry in D-8 countries has enjoyed rapid growth over the past decade primarily due to global trends and local demand for Shariah complaint financial services. Going forward, the central banks may discuss sustainable models to promote Islamic finance in D-8 countries especially in the wake of challenging global economic landscape. There is a need for exploring sustainable models to promote Islamic finance in D-8 countries especially in the wake of challenging global economic landscape. The cooperation will highlight strategies for ensuing growth trajectories for Islamic finance in D-8 countries, with emphasis on home grown demand and strategies in D-8 countries, primarily promoting Islamic finance to meet latent demand for financial services due to low level of financial inclusion and lack of Shariah compliant financial solutions

Finally, we need to formalize our cooperation by establishing regular information exchange and create peer learning opportunities amongst D-8 central banks. I believe each of the D-8 members has their strengths in monetary and financial sector issues; I would like SBP to take the lead and volunteer on financial inclusion issues particularly on microfinance and branchless banking development through a peer learning working group. SBP's experience in microfinance and branchless banking regulations has already put Pakistan at the global centre stage of financial inclusion and innovation. The World Bank's Consultative Group to Assist the Poor (CGAP), in one of its recent studies has recognized Pakistan as one of the fastest growing branchless banking markets in the world, and a laboratory of innovation. I hope that the D-8 countries will join the proposed peer learning working group and share their unique experiences.

Closing Remarks

I believe the today's proceedings will help us attain improved understanding of the issues faced by the member countries and adopt a declaration to underscore the need to enhance collaboration among D-8 central banks for financial and monetary cooperation for inclusive economic growth. I expect that our experts will then outline key areas for cooperation and actions/milestones before the next central bank heads meeting for follow-up and monitoring. I hope that the peer learning working groups will conduct meetings hosted by member countries and serve as a platform for forging cooperation and measuring progress against the shared milestones.

Islamic Banking Industry- Progress & Market Share

Overview

Islamic banking industry (IBI) continued its growth momentum during the third quarter of CY12. Both assets and deposits registered positive quarterly growth as asset base of the industry reached to Rs. 742 billion while deposits reached to Rs 628 billion by end September 2012 (see **Table 1**). In terms of market share, assets constitute 8.1 percent whereas deposits constitute 9.3 percent in overall banking industry. Rising trend in profitability of the Islamic banking industry continued and reached above Rs 7.7 billion by end September 2012 from Rs. 6 billion by end June CY12. On the other hand return on assets (ROA) and return on equity (ROE) witnessed decline during the quarter under review. Rising non-performing finances (NPFs) to financing ratio, concentration of financing in few sectors and limited expansion of Islamic banking network to second and third tier cities remain among major challenges faced by the industry.

Table 1: Industry Progress and market share

	Industry Progress			Growth (YoY)			Share in Industry		
	Sep-11	Jun-12	Sep-12	Sep-11	Jun-12	Sep-12	Sep-11	Jun-12	Sep-12
Total Assets	568	711	742	34.0%	26.9%	30.5%	7.3%	8.2%	8.1%
Deposits	*463*	603	628	36.9%	33.3%	35.6%	8.0%	8.9%	9.3%
Net Financing & Investment	*414*	*543*	571	77.3%	29.2%	37.9%	6.8%	7.9%	7.8%
Total Islamic Banking Institutions	*17*	*17*	*18*	–	–	–	–	–	–
Total No. of Branches*	*841*	*948*	*977*	–	–	–	–	–	–

Source: Quarterly Unaudited Accounts

**number includes sub-branches*

IBI Network Expansion

Table 2: Province Wise Additional Branches (September 2012)

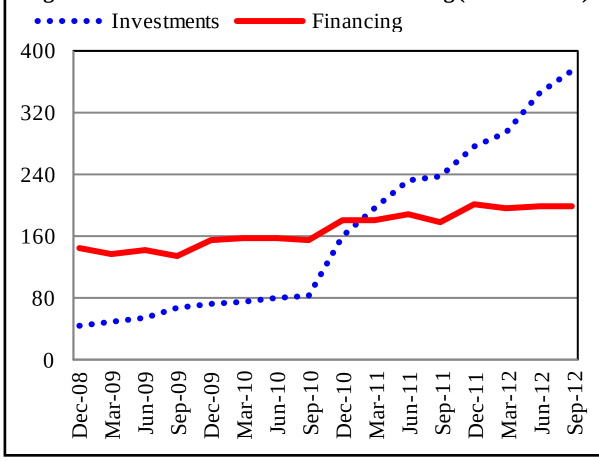
Province	Cities	Additional No.	Total No.
Punjab	Faisalabad, Gujranwala, Lahore, Rawalpindi, Sahiwal	11	429
Sindh	Karachi	9	331
Khyber Pakhtoonkhawa	Batagram, Chitral, Lower Dir, Swat	4	104
Baluchistan	NIL	NIL:	44
Gilgit Baltistan	Diamir	1	2
FATA	Orakzai Agency	1	3
Federal Capital	Islamabad	3	53
AJK	NIL	NIL	11
Total		**29**	**977**

The number of Islamic banking institutions increased during the quarter ending September 2012, as Silk Bank commenced Islamic banking operations after obtaining license and necessary approval from SBP. In terms of branch expansion an addition of 29 new branches was witnessed during the quarter under review. These additional branches were established in Punjab, Sindh, Khyber Pakhtoonkhawa (KPK), Gilgit Baltistan (GB), FATA and Islamabad (see **Table 2**). Encouragingly Islamic banking services increased its outreach by opening branches in 3 new cities including Batagram, Lower Dir and Diamir. Despite this positive development, second and third cities still remain under served as more than 56 percent of Islamic banking branch network is concentrated in 5 big cities (Karachi, Lahore, Quetta, Peshawar and Islamabad).

Asset & Liability Structure

Asset: Asset base of Islamic banking industry reached to Rs. 742 billion by end September 2012 from Rs. 711 billion in the previous quarter, though IBIs share in overall banking industry declined marginally to 8.1 percent from 8.2 percent in the corresponding period. This was mainly due to relatively better growth in assets of overall banking industry which grew by 5.3 percent during Jul-Sep quarter compared to 4.3 percent growth in assets of Islamic banking industry during the same period.

Figure1: Trends of Investments and Financing (in billion Rs.)



Increase in assets was predominantly contributed by investments that grew by 8.2 percent during the quarter reaching Rs 374 billion from Rs 346 billion in June 2012. Consequently share of investments in overall asset portfolio surpassed 50 percent by end September 2012.On the other hand, financing, the other major component of the asset mix, registered no growth during the quarter under review and remained unchanged at Rs 197 billion; similar to end June 2012. Consequently financing witnessed a decline in its share in overall assets to reach 26.5 percent by end September 2012 from 27.7 percent by end June 2012. This is in line with the trend witnessed since September 2010 where investments have witnessed continuous upsurge compared to relatively moderate increase in financing (see **Figure 1**).

Table 3: Investments

Rupees in million

				Growth	
	Sep-11	**Jun-12**	**Sep-12**	**YoY**	**QoQ**
Federal government securities	153,109.5	243,069.9	265,167.9	73.2	9.1
Fully paid up ordinary shares	2,396.7	3,705.0	3,843.1	60.4	3.7
TFCs, Debentures, Bonds, & PTCs	27,862.6	30,565.2	32,698.8	17.4	7.0
Other investments	54,520.2	69,274.2	73,481.9	34.8	6.1
Investments by type					
Held for Trading	87.64	269.44	515.42	488.1	91.3
Available for Sale	215,281.9	324,678.2	351,201.1	63.1	8.2
Held to Maturity	13,828.0	13,073.3	12,769.1	(7.7)	(2.3)
Surplus /(deficit) on revaluation	1,227.6	73.4	2,335.2	90.2	3,082.3
Net Investments	**236,352.1**	**345,678.7**	**373,980.8**	**58.2**	**8.2**

Detailed analysis with reference to bifurcation of assets among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks reveals that assets of both IBs and IBDs witnessed positive growth compared to previous quarter with IBDs recording relatively better growth (6.4

percent) compared to IBs (3.2 percent). In terms of share, assets of IBs constitute 64 percent in overall assets of Islamic banking industry with remaining 36 percent assets being contributed by IBDs.

Investments:

Investments of Islamic banking industry registered quarterly growth of more than 8 percent reaching Rs 374 billion by end September 2012 (see **Table 3**). This rise in investment was mainly driven by increased investment in Federal government securities as GoP Ijara Sukuk of more than Rs. 47 billion were issued during the quarter. Consequently the share of Federal government securities in overall investments increased to nearly 71 percent by end of the quarter.

Financing

Positive growth momentum witnessed in financing during the last quarter could not be maintained during the quarter under review as it remained almost unchanged at Rs. 209 billion. However this is in line with the trend witnessed during the third quarter of calendar year in which a drop in financing is generally witnessed mainly due to retirement of financing by the client industries due to the nature of their business cycle.

Table 4 : Financing Mix

(a) Amount in billion Rupees			
	Sep-11	**Jun-12**	**Sep-12**
Murabaha	78.4	83.9	81.0
Ijarah	22.5	23.0	22.0
Musharaka	5.2	2.4	2.2
Mudaraba	0.3	0.2	0.3
Diminishing Musharaka (DM)	62.8	74.9	77.8
Salam	2.8	7.4	4.7
Istisna	7.2	10.8	12.8
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	9.8	6.7	8.9
Total	**189.0**	**209.4**	**209.8**
(b) Percent Share			
Murabaha	41.5	40.1	38.6
Ijarah	11.9	11.0	10.5
Musharaka	2.8	1.2	1.0
Mudaraba	0.1	0.1	0.2
Diminishing Musharaka (DM)	33.2	35.8	37.1
Salam	1.5	3.5	2.3
Istisna	3.8	5.2	6.1
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	5.2	3.2	4.3
Total	**100.0**	**100.0**	**100.0**

Table 5: Financing Concentration - percent share

	Sep-11	**Jun-12**	**Sep-12**	**Industry**
Chemical and Pharmaceuticals	7.1%	7.2%	7.7%	4.0%
Agribusiness	2.9%	4.9%	5.8%	8.9%
Textile	16.9%	15.8%	15.0%	15.2%
Cement	4.1%	2.5%	1.5%	1.6%
Sugar	3.2%	4.1%	2.7%	2.5%
Shoes and leather garments	1.2%	1.0%	0.9%	0.6%
Automobile and transportation equipment	1.6%	1.5%	1.4%	1.3%
Financial	1.4%	1.5%	1.3%	1.8%
Insurance	0.0%	0.0%	0.0%	0.0%
Electronics and electrical appliances	1.2%	1.9%	1.4%	1.3%
Production and transmission of energy	10.4%	11.0%	11.9%	12.3%
Individuals	16.5%	15.7%	16.2%	8.4%
Others	33.6%	32.9%	34.1%	42.1%
Total	100.0%	100.0%	100.0%	100.0%

In terms of financing mix, Murabaha had the highest share in overall financing followed by Diminishing Musharaka (see **Table 4 (a)**). It is pertinent to note that following the trend of previous quarters

Diminishing Musharaka is gradually increasing its share and is approaching the share of highest financing mode i.e. Murabaha. All other modes, except Ijarah, registered single digit share in overall financing (see **Table 4 (b)**).

In line with overall industry trend, financing extended by IBIs is mainly concentrated in the textile sector. However during the quarter July to September, share of textile witnessed a decline which is in line with the usual trend witnessed by the sector during third quarter of calendar year mainly due to nature of industry's business cycle. Other sectors including agribusiness, production & transmission of energy and chemical & pharmaceuticals witnessed an increase in their shares during the quarter under review (see **Table 5**).

Table 6: Client Wise Financing Portfolio (Share Percent)

	Sep-11	Jun-12	Sep-12
Corporate Sector	70.1%	70.5%	70.7%
SMEs	5.4%	5.2%	4.8%
Agriculture	0.0%	0.1%	0.0%
Consumer Finance	15.6%	14.8%	14.9%
Commodity Financing	7.1%	7.4%	7.4%
Staff Financing	1.7%	1.7%	1.8%
Others	0.1%	0.3%	0.4%
Total	100.0%	100.0%	100.0%

Client category wise financing of IBIs remained concentrated in corporate sector, having a share of above 70 percent followed by consumer financing (14.9 percent), commodity financing (7.4 percent) and SME (4.8 percent) in overall financing (see **Table 6**). Quarterly growth in client category wise financing of IBIs registered positive growth for all sectors except agriculture and SME.

Table 7: Non-Performing Financing & Assets

Rupees in million

				Growth in %	
	Sep-11	Jun-12	Sep-12	YoY	QoQ
NPF	15,785.6	18,345.4	18,893.7	19.7	3.0
OAEM	3.9	1.5	1.8	-54.2	15.3
Substandard	2,928.1	3,997.7	2,666.1	-9.0	-33.3
Doubtful	2,456.0	1,889.2	2,938.8	19.7	55.6
Loss	10,397.6	12,457.0	13,287.1	27.8	6.7
Provisions	9,847.1	10,910.5	12,040.1	22.3	10.4
Net NPF	5,938.5	7,434.8	6,853.6	15.4	-7.8
Recovery (year to date)	810.1	742.6	784.0	-3.2	5.6
NPA	18,510.9	20,619.4	22,528.1	21.7	9.3
Net NPAs	6,374.5	7,901.6	8,073.7	26.7	2.2

Asset Quality

During the quarter under review, non-performing financing (NPF) of Islamic banking industry continued to increase and reached Rs.18.9 billion indicating quarterly (QoQ) growth of 3.0 percent. The rising trend of NPFs was mainly contributed by the category of "Loss" that reached 13.3 billion during the quarter under review; more than 70 percent of overall NPFs (see **Table 7**). Non-performing financing (NPF) under the category of "doubtful" also witnessed an increase during the quarter as it grew by 55.6 percent to reach Rs 2.9 billion by end September 2012 from Rs 1.9 billion by end June 2012. The rising trend in

NPFs resulted in increased provisions as provisions to NPFs reached 63.7 percent compared to 59.5 percent in the previous quarter (see **Table 8**).

Among other performance indicators with respect to asset quality, NPF to financing ratio increased to 9.0 percent in September 2012 from 8.8 percent in previous quarter; still being lower than overall industry average of 15.5 percent. Net NPAs to Capital and Net NPFs to Net Financing both registered a decline compared to previous quarter and also remained lower than overall industry ratios indicating relatively better asset quality of IBIs.

Table 8: Performance Indicators

	Sep-11	Jun-12	Sep-12	Industry
Assets Quality Ratio				
NPFs to Financing	8.4%	8.8%	9.0%	15.5%
Net NPFs to Net Financing	3.3%	3.8%	3.5%	5.2%
Provisions to NPFs	62.4%	59.5%	63.7%	70.0%
Net NPAs to Total Capital	11.8%	13.4%	13.2%	21.9%
Real estate Financing to Total Financing	7.6%	7.0%	6.8%	1.5%
FCY Denominated Financing to Capital	12.9%	10.5%	8.6%	17.6%

Liabilities

On liabilities side, share of Islamic banking industry deposits in overall banking industry increased from 8.9 percent in June 2012 to 9.3 percent by the end of quarter under review. In absolute terms deposits reached Rs. 627.9 billion by end September 2012 depicting a quarterly growth of 4.2 percent. This quarterly growth rate is significant but lower than the last quarter growth of 13.6 percent. However, this slower growth can be attributed to significant reduction in financial institutions' deposits with IBIs that registered a negative growth of 27.4 percent on quarterly basis (see **Table 9**). However, on YoY basis deposits of the Islamic Banking industry grew by 35.6 percent during quarter ending September 2012 which is slightly higher than 33.3 percent YoY growth in deposits during quarter ending June 2012.

Table 9: Break up of Deposits

Rupees in million and growth in percent

				Growth	
	Sep-11	Jun-12	Sep-12	YoY	QoQ
Deposits	**463,065.0**	**602,520.5**	**627,859.9**	**35.6**	**4.2**
Customers	**433,690.8**	**566,150.9**	**601,448.7**	**38.7**	**6.2**
Fixed Deposits	174,937.9	218,008.9	231,110.2	32.1	6.0
Saving Deposits	153,161.9	203,863.4	228,676.9	49.3	12.2
Current accounts - Remunerative	493.1	1,652.9	1,349.8	173.7	(18.3)
Current accounts - Non-remunerative	102,894.7	140,067.7	137,858.3	34.0	(1.6)
Others	2,203.1	2,558.0	2,453.6	11.4	(4.1)
Financial Institutions	**29,374.2**	**36,369.7**	**26,411.2**	**(10.1)**	**(27.4)**
Remunerative Deposits	29,202.5	35,180.4	26,087.1	(10.7)	(25.8)
Non-remunerative Deposits	171.7	1,189.2	324.1	88.8	(72.7)
Currency Wise					
Local Currency Deposits	444,018.3	577,526.0	600,989.0	35.4	4.1
Foreign Currency Deposits	19,046.7	24,994.5	26,870.9	41.1	7.5

Further analysis of deposits show that fixed and saving deposits constitute major share in total deposits and both registered positive growth on YoY as well as quarterly basis during the period under review (see **Table 9**). All other types of customers' deposits showed decline compared to previous quarter. It is interesting to note that though saving deposits are still low compared to fixed deposits an increase in savings deposits has been witnessed since June 2010 indicated by rising share of saving deposits in customers' deposits (see **Figure 2**). In terms of currency wise deposits, local currency deposits continued to dominate overall deposits with nearly 96 percent share in overall deposits.

Figure 2: Share of Fixed and Saving Deposits in Customer Deposits

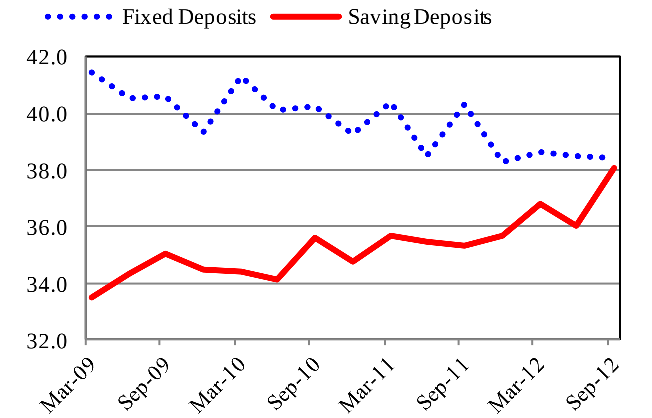


Table 10: Sources of Funds

	Sep-11	Jun-12	Sep-12	Increment (Sep -12) Rs.billion	Growth Rate (Sep-12) (percent)
Total Liabilities	514.3	652.2	680.7	28.5	4.4
Bills Payable	6.5	7.9	8.9	1.0	12.7
Due to Financial Institution	20.8	18.1	20.3	2.2	12.2
Deposits And Other Accounts	463.1	602.5	627.9	25.4	4.2
Other Liabilities*	24.0	23.8	23.7	-0.1	-0.4
Net Assets	54.1	59.0	61.1	2.1	3.6
Share Holders' Equity	52.3	58.3	58.5	0.2	0.3
Share Capital	45.2	46.4	47.0	0.6	1.3
Reserves	0.6	1.3	1.4	0.1	7.7
Unappropriated Profit	6.6	10.7	10.1	-0.6	-5.6
Surplus/Deficit On Revaluation of Assets	1.7	0.7	2.5	1.8	257.1

* Other Liabilities include Sub-ordinated Financing, Liabilities Against Assets Subject To Finance Lease, Deferred Tax Liabilities, Other Liabilities

During the quarter ending September 2012, equity registered a marginal increase (see **Table 10**). Among various sources of funds all sources, except "other liabilities", registered increment during the quarter under review, with deposits, the major source of funds, registering increment of Rs 25.4 billion.

Table 11: Liquidity Indicators

	Sep-11	Jun-12	Sep-12	Industry
Liquid Asset to Total Assets	39.2%	45.1%	46.1%	46.5%
Liquid Assets to Deposits	48.2%	53.2%	54.5%	62.8%
Avg. Maturity of Liabilities (Days)	486	459	462	650
Avg. Maturity of Assets (Days)	690	750	780	637

Liquidity Status

Liquidity indicators of IBI continued to depict rising trend during the quarter under review as both Liquid Assets to Total Assets (LA/TA) as well as Liquid Assets/ Total Deposits registered increase. Both indictors are however, still below industry average for the quarter ending September 2012 (see **Table 11**).

Earning & Profitability

Rising trend in profitability of the Islamic banking industry continued during the quarter as it reached above Rs 7.7 billion by end September 2012 from Rs. 6 billion by end June CY12. The quarterly growth rate of IBDs' profit remained higher (37.4 percent) than the growth rate of IBs (23.5 percent). Hence the contribution of IBDs towards profit increased to 49.5 percent (Rs 3.8 billion) from 46.8 percent in the previous quarter. Recently, State Bank of Pakistan has issued detailed instructions for profit and loss distribution and pool management for Islamic banking Institutions (see **Box 1** for details)

Table 12: Earning & Profitability	Sep-11	Jun-12	Sep-12	Industry
Net Income to Total Assets(ROA)	1.7%	1.4%	1.2%	1.4%
Return on Equity (ROE)	17.6%	16.6%	14.3%	15.3%
Net mark up Income to Gross Income	81.9%	80.2%	80.3%	71.6%
Non-mark up Income to Gross Income	18.1%	19.8%	19.7%	28.4%
Trading & Fx Gains/(Losses) to Gross Income	4.9%	6.5%	7.0%	8.7%
Operating Expense to Gross Income	58.6%	64.7%	65.9%	52.4%
Personnel Expense to Operating Expense	34.8%	38.0%	34.6%	41.3%
Spread Between Financing & Deposit Rate	8.4%	8.6%	8.5%	6.4%

Among other indicators of earnings and profitability, Return on Equity (ROE) and Return on Assets (ROA) continued to decline during the quarter under review and reached 1.2 percent and 14.3 percent respectively from 1.4 percent and 16.6 percent in the last quarter (see **Table 12**). Rising NPFs and high operating expenses are reasons for this decline in ROA and ROE. Net Mark up Income to Total Income of Islamic banking Industry (80.3 percent) also registered increase during the quarter and remained higher than overall industry average. On the other hand Non-Markup Income to Total Income (19.7 percent) registered slight decline during the quarter ending September 2012 and continued to stay below overall banking industry average. In line with general trend Operating Expense to Gross Income of Islamic banking industry remained higher than overall banking industry which can be attributed to the expansionary phase of Islamic banking industry.

Box 1: Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions (IBIs)

The Mudaraba based deposits constitute a major part of Islamic banking institutions' (IBIs) deposit mix. The contractual arrangement of such deposits with the IBI requires sharing of profits in financings, investments and placements etc. funded by such deposits between the IBI as Mudarib and the depositors as Rabbulmal, as per pre-agreed profit-sharing ratio. In case of loss, the same is borne by the depositors in proportion of their investments unless caused by the negligence and misconduct by the IBI in managing the depositors' funds. Considering this peculiar relationship where income earned by the IBI through financing investment and placement has a direct impact on depositors' return; there was a need to have well defined, transparent and standardized policies and practices for profit & loss computation and distribution across the Islamic banking industry.

As the depositors' funds are deployed in one or more pools, each having distinct risk and reward features, the IBIs' pool management policies and practices significantly impacts the profit and loss distribution. However, different pool management practices were prevalent in the industry, which coupled with limited disclosures on the practices was a source of reputational risk for the country's Islamic banking industry. Considering the need to bring standardization and improve transparency in profit & loss distribution and pool management practices, the SBP developed and modified instructions vide Islamic Banking Department Circular No. 03 dated Nov 19, 2012.

As per the instructions, each pool established by IBIs would act like a virtual enterprise having explicitly demarcated sources of funds, ownership of specific assets and income and expenses. The profit earned on the financing and investments made through such pool of deposits will be shared between IBI and the depositors as per pre-agreed profit sharing ratio. In case of loss, the same will be borne by the depositors in proportion of their investments unless caused by the negligence and misconduct by the IBI in managing the depositors' funds. These instructions discuss in detail the profit equalization reserve for profit smoothening, investment risk reserves, verification/audit and disclosure requirements.

With the issuance of these instructions, Para IV of annexure-II of IBD Circular No. 2 of 2008 has been withdrawn and IBIs have been exempted from the application of BPRD Circular No. 7 of 2008 regarding minimum rate of return on savings deposits as amended from time to time.

See IBD Circular No.3 http://www.sbp.org.pk/ibd/2012/C3.htm for details

Country Model: Egypt

Introduction:

The Arab Republic of Egypt the most populous of Middle East is considered as a diversified economy having the largest and oldest banking sector of the region. Islamic banking in its today's context was initiated with the emergence of the first interest free Saving bank; Mit Ghamir bank in Egypt in 1963. Today, three Islamic banks; Faisal Islamic Bank of Egypt; Al Baraka, and National Bank for Development, one investment bank (Ridge Islamic capital)[3] , 11 Islamic banking operating windows and nine takaful companies are operative in the country.

Historical Evolution

Mit Ghamir bank of Egypt is considered as one of the earlier efforts of Shariah complaint banking in the world though the bank never marketed itself as an Islamic bank. Mit Ghamir bank was set up in rural areas focusing on providing interest free loans to poor farmers to meet their basic needs and cash flow requirements for farming. The bank was operating successfully and attracted other institutions to offer interest free financial services. However, all these institutions were closed down in 1968 due to political reasons. In 1971, Nasser Social Bank (NSB) was established on a similar interest free model with the objective of serving as welfare institution; NSB also did not have any reference of Shariah in its charter.

The changed political landscape in Arab world along with boom in oil prices persuaded Egyptian government to facilitate the development of Islamic banking in the country. The significant development in this process was enactment of a special law in 1977 that paved the way for establishment of the first commercial Islamic bank; Faysal Islamic bank. Faysal Islamic Bank started its operations officially in 1979 and initially operations were concentrated in urban cities and were mainly dollar dominated. The bank also offered various social services through Zakat fund.

As a result of open door policy of Egypt during the decade of eighties, Islamic Money Management Companies (*sharikarat tawzif alamwal al Islamiyya*) dominated the financial sector in the first half of the decade. However these companies were not regulated by the central bank or any other regulatory authority and therefore were not obliged to follow any restrictions or disclosures. As a result these institutions were able to offer profit rates better than banks and catered to the needs of faith sensitive clients. Decline in oil prices towards the end of decade of eighties started negatively affecting Egyptian economy, consequently the operations of IMMCs as well. The sudden change in the policy of government to restructure IMMCs as joint stocks as well as for them to maintain excess deposits with central bank under the new special law of 1988 resulted in the collapse of many of these institutions. Millions of Egyptians were adversely affected by these schemes leaving an extreme negative impact on Islamic financial industry as a whole. Moreover the declaration of few prominent Shariah scholars of Egypt that announced some financial interest permissible for Muslims also resulted in shaking the confidence of demand side of Islamic banking industry.

[3] http://www.bloomberg.com/news/2012-09-19/ridge-capital-rides-on-egypt-s-islamic-finance-growth-potential.html

During the decade of 90's two other banks; Al Baraka[4] and National Bank for Development[5] started offering Shariah complaint financial services in the country. Today the Islamic banking industry of Egypt consists of 15 banks; three full fledged Islamic banks, one Investment bank and 11 Islamic banking operating windows of Conventional banks. Complementing the growth of Islamic banking industry globally, some changes in political scenario is convincing the Egyptian government for creating conducive environment for the development of Islamic financial industry

Recently the government has announced its desire for issuance of Sukuk along with an enabling act. This kind of positive inclination has started showing results as big groups like Abu Dhabi Islamic Bank and Bahrain's Al Baraka Banking Group have started investing in Egyptian banks which can catalyse the development of Islamic finance market in Egypt. The growth of Islamic banking industry is also being complemented by the development of Takaful; Shariah complaint insurance, industry. At present nine takaful companies are operational in the country with Saudi Insurance House being the first one. The government is making concerted effort as it intends to increase the share of Islamic finance from 5 percent to 35 percent within five years[6].

Conclusion

The pace of growth of Islamic finance in Egypt remained slow due to lack of official support and relatively lower demand. However, the potential for the growth of industry is huge as at present the significance of Islamic finance has been acknowledged domestically with growing global industry in addition of Egypt being the 6th most populous Muslim country having financial inclusion.

Sources:

Warde, I. (2000), *Islamic Finance in the Global Economy*, Edinburgh University Press, Edinburgh.
Abdullah Mouawad, S.G.(2009);*The Development of Islamic Finance: Egypt as A Case Study*, Journal of Money Laundering Control, Vol. 12 No. 1, 2009.
Global Islamic Finance Report (2010), BMB Islamic, UK Limited
Global Islamic Finance Report (2011), BMB Islamic, UK Limited
Website: Faisal Islamic bank of Egypt; http://www.faisalbank.com.eg/FIB/faisal_en/About_0.jsp
Website National Bank for development; http://www.nbdegypt.com/about-nbd/aboutnbd
Website Albarak Egypt; http://www.albaraka-bank.com.eg/about-us.aspx
Website: Egypt State Information Service (YOUR Gateway to Egypt; http://www.sis.gov.eg/En
http://shariah-fortune.com/history-of-islamic-banking

[4] Saudi owned group
[5] Owned by Abu Dhabi Islamic Bank
[6]Source: Thomson Reuters http://in.reuters.com/article/2012/11/12/idINL3E8MC1AA20121112

Adoption of AAOIFI Shariah Standards: Case of Pakistan

Shariah Standard No. 9: Ijarah & Ijarah Muntahia Bittamleek

Definition

Ijarah: Ijara referring to "give something on rent" can be used in two situations according to Islamic jurisprudence[7];

i. *To employ the services of a person on wages given to him as a consideration for his hired services*. Employer in this case is termed as 'Musta'jir', employee is ' Ajir' while wages paid are 'Ujrah'

ii. To transfer the usufruct of a particular property to another person in exchange for a rent claimed from him. This Ijara closely resembles leasing where lessor in this situation is known as 'Mujir', lessee as 'Musta'jir' and the payable rent to lessor is 'Ujrah'.

According to AAOIFI definition *Ijarah refers to leasing of property pursuant to a contract under which a specified permissible benefit in the form of a usufruct is obtained for specified period in return for a specific permissible consideration*

Ijarah Muntahia Bittamleek: To make Ijarah a viable banking tool, jurists have allowed Islamic hire purchase in form of Ijarah Muntahia Bittamleek which is also termed as Ijarah wa-Iqtina. Ijarah Muntahia Bittamleek is a lease contract that is concluded with the transfer of legal title at the end of lease period at the price specified in the lease.

In terms of AAOIFI definition *Ijarah Muntahia Bittamleek is a form of leasing contract which includes a promise by the lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijarah period or by stages during the term of the contract, such transfer of the ownership being executed through one of the means specified in the contract*

Shariah Standard of Ijarah & Ijarah Muntahia Bittamleek

AAOIFI Shariah Standard No. 9 issued in May 2002 is applicable to Ijarah and Ijarah Muntahia Bittamleek (operating lease of properties) where the institution is the lessor or the lessee while this is not applicable to labour contract. The standard outlines the basis for Ijarah and Ijarah Muntahia Bittamleek mode of transaction through nine main clauses, brief description of those clauses is as follows;

- **Promise To Lease (an asset);** After describing the scope of the standard in the first clause, the second clause provides three sub-clauses that covers (i) the acquisition of asset or its usufruct (ii) master agreement between financial institution and its client and (iii) the option of advance payment and its treatment

[7] Usmani, T.M. (2000); An Introduction to Islamic Finance; Idaratul Ma'arif, Karachi

- **Acquisition of the asset to be leased, or its usufruct, by the institution:** This clause is divided into seven sub-clauses covering; (i) acquisition of asset (when asset is in ownership of institution or when it is acquired from customer or from third party (ii) treatment of acquisition and lease contract (ii)option of sub-lease contract (iv) rent in varying duration(tenures) (v) option of Ijarah with accurate specification of asset to be delivered when the lessor does not own the asset (vi) co-ownership of lessor and lessee in asset to be leased (vii) agency agreement between lessor and lessee for lessee to purchase asset on behalf of lessor

- **Concluding an Ijarah Contract and the Forms of Ijarah:** This clause is divided into two main sub clauses (i) signature of the contract and the consequences thereof (ii) forms of the Ijarah contract. The first sub-clause is further explained through four clauses focusing on (i) binding obligation under the lease contract (ii) duration of the contract, (iii) linkage of rental with delivery of asset at specified time and (iv) Urboon and its treatment. The second sub-clause of Forms of the Ijarah contract is explained in four clauses discussing various options of having one lessee or leasing of asset to more than one lessee and their durations and lessee inviting co-lessees in sharing the usufruct of asset.

- **Subject Matter of Ijarah:** Rules governing benefit and leased property and rules governing lease rentals form two main parts of this clause. The first part is further discussed through eight sub clauses discussing areas like capability of asset being used, Shariah permissibility of use of asset, contingency of execution of Ijarah contract with non-Muslim on Shariah permissible use of leased asset, responsibility in case of damage to leased asset during lease duration. The second part about governing of lease rentals is explained in five sub-clauses; (i) payment mode and payment frequency of rentals (ii) obligation of rent by Ijarah contract (iii) floating rental (iv) possibility of advance by lessor to lessee for maintenance purposes (v) option of amendment of rentals in future date with renewal of Ijarah contract

- **Guarantees and Treatment of Ijarah Receivables:** This clause is divided into five sub-clauses covering (i) the acquiring of permissible security to secure the rental payment (ii) frequency of rental payment (iii) treatment of rental in case of delays (iv) donation in charitable cause in case of late payment (iv) adjustment of rentals/legitimate compensations from submitted security

- **Changes to the Ijarah Contract:** This clause is divided into two main parts; (1) selling of or damage to the leased asset and (2) termination, expiry and renewal of the Ijarah Contract. The first part is further explained through six sub clauses; (i) sale of leased asset to lessee (ii) sale of leased asset to third party by lessor (iii) termination of contract in case of destruction of leased asset (iv) possession of leased asset by lessee (v) treatment of rentals and damages in case of partial destruction of leased asset (vi) return of leased asset to owner without owner’s consent. The second part of the clause is discussed in detail with the help of six sub-clauses covering (i) the permissibility of termination of contract with mutual consent (ii) termination in case of lessee’s failure to pay rent on time (iii) preservation of contract with the death of either of part (lessor and lessee) (iv) expiration of contract with the total destruction of the leased asset (v) termination of contract before its start (vi) option of contract being operative for good cause even after expiry

- **Transfer of the Ownership in the leased property in Ijarah Muntahia Bittamleek:** This clause is explained by eight sub-clauses. The first sub clause discusses that the evidence document for transferring the title in the leased asset to lessee should be separate from Ijarah contract document while the transfer can take place in one of three possible ways; (a) by means of a promise to sell for a token or other consideration , or by accelerating the payment of the remaining amount of rental, or by paying the market value of the leased property (b) a promise to give it as a gift and (c) a promise to give it as a gift contingent upon the payment of remaining installment. Remaining seven clauses of this final clause of the standard include (ii) transfer of ownership is a binding promise only by lessor (iii) a new contract is necessary for transfer of ownership by way of gift or sale (iv) transfer of ownership of leased asset in case of contingent transfer upon the payment of remaining installments (v) avoidance of in'ah in case of purchase of leased asset from lessee (vi) the rules governing Ijarah cannot be breached under Ijarah Muntahia Bittamleek (vii) non-permissibility of sale contract of future date along with Ijarah contract (viii) adjustment of rental in case of destruction of leased asset or discontinuity of contract for cause not attributable to lessee

Adoption of AAOIFI Shariah Standard of Ijarah & Ijarah Muntahia Bittamleek in Pakistan

Shariah Standards are being adopted in Pakistan with customization after consultation with stakeholders and approval from Shariah Board at State bank of Pakistan (SBP)[8]; standard relating to Ijarah has been made mandatory in the country with following amendments;

Original Clause	**Amendment/Clarification***
3/2: An asset may be acquired from a party and then leased to that party. In this case, the Ijarah transaction should not be stipulated as a condition of the purchase contract by which the institution acquires the asset	Prior approval from Shariah Advisor of Islamic banking Institution(IBI) must be sought whenever an IBI is going to use it as a mode of Islamic finance
3/4 : The lessee may lease the asset back to its owner in the first lease period for a rental that is lower, same or higher than what he is paying, if the two rentals are paid on spot basis. However, this is not permissible if it should lead to contract of in'ah, by varying the rent or the duration.	In special cases prior approval from Shariah advisor must be sought
7/2/5 :The two parties may terminate the Ijarah contract before it begins to run.	An addition of words "with mutual consent" was made after the word contract for explanation
8/1 In Ijarah Muntahia Bittamleek, the method of transferring the title in the leased asset to the lessee must be evidenced in a document separate from the Ijarah	The additional sub-clause as follows is added; It is also permissible to ask the customer

[8] See IBB June 2012 for details

contract document using one of following methods; (a) By means of a promise to sell for a token or other consideration , or by accelerating the payment of the remaining amount of rental, or by paying the market value of the leased property (b) A promise to give it as a gift (for no consideration) (c) A promise to give it as a gift, contingent upon the payment of the remaining installments In all these cases, the separate document evidencing a promise of gift, promise of sale or promise of gift contingent on a particular event, should be independent of the contract of Ijarah Muntahia Bittamleek and can not be taken as an integral part of the contract.	to give an "Undertaking to Purchase Ijarah Asset" from the bank in case of early purchase or default

*These clarifications are added as foot note with original clauses

Sources:

- Shariah Standards for Islamic Financial Institutions, AAOIFI (2010)
- Website of State Bank of Pakistan (www.sbp.org.pk)
- Website of AAOIFI (http://www.aaoifi.com)
- Usmani, T.M. (2000); An Introduction to Islamic Finance; Idaratul Ma'arif, Karachi
- Rahman, et. all (2003); An Exploratory Study of Ijarah Accounting Practices In Malaysian Financial Institutions; Vol. 5, No. 3 International Journal of Islamic Financial Services

Events and Developments at IBD

Training Programme on "Treasury Operations"
Held on 4-5 October 2012 at LRC, SBP, Karachi
In order to train Shariah advisers about treasury operations, IBD organized a 2 Days course on **"Treasury Operations"** for Shariah Advisors of Islamic Banking Institutions on 4-5 October, 2012 at LRC, SBP. The course focused on role of treasury in a bank, fundamentals of treasury operations, instruments/products, deals etc. in conventional & Islamic banks' treasuries, and structures of key Islamic treasury products. The course received an overwhelming response from the market and was greatly appreciated for its utility and effectiveness

Training Programme on "Fundamentals of Islamic Banking Operations (FIBO) No. 04"
Held on 15-19 October 2012 at SBP-BSC, Quetta
The fourth progarmme of series of training program "Fundamentals of Islamic Banking Operations (FIBO)" focused on enhancing skills and knowledge base of field staff of Islamic banking institutions particularly Branch Managers (BMs), Operation Managers (OMs) and Relationship Managers (RMs), was organized from the platform of NIBAF on 15-19 October, 2012 at SBP-BSC, Quetta.

Islamic Banking News and Views

News

Takaful rules 2012, an opportunity for insurance under Shariah
Conventional insurance companies can open window operations of Takaful by taking benefit from Takaful rules 2012, announced by Securities and Exchange Commission of Pakistan (SECP).The Takaful industry will progress rapidly at national level under thee rules, said Muhammad Zubair Mughal, Chief Executive Officer of AlHuda Centre of Islamic Banking and Economics, while talking to media on Friday.
http://pakobserver.net/detailnews.asp?id=168027

Pakistan drafts new rules for issuing sukuk
Pakistan's regulator (SECP) has issued new draft rules for the issuance of Sukuk or Islamic bonds, as part of a range of initiatives to boost the Islamic banking sector in the country. Under the rules, Sukuk will have to be structured to comply with standards of the Bahrain-based Accounting and Auditing Organisation for Islamic Finance Institutions, as well as those set by the local regulator.

http://www.brecorder.com/pakistan/banking-a-finance/83824.html

Islamic bank Kuveyt Turk plans launch in Germany
Turkish bank Kuveyt Turk plans to launch Germany's first full-fledged Islamic bank, aiming to tap into demand for ethical finance in the wider population as well as within Europe's second-largest Muslim community.T he bank, which has had a presence in Mannheim since 2010, hopes to apply for a full banking licence in October and will be headquartered in Frankfurt.

http://in.reuters.com/article/2012/09/11/islamic-finance-germany-idINL6E8K591M20120911

Turkey planning to issue lira sukuk

Al Baraka is one of the four "participation banks" - a term used in Turkey to refer to Islamic banks - which are expected to buy most of the lira-denominated sukuk. "Participation banks have been expecting this instrument.

http://www.gulf-daily-news.com/NewsDetails.aspx?storyid=337737

Worth $450m, Al Baraka Turk Participation Bank concludes the largest Islamic finance in Turkey

Al Baraka Turk Participation Bank, which is a subsidiary banking unit of Al Baraka Banking Group B.S.C. (ABG), announced its success in concluding the largest Islamic finance deal in history of Islamic banking in Turkey worth $450m with the participation of a group of major international banks.

http://www.ameinfo.com/worth-450m-al-baraka-turk-participation-311617

Islamic Banking May Soon Enter Morocco

Islamic banks may soon gain a foothold in Morocco. The move has been expected since the Justice and Development Party (PJD), advocates of Islamic finance, came to power.

http://www.eurasiareview.com/03082012-islamic-banking-may-soon-enter-morocco/

INCEIF, BNP Paribas launch Centre for Islamic Wealth Management [CPI ...

BNP Paribas Malaysia and INCEIF, The Global University Of Islamic Finance, today (19 September) launched the BNP Paribas-INCEIF Centre for Islamic Wealth Management, an event witnessed by Bank Negara Malaysia (BNM) Governor Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz.

http://www.equities.com/news/headline-story?dt=2012-09-19&val=500849&cat=finance

SCB launches Islamic Euro Nostro Account

Standard Chartered Bank (SCB) announced the launch of the industry's first Islamic Euro Nostro Account. Islamic banks across the world will now be able to earn Shariah-compliant profits on their account balances at Standard Chartered Bank, Germany Branch, in Frankfurt.

http://www.brecorder.com/money-a-banking/198/1243881/

Articles/Views

Does Islamic finance have a responsibility to reduce unemployment

http://gulfnews.com/business/banking/does-islamic-finance-have-a-responsibility-to-reduce-unemployment-1.1092049

Can Islamic finance provide salvation for the banking sector?

http://theconversation.edu.au/can-islamic-finance-provide-salvation-for-the-banking-sector-9506

Skill shortage stymies growth of Islamic finance
http://gulfnews.com/business/banking/skill-shortage-stymies-growth-of-islamic-finance-1.1063587

Redefining Islamic finance
http://dawn.com/2012/08/24/redefining-islamic-finance/

A critique of profit distribution module under Islamic banking
http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDlfMjlfMTJfMV85Ml8xNDUwOTQ=

Skill shortage stymies growth of Islamic finance
http://gulfnews.com/business/banking/skill-shortage-stymies-growth-of-islamic-finance-1.1063587

Annexure I

Annexure: I

Islamic Banking Branch Network

(As of September 30, 2012)

Type	Name of Bank	No of Branches*
Islamic Banks	AlBaraka Bank (Pakistan) Limited	87
	BankIslami Pakistan Limited	76
	Burj Bank Limited	43
	Dubai Islamic Bank Pakistan Limited	94
	Meezan Bank Limited	304
		604
Islamic Branches of Conventional Banks	Askari Bank Limited	29
	Bank AL Habib Limited	13
	Bank Alfalah Limited	85
	Faysal Bank Limited	51
	Habib Bank Limited	30
	Habib Metropolitan Bank Limited	4
	MCB Bank Limited	24
	National Bank of Pakistan	8
	Silkbank Limited	7
	Soneri Bank Limited	7
	Standard Chartered Bank (Pakistan) Limited	14
	The Bank of Khyber	33
	United Bank Limited	17
	Sub Total	**322**
Sub Branches	AlBaraka Bank (Pakistan) Limited	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	36
	Burj Bank Limited	8
	Habib Bank Limited	1
	MCB Bank Limited	2
	Sub Total	**51**
	Grand Total	**977**

Annexure II

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of September 30, 2012)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtun khwa	Punjab	Sindh	Grand Total
Islamic Banks.	AlBaraka Bank (Pakistan) Limited	1	3	-	4	-	9	42	28	87
	BankIslami Pakistan Limited	1	8	1	2	2	8	30	24	76
	Burj Bank Limited	-	1	-	2	-	2	18	20	43
	Dubai Islamic Bank Pakistan Limited	1	5	-	5	-	3	44	36	94
	Meezan Bank Limited	4	9	-	15	-	27	142	107	304
IB. Total		**7**	**26**	**1**	**28**	**2**	**49**	**276**	**215**	**604**
Islamic Branches of Conventional Banks	Askari Bank Limited	-	2	-	1	-	5	14	7	29
	Bank AL Habib Limited	-	1	-	-	-	1	3	8	13
	Bank Alfalah Limited	-	3	-	6	-	4	52	20	85
	Faysal Bank Limited	-	2	-	3	-	12	22	12	51
	Habib Bank Limited	2	1	-	2	-	2	12	11	30
	Habib Metropolitan Bank Limited	-	-	-	-	-	-	1	3	4
	MCB Bank Limited	-	1	-	2	-	1	12	8	24
	National Bank of Pakistan	1	-	-	-	-	1	4	2	8
	Silkbank Limited	-	-	-	1	-	-	4	2	7
	Soneri Bank Limited	-	1	-	2	-	1	1	2	7
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1	-	3	4	6	14
	The Bank of Khyber	-	2	2	1	-	21	4	3	33
	United Bank Limited	-	2	-	1	-	2	6	6	17
SAIBBs Total		**3**	**15**	**2**	**20**	**-**	**53**	**139**	**90**	**322**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	1	-	-	-	1	2
	Askari Bank Limited	-	-	-	1	-	-	-	1	2
	BankIslami Pakistan Limited	1	3	-	3	-	2	10	17	36
	Burj Bank Limited	-	-	-	-	-	-	3	5	8
	Habib Bank Limited	-	-	-	-	-	-	-	1	1
	MCB Bank Limited	-	-	-	-	-	-	1	1	2
Sub Branches Total		**1**	**3**	**-**	**5**	**-**	**2**	**14**	**26**	**51**
Grand Total		**11**	**44**	**3**	**53**	**2**	**104**	**429**	**331**	**977**

Annexure III

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of September 30, 2012)

S. No	Province	Cities	No of Branches
1	Sindh	Badin	1
2		Dadu	3
3		Hyderabad	22
4		Jacobabad	1
5		Karachi City	273
6		Larkana	2
7		Matiari	1
8		Mirpurkhas	4
9		Naushero Feroze	1
10		Nawabshah	5
11		Sanghar	5
12		Sukkur	10
13		Tando Allahyar	2
14		Tando Mohammad	1
	Sindh Total		**331**
15	Punjab	Attock	6
16		Bahawalnagar	5
17		Bahawalpur	4
18		Chakwal	4
19		Dera Ghazi Khan	3
20		Faisalabad	43
21		Gujranwala	18
22		Gujrat	16
23		Hafizabad	2
24		Jhang	3
25		Jhelum	6
26		Kasur	3
27		Khanewal	7
28		Khushab	5
29		Lahore City	156
30		Lodhran	1
31		Mandi Bahauddin	1
32		Mianwali	2
33		Multan	30
34		Muzaffargarh	3
35		Okara	3
36		Pakpattan	2
37		Rahim Yar Khan	10
38		Rawalpindi	49
39		Sahiwal	5
40		Sargodha	12
41		Sheikhupura	6
42		Sialkot	16
43		Toba Tek Singh	3
44		Vehari	5
	Punjab Total		**429**

S. No	Province	Cities	No of Branches
45	Khyber Pakhtunkhwa	Abottabad	11
46		Banu	3
47		Batagram	1
48		Charsadda	3
49		Chitral	2
50		Dera Ismail Khan	5
51		Hangu	2
52		Haripur	4
53		Kohat	3
54		Lower Dir	1
55		Malakand	1
56		Mansehra	7
57		Mardan	7
58		Nowshera	4
59		Peshawar	39
60		Swabi	3
61		Swat	4
62		Tank	1
63		Upper Dir	3
	KP Total		**104**
64	**Gilgit-Baltistan**	Diamir	1
65		Gilgit	1
	GB Total		**2**
66	**FATA**	Khyber Agency	1
67		Orakzai Agency	2
	FATA Total		**3**
68	**Federal Capital**	Islamabad	53
	Federal Capital Total		**53**
69	Balochistan	Chagi	1
70		Gawadar	1
71		Kila Abdullah	2
72		Killa Saifullah	3
73		Lasbela	1
74		Loralai	5
75		Pishin	1
76		Quetta	29
77		Zhob	1
	Balochistan Total		**44**
78	**Azad Kashmir**	Mirpur	8
79		Muzaffarabad	3
	AJK Total		**11**
	Grand Total		**977**