Islamic Banking Bulletin

September 2014

Islamic Banking Department
State Bank of Pakistan

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Successful Completion of Pakistan's First ever Tier II Mudaraba Sukuk

Albaraka Bank

Key Note Address by Saeed Ahmad,
Deputy Governor, State Bank of Pakistan
October 28, 2014

Distinguished guests and participants!

Assalam u Alaikum

It gives me immense pleasure to see Islamic banking industry of Pakistan graduating from its infancy stage to a mature level in rapidly changing global architecture of banking and finance. Today's event shows the commitment of Islamic banking institutions of the country towards the objective of building a robust and dynamic industry. I would like to extend my sincere appreciation and congratulations to the management of Albaraka Bank on successfully completing the very first subordinated sukuk in Pakistan. This seven year Tier two Mudarabah Sukuk is A rated, having loss absorbency clause and has been placed for institutional investors to raise capital. With this launch Pakistan has joined countries including Turkey, Malaysia, Saudi Arabia and the United Arab Emirates that have issued subordinated instruments to raise capital with the introduction of BASEL III standards around the globe.

Ladies& Gentlemen:

By capitalizing on infrastructure and sound regulatory foundations laid by the State Bank of Pakistan, the Islamic banking industry has been able to achieve almost 10 percent share in overall banking industry with a network of 1335 branches in nearly 90 districts across the country. Despite making significant strides in global as well as domestic arena, Islamic banking industry is faced with some challenges and is desired to be more proactive and innovative to sustain its growth trajectory.

Post Financial crisis era is a unique time for Islamic finance industry as on one hand the resilience of Islamic finance has shown the soundness of its structure and fundamentals while on other hand it has highlighted that shocks and losses due to negligence and misappropriations demand for more vigilant and effective monitoring framework. This has made regulators around the globe to increase supervisory focus on effective risk management. Consequently Basel Committee on Banking Supervision (BCBs) has introduced a revised regulatory approach towards risks management. This revised regulatory approach known as BASEL-III is targeted at building a banking system resilient to internal and external shocks. Pakistan like other countries has introduced BASELIII in a phased manner and banking industry including Islamic banking institutions are required to fulfill certain conditions to ensure the sustainability of overall financial system. We at State Bank of Pakistan do acknowledge that the unique features of Islamic finance require specific tools and processes for identifying and managing risks.

Ladies and Gentlemen:

I would like to take this opportunity to highlight the importance of Sukuk; Sukuk has not only played an instrumental role in increasing the acceptability and recognition of Islamic finance but has also provided lucrative investment avenue to the industry locally as well as internationally. In case of Pakistan, Sukuk market has witnessed growth over the years though the country is thus far not recognized among leading Sukuk markets of the world.

Global experience has indicated Sukuk as an effective instrument for funding infrastructure and development projects particularly in developing countries. Sukuk is increasingly becoming the fastest growing sector of Islamic finance due to its ability to raise financing for projects while maintaining link with the real economy. Islamic banks have found in Sukuk a reliable and stable investment opportunity. Like other sovereign states Government of Pakistan is showing keen interest and is making efforts to utilize this instrument to meet various developmental and infrastructure needs of the country.

I would encourage Islamic banks in Pakistan to exploit this business opportunity by developing Sukuk structures for financing infrastructure projects. Given that Islamic banking industry in general is confronted with excess liquidity and such surplus funds can be channeled in this direction. Moreover, the corporate Sukuk is on a declining trend since 2008 mainly due to loss of confidence of investors. This sector can be revived by joint initiative of all stakeholders.

Ladies and Gentlemen:

I have emphasized on many forums and would reiterate that this a is right time for the Islamic Banking Industry to initiate big ventures given the commitment of the Government to facilitate and nurture the development of this industry and resolve of the central bank to promote Islamic banking in the country. I encourage cooperation and collaborated efforts of all stakeholders to utilize the advantage of favorable environment to take a big leap for becoming an integral component of overall financial industry. I am quite optimistic about the bright future of this industry and hopeful that adherence to Shariah principles would help us in achieving financial system stability and broad based welfare of the masses

Thank you.

Islamic Banking Industry- Progress & Market Share

Overview

Assets of the Islamic banking industry grew by 1.3 percent during July to September quarter 2014 to reach Rs 1102 billion compared to Rs 1089 in the previous quarter. Similarly deposits of the Islamic banking industry witnessed growth during the review quarter and were recorded Rs 934 billion. The market share of Islamic banking assets and deposits in overall banking industry increased from 9.8 percent and 10.6 percent by end June 2014 to 9.9 percent and 10.7 percent respectively by end September 2014. Profitability of the Islamic banking industry witnessed an increase of Rs. 3.4 billion in the quarter under review to reach Rs 9.4 billion, substantially higher than Rs 5.6 billion profit earned by Islamic banking industry by the end September 2013. Among asset quality indicators, non-performing financing (NPF) of Islamic banking industry increased during the third quarter of CY14 resulting in an increase in provisions against financing during the review quarter. Among earning and profitability indicators, both ROA and ROE increased during the review quarter.

Table 1: Industry Progress and market share **(Rupees in billions)**

	Industry Progress			Growth (YoY)			Share in Industry		
	Sep-13	**Jun-14**	**Sep-14**	**Sep-13**	**Jun-14**	**Sep-14**	**Sep-13**	**Jun-14**	**Sep-14**
Total Assets	926	1089	1102	24.8%	20.5%	19.0%	9.5%	9.8%	9.9%
Deposits	*775*	932	934	23.5%	20.9%	20.4%	10.1%	10.6%	10.7%
Net Financing & Investment	*711*	*682*	*693*	24.6%	-2.5%	-2.6%	9.1%	7.8%	7.8%
Total Islamic Banking Institutions	*19*	*22*	*22*	–	–	–	–	–	–
Total No. of Branches*	*1161*	*1335*	*1423*	–	–	–	–	–	–

Source: Quarterly Unaudited Accounts

**number includes sub-branches*

IBI Network Expansion

Islamic Banking Industry (IBI) branch network continued to expand during the third quarter of CY14 as 88 additional branches were added to the branch network. These additional branches were established in Punjab, Sindh, Khyber Pakhtoonkhawa (KPK), Baluchistan and Islamabad (see **Table 2**). However, like previous quarters, Islamic banking industry branch network is still concentrated in two provinces i.e. Punjab and Sindh as both these provinces account for nearly 78 percent branches of overall Islamic Banking Industry (IBI) branch network.

Table 2: Province Wise Additional Branches (Jul-Sep 2014)

Province	Additional Number	Total Number	Share (percent)
Punjab	44	634	44.6
Sindh	30	476	33.5
Khyber Pakhtoonkhawa	4	152	10.7
Baluchistan	4	59	4.1
Gilgit Baltistan	0	5	0.4
FATA	0	4	0.3
Federal Capital	6	78	5.5
AJK	0	15	1.1
Total	**88**	**1423**	**100**

Asset & Liability Structure

Asset: Assets of the Islamic banking industry registered growth of 1.3 percent during July to September quarter 2014 to reach Rs. 1102 billion from Rs. 1089 billion in the previous quarter. Similarly, market share of Islamic banking assets in overall banking industry also increased during the quarter under review as it reached 9.9 percent in September 2014. This increase in assets was mainly contributed by financing that witnessed quarterly growth of 4.4 percent to reach Rs 339 billion in September 2014 compared to Rs 325 billion in the previous quarter. Investments, on the other hand, witnessed decline during the review quarter (Rs 354 billion in September 2014 compared to Rs 358 billion in June 2014).

Break up of assets among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks shows that assets of both IBs and IBDs witnessed positive growth compared to previous quarter with IBDs recording relatively better growth (1.6 percent) compared to IBs (1.1 percent). Consequently share of assets of IBs in overall assets Islamic banking industry witnessed slight decline as they decreased from 63.8 percent in June 2014 to 63.7 percent in September 2014.

Table 3: Investments

Rupees in million

				Growth	
	Sep-13	Jun-14	Sep-14	YoY	QoQ
Federal government securities	318,976.6	247,160.2	244,265.7	(23.4)	(1.2)
Fully paid up ordinary shares	3,922.8	6,054.3	5,845.9	49.0	(3.4)
TFCs, Debentures, Bonds, & PTCs	32,813.9	40,851.5	42,376.7	29.1	3.7
Other investments	91,205.3	65,124.0	63,038.3	(30.9)	(3.2)
Investments by type					
Held for Trading	147.96	4,700.99	2,205.65	1,390.8	(53.1)
Available for Sale	428,018.0	324,419.0	328,632.0	(23.2)	1.3
Held to Maturity	10,983.4	16,546.6	16,573.8	50.9	0.2
Surplus /(deficit) on revaluation	246.8	6,140.2	3,102.0	1,157.0	(49.5)
Net Investments	**445,478.6**	**357,772.8**	**354,047.0**	**(20.5)**	**(1.0)**

Investments:

Net Investments of Islamic banking industry declined to Rs 354 billion by end September 2014 from Rs 358 billion by end June 2014 reflecting quarterly decline of 1.0 percent (see **Table 3**). The decline in investments was mainly due to non issuance of any new GoP Ijara Sukuk during the review quartet that has generally been the key investment option for Islamic banking industry. This is also reflected in decline of 1.2 percent in Federal government securities during July to September quarter 2014, though they still remain the highest contributor in investments.

Break up of investments among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks shows that investments of IBDs declined by 2.5 percent on quarterly during the review quarter compared to an increase of 1.1 percent by IBDs. In terms of share, nearly 60 percent of investments made by Islamic banking industry are contributed by IBs with IBDs contributing nearly 40 percent investments.

Financing

Gross financing of Islamic banking industry grew to Rs 348.5 billion by end September 2014 from Rs 339 billion by end June 2014, reflecting quarterly growth of 2.8 percent.

In terms of financing mix, all modes of financing, except 'others' and Salam either registered increase or remained unchanged during the review quarter (see **Table 4 (a)**). Like previous quarter, Murabaha and Diminishing Musharaka remained the most concentrated modes as these modes collectively contributed nearly 66 percent of overall financing (see **Table 4 (b)**). Further analysis of these two modes reveals that though Diminishing Musharaka increased in absolute amount its share in overall financing remained unchanged. On the other hand, Murabaha witnessed an increase both in absolute amount as well as share in overall financing for the first time since December 2013.

It is interesting to note that financing extended by Islamic banking institutions by Musharaka mode has been witnessing a continuous increase since March 2012 and consequently its share in overall financing has reached double digits for the first time in September 2014. This recent phenomenon of Islamic banking institutions to shift their focus towards participatory modes like Musharaka is encouraging as moving closer to participatory modes can help Islamic banking industry to bring in their fold clientele

Table 4 : Financing Mix

	Sep-13	Jun-14	Sep-14
(a) Amount in billion Rupees			
Murabaha	112.5	100.9	105.7
Ijarah	24.2	28.8	29.8
Musharaka*	11.6	33.0	35.0
Mudaraba	0.5	0.5	0.5
Diminishing Musharaka (DM)	92.6	118.9	122.5
Salam	9.5	15.0	9.0
Istisna	13.4	22.4	27.5
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	15.7	19.4	18.4
Total	**280.1**	**339.0**	**348.5**
(b) Percent Share			
Murabaha	40.2	29.8	30.3
Ijarah	8.6	8.5	8.6
Musharaka*	4.2	9.7	10.1
Mudaraba	0.2	0.2	0.2
Diminishing Musharaka (DM)	33.0	35.1	35.1
Salam	3.4	4.4	2.6
Istisna	4.8	6.6	7.9
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	5.6	5.7	5.3
Total	**100.0**	**100.0**	**100.0**

***Musharaka includes Running Musharaka**

Table 5: Financing Concentration - percent share

	Sep-13	Jun-14	Sep-14	Industry
Chemical and Pharmaceuticals	7.1%	7.5%	7.4%	4.1%
Agribusiness	3.8%	1.6%	1.4%	8.3%
Textile	16.2%	18.4%	16.8%	14.9%
Cement	1.1%	0.6%	0.7%	0.9%
Sugar	3.4%	4.7%	3.1%	3.0%
Shoes and leather garments	0.8%	0.8%	0.9%	0.5%
Automobile and transportation equipment	1.9%	2.2%	2.0%	1.4%
Financial	0.8%	0.5%	0.3%	2.5%
Insurance	0.0%	0.0%	0.0%	0.0%
Electronics and electrical appliances	1.8%	2.4%	2.6%	1.3%
Production and transmission of energy	9.2%	11.9%	12.5%	12.5%
Individuals	14.4%	14.2%	14.0%	8.7%
Others	39.4%	35.3%	38.3%	41.9%
Total	100.0%	100.0%	100.0%	100.0%

such as SMEs which are hitherto limitedly banked (see **Table 6** for details on client wise financing portfolio).

In terms of financing concentration among various sectors, like previous quarters, textile remained the most concentrated sector though share of textile financing in overall financing registered decline during the quarter ending September 2014 compared with previous quarter. Among other sectors, cement, shoes & leather garments, electronics & electrical appliances and production& transmission of energy witnessed an increase in their shares in overall financing during the quarter under review (see **Table 5**).

Table 6: Client Wise Financing Portfolio (Share Percent)

	Sep-13	Jun-14	Sep-14	Industry
Corporate Sector	69.4%	77.0%	74.8%	67.6%
SMEs	4.1%	3.6%	3.8%	5.6%
Agriculture	0.1%	0.2%	0.3%	5.9%
Consumer Finance	13.2%	12.8%	13.0%	6.5%
Commodity Financing	11.3%	4.6%	6.2%	12.1%
Staff Financing	1.7%	1.7%	1.9%	2.1%
Others	0.2%	0.1%	0.1%	0.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In line with the general trend, client category wise financing of IBIs remained concentrated in corporate sector, having a share of nearly 75 percent followed by consumer financing (13.0 percent) and commodity financing (6.2 percent) (see **Table 6**). In line with the trend of overall banking industry financing extended by Islamic banking in SMEs and agriculture is low indicating limited outreach of banking sector in the sectors.

Table 7: Non-Performing Financing & Assets

Rupees in billions

	Sep-13	Jun-14	Sep-14	Growth in % YoY	Growth in % QoQ
NPF	19.7	18.1	18.4	-6.3	1.8
Substandard	1.2	1.1	1.2	2.5	6.7
Doubtful	2.0	1.1	1.5	-24.3	41.2
Loss	16.5	15.9	15.5	-5.7	-1.9
Provisions	13.7	14.4	14.7	7.9	2.0
Net NPF	6.0	3.7	3.7	-38.6	0.9
Recovery (year to date)	0.4	1.1	0.6	65.4	-42.1
NPA	23.4	21.4	21.1	-10.0	-1.3
Net NPAs	7.3	4.4	4.3	-41.0	-1.6

Asset Quality

Non-performing financing (NPF) of Islamic banking industry increased for the first time since September 2013 to reached Rs.18.4 billion by end September 2014. All categories of non-performing financing except 'loss' witnessed decline during the review quarter (see **Table 7**). Increase in non-performing financing resulted in an increase in provisions against financing during the review quarter. Consequently, provisions to NPFs reached 79.9 percent during quarter September 2014 compared to 79.7 percent in the previous quarter (see **Table 8**); higher than industry average of 77.6 percent. On the other hand, non-performing assets (NPA) of Islamic banking industry decreased during the July to September 2014 quarter to reach 21.1 billion from 21.4 billion in the previous quarter. Other asset quality indicators including NPFs to financing ratio, Net NPAs to Capital and Net NPFs to Net Financing all declined compared to previous quarter. It is important to mention that above mentioned performance indicators of Islamic banking industry are still lower than overall industry ratios indicative of relatively better Islamic banking industry asset quality.

Table 8: Performance Indicators (in percent)

	Sep-13	Jun-14	Sep-14	Industry
Assets Quality Ratio				
NPFs to Financing	7.05	5.34	5.22	12.99
Net NPFs to Net Financing	2.27	1.13	1.09	3.23
Provisions to NPFs	69.37	79.75	79.93	77.63
Net NPAs to Total Capital	11.12	5.61	5.54	13.95

Liabilities

Deposits of the Islamic banking industry reached Rs. 934 billion by end September 2014 depicting a quarterly growth of 0.2 percent (see **Box 1** for details of Seasonality in Deposits). Similarly, share of Islamic banking industry deposits in overall banking industry increased from 10.6 percent in June 2014 to 10.7 percent by the end September 2013. This increase in deposits was mainly contributed by customers' deposits which increased by 1.6 percent during the review quarter. On the other hand, financial institutions' deposits with IBIs registered decline during the quarter ending September 2014. Within customers' deposits, fixed deposits as well as saving deposits registered positive growth during the period under review though fixed deposits grew at a faster pace compared to saving deposits (see **Table 9**).

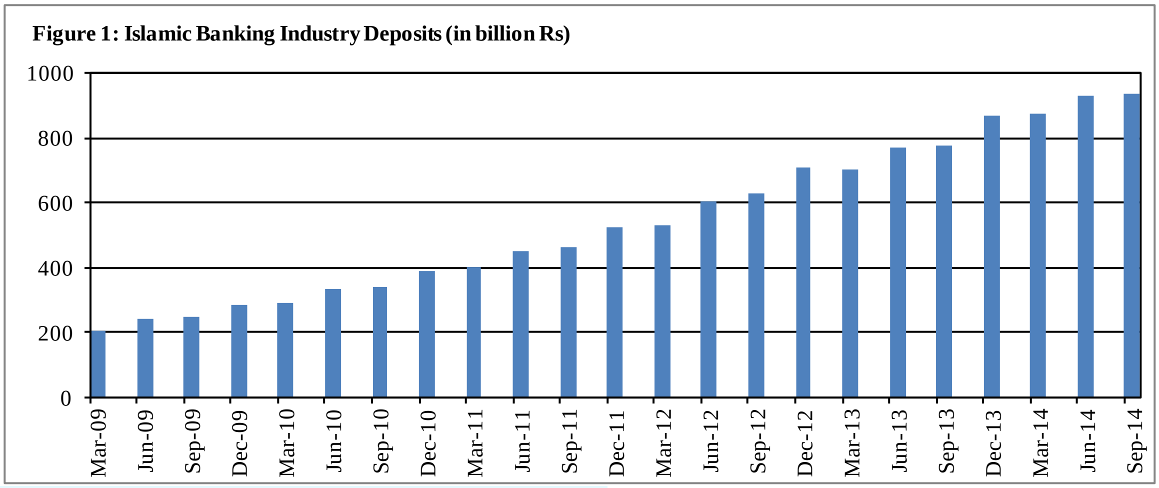
Table 9: Break up of Deposits

Rupees in million and growth in percent

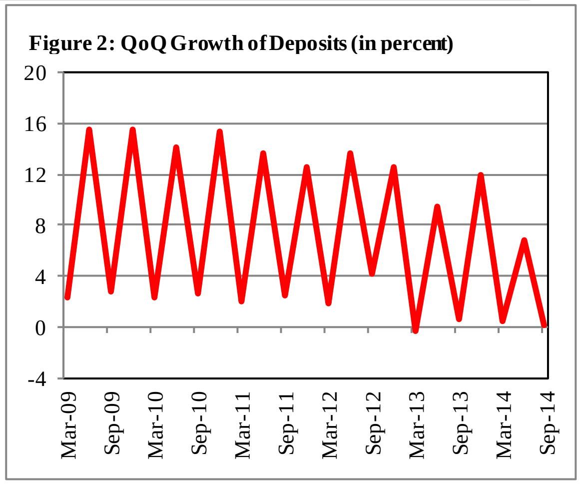
				Growth	
	Sep-13	**Jun-14**	**Sep-14**	**YoY**	**QoQ**
Deposits	**775,413.0**	**931,935.5**	**933,740.7**	**20.4**	**0.2**
Customers	**736,110.2**	**869,569.7**	**883,418.3**	**20.0**	**1.6**
Fixed Deposits	244,803.7	238,229.0	265,408.5	8.4	11.4
Saving Deposits	297,566.9	333,839.7	364,728.2	22.6	9.3
Current accounts - Remunerative	1,717.6	3,285.5	2,693.7	56.8	(18.0)
Current accounts - Non-remunerative	188,549.5	286,790.6	246,206.7	30.6	(14.2)
Others	3,472.5	7,425.0	4,381.1	26.2	(41.0)
Financial Institutions	**39,302.8**	**62,365.7**	**50,322.4**	**28.0**	**(19.3)**
Remunerative Deposits	38,496.4	58,483.2	49,571.5	28.8	(15.2)
Non-remunerative Deposits	806.4	3,882.6	751.0	(6.9)	(80.7)

Box1: Growth in Islamic Banking Deposits

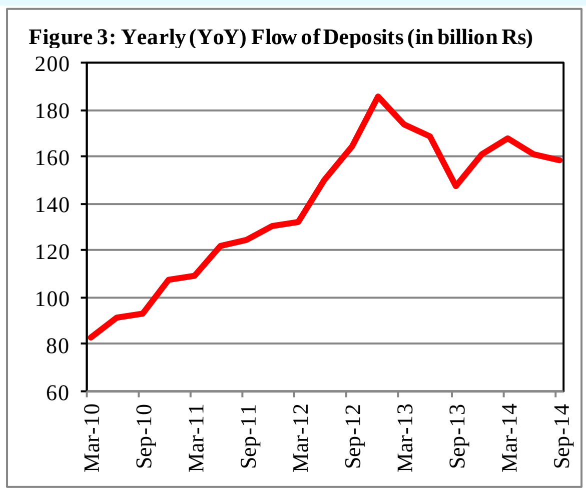
Deposits of the Islamic banking industry have been generally witnessing an upward trend since 2009 (see **Figure 1**) increasing from Rs 206 billion in March 2009 to Rs 934 billion in September 2014.



However, quarterly analysis of growth in deposits reveals a pattern. Deposits of the Islamic banking industry tend to grow at higher pace in second and fourth quarter of every year (i.e. end June and end December). On the other hand, growth rate in the first and third quarter (i.e. end March and end September) is generally lower. Thus seasonality is evident in quarterly growth of deposits (see **Figure 2**). As banks have half yearly closing at the end of second and fourth quarter, the above mentioned pattern can probably be due to an attempt by banks to show improved performance during closing quarters.



A better measure to analyze the growth pattern of Islamic banking deposits can be to monitor the yearly flow of deposits. As seen in **Figure 3**, by calculating yearly flows, the seasonality witnessed in quarterly growth has been removed. Analysis of this yearly flow reveals that deposits of Islamic banking industry witnessed significant growth till December 2012. This growth can be attributed be two factors (i) expansion of the Islamic banking industry in its initial phase and (ii) availability of attractive investment avenue in the form of GoP Ijara Sukuk. However, since 2012, the yearly flow of Islamic banking deposits has slowed down which can be attributed to among others higher base of bank deposit.



Maturity Gap

High growth in short term investment overshadowed the growth in CASA resulting in positive gap in categories of up to 3m and 3m to 1yr (Figure **4(a)**); in the former category (up to 3 m) the trend has reversed from negative gap in third quarter last year to positive gap by end third quarter this year while for the latter mentioned category the positive gap has improved from 1.3 to 7.5 percent over the said period. These trends are also in line with the overall banking industry trend, however, for long term maturing from 1 yr to 5yr, the trend of IBI is opposite (- ve) to overall banking industry's trend (+ve) (**Figure 4 (b)**). The decline in long term liabilities for Islamic banking industry has remained slower than the decline in long term assets resulting in negative maturity gap for the category of from 1yr to 5 yrs while for the category of above 5 yrs both Islamic and overall banking industry depicted negative gap.

Figure 4 (a): Maturity Gap(Asset-Liabilities) as percent of assets

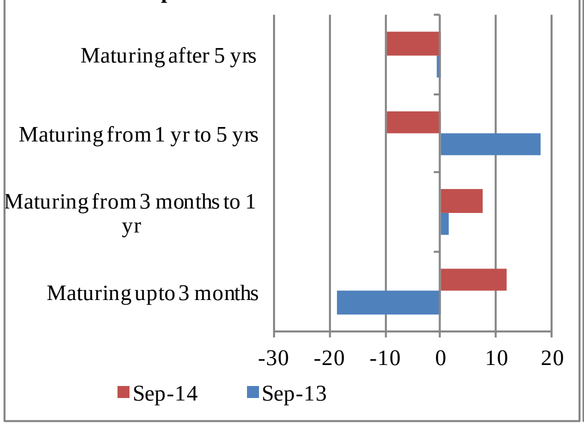
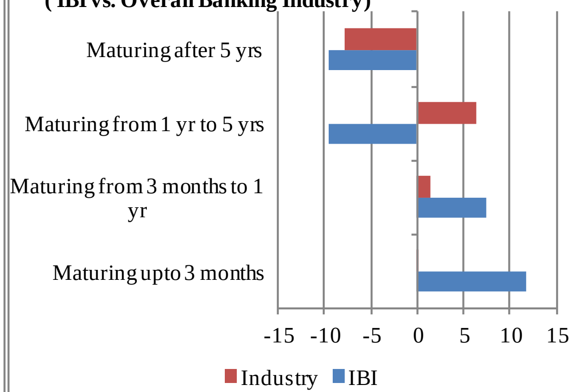


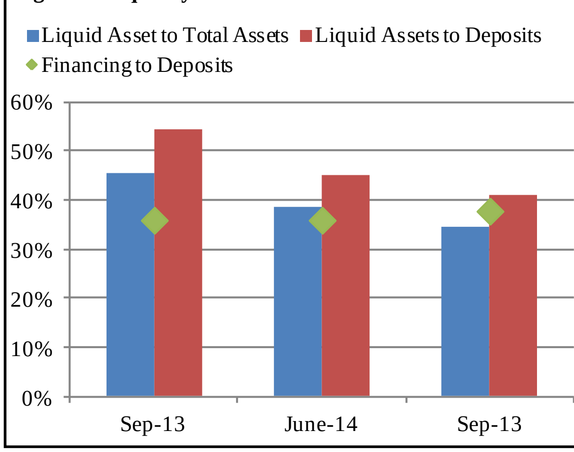
Figure 4 (b): Maturity Gap (as percent of assets) (IBI vs. Overall Banking Industry)



Liquidity Indicators

Liquid Assets (LA) to Total Assets depicted a declining trend compared to last quarter and also in comparison of the same period last year mainly due to fall in investment in government securities (see **Figure 5**). Deposits growth rate though decelerated during this quarter compared to the last quarter, however, the negative growth in LA has kept the ratio of LA to Deposits lower compared to the last quart as well as to the same quarter last year. This ratio is also lower than that of the overall industry; Financing to Deposits ratio (FDR) improved during this quarter though still lower than the overall industry average of more than 48 percent.

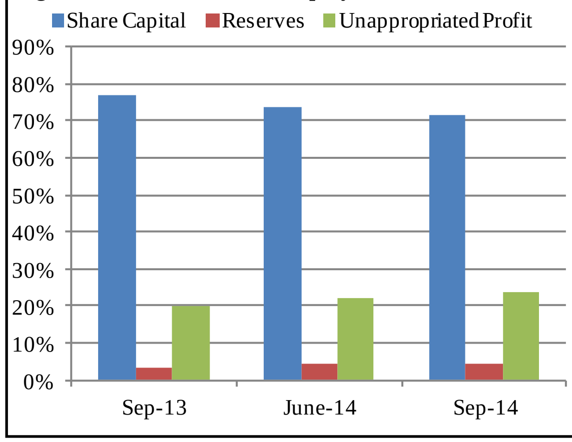
Figure 5: Liquidity Indicators



Capital

Unappropriated Profit is complementing paid up capital towards growth in equity of Islamic banking industry (**Figure 6**) though the increase in Industry's equity by end third quarter CY 14 is marginal compared to the same period last year. However, Capital to Total Assets is lower (7.1 percent) than that of the overall industry (9 percent).

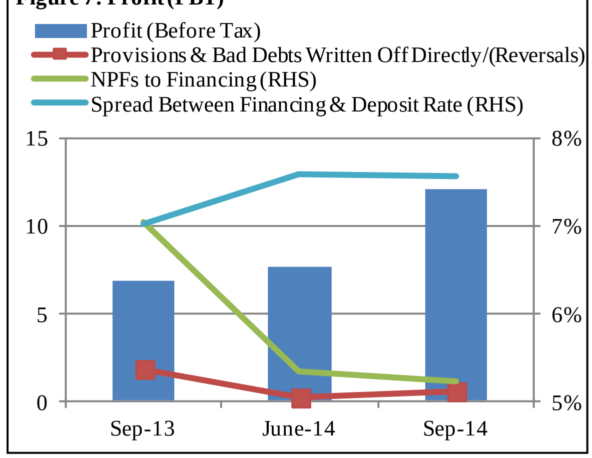
Figure 6: Share in Growth of Equity



Profitability & Earnings

Profitability of Islamic banking industry, Profitability before Tax (PBT), has reached to Rs. 12 billion by end third quarter CY 14; this profit is almost double to the profit during the same quarter last year . The profitability of Islamic banking industry is dominated by full fledged Islamic banks with a contribution of 53 percent[1] . Improved asset quality as reflected in NPFs to Financing and lowered provisioning against bad debt and rising spread between financing and deposit rate (financing rate has increased from 12 percent to 12. 4 percent while deposit rate has decline from 5 percent to 4.9 percent) are main factors for improved profitability of the industry (**Figure 7**) .

Figure 7: Profit (PBT)



This considerable rise in profit compared to last year is also reflected in improving other earning indicators Return on Assets (ROA) and Return on Equity (ROE) (**Table 10**). ROA improved marginally compared to the last quarter as well as to the same quarter last year. ROE on other hand has shown significant improvement in comparison of the third quart last year and is also better than the overall industry's average. The improvement is ROE can be associated with the growth in equity owing to growth in unappropriate profit of the industry.

However the Islamic banking industry has not been able to bring expenses at level comparable to conventional banking industry as indicated by Operating Expense to Gross Income. Though Operating expense to Gross Income has shown improvement over the time as it is lower (65.6 percent) than that of the same quarter last year (70 percent). This is important mention here that Personnel Expense to Overall Operating Expense for Islamic banking industry is lower than that of conventional banking industry.

[1] However the share of IBDs supersedes the share of IBs for Profit after TAX as tax is being borne by parent conventional Bank for Islamic banking divisions.

Table 10: Earnings and Profitability	Sep-13	Jun-14	Sep-14	Industry
Net Income to Total Assets(ROA)	0.9%	1.2%	1.2%	1.4%
Return on Equity (ROE)	11.6%	16.1%	16.7%	15.9%
Net Markup Income to Gross Income	79.0%	75.4%	76.9%	71.4%
Non-markup Income to Gross Income	21.0%	24.6%	23.1%	28.6%
Operating Expense to Gross Income	70.0%	66.6%	65.6%	54.8%
Personnel Expense to Operating Expense	37.3%	40.3%	40.3%	44.8%

Country Model: Brunei Darussalam

Islamic financial services began in Brunei with the establishment of Tabung Amanah Islam Brunei (TAIB), the country's first Islamic trust fund in 1991. Since then Islamic banking and finance industry in the Sultanate has witnessed significant growth. By 2013, the number of Islamic banking institutions in Brunei was 2 while the number of Takaful operators was 4. Islamic banking assets are estimated to be US$ 6.0 billion, gross Takaful contributions US$ 220.3 million while total Sukuk issuance is US$ 4.71 billion. Islamic banking has a share of almost 45% in overall retail banking in the country higher than established countries like Malaysia and Indonesia. It is expected that Brunei Darussalam will increase the share of Islamic banking in the domestic banking above 50% by 2020.

The starting point and motivation for Bruneian Islamic finance industry was a decree by His Majesty the Sultan of Brunei Darussalam in 1990 in which he stressed that the establishment of an Islamic bank is important referring to it as a 'fard kifayah' (obligation) for every Muslim country. As a result Islamic financial services in Brunei were formally initiated in 1991 when Tabung Amanah Islam Brunei (TAIB), the country's first Islamic trust fund was established to help Brunei's local Muslims undertake their pilgrimage to Mecca. In 1993, Island Development Bank was converted into the first full-fledged Islamic bank in Brunei under the name of the Islamic Bank of Brunei. In 2000, another conventional bank was converted into full fledged Islamic bank and was named Islamic Development Bank of Brunei (IDBB). However in 2005, Islamic Bank of Brunei and Islamic Development Bank of Brunei were merged into one big bank named Bank Islam Brunei Darussalam.

Despite the beginning of Islamic financial services in 1991, Islamic finance industry in Brunei gained momentum in 2006 The major land marks witnessed in 2006 include the constitution of national Shariah board and issuance of Brunei's first sovereign Sukuk by the Ministry of Finance. In terms of legislations important changes were made in 2008 after Islamic Banking Order 2008 and Takaful Order 2008 were enacted. These legislations were aimed at better regulation and supervision of Islamic finance in the Sultanate. A special secretariat to deal with Islamic banking institutions and Takaful operators has been created in the Monetary Authority of Brunei Darussalam which started operations in 2011.

Analysis of Sukuk Market in Brunei reveals that the government launched a rolling short term sukuk al ijara programme to boost liquidity for banks in 2006. In this regard, Sukuk Holding Properties Incorporation and Sukuk (Brunei) Incorporation were set up by the Ministry of Finance to issue sukuk. These Sukuk are short term in nature with maturity of 91 days. The latest Sukuk of this series was 113th and was issued on November 20, 2014.

For improving human resource for the financial industry in the country, The Centre for Islamic Banking, Finance and Management (CIBFM) has been established by the Ministry of Finance. The center's role is focused on providing learning and development programs focusing on Islamic finance. As a Centre of Excellence, it provides professional learning and development solutions in major disciplines such as Banking, Finance, Insurance, Capital Market as well as Management and Professional Studies. The Centre works closely with many international partners such as the Islamic Research and Training Institute.

Brunei has also been seeking help from important regional players for strengthening cooperation in the financial sector. In this regard, the central banks of Brunei and Malaysia have signed a memorandum of understanding (MoU) having Islamic finance development as one of the agenda. Similarly the Securities Commission of Malaysia and the monetary authority of Brunei, have also signed memorandum of understanding (MoU) to further facilitate cross-border activities, especially in Islamic capital markets.

Going forward, with an increased focus of Islamic banking and finance by the government of Brunei in presence of a large Muslim population with an increasing demand for Islamic financial services, Brunei is well placed to create an important place for itself in the international Islamic banking and financial industry.

Sources

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IFSB Revised Capital Adequacy Standard

Background: The Islamic Financial Services Board (IFSB) issued its Capital Adequacy Standard; IFSB-2, for institutions offering Islamic financial services (IIFS) in December 2005. IFSB-2 addressed the specific structure and contents of the Sharī`ah-compliant products and services offered by the IIFS and provided detailed guidance on calculating capital adequacy requirements for IIFS offering these products and services.

IFSB supplemented IFSB-2 with a number of other publications in subsequent years related to the calculation of capital adequacy requirements in IIFS, in order either to cover additional products and services offered by IIFS or to provide further guidance on the application of various aspects of the current IFSB standards. These publications mainly include IFSB-7 and Guiding Notes (GN)-2), GN-3 and GN-4.

In parallel the global regulatory landscape witnessed a number of developments in post financial and economic crisis 2007-08 that resulted in the issuance of numerous publications by global standard-setting bodies such as the Financial Stability Board, the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). Among other things, these global regulatory reforms included the issuance a number of documents collectively knowns an Basel III by BCBS. Basel-III is aimed at strengthening the global capital and liquidity rules to promote a more resilient banking sector by enhancing its ability to absorb shocks arising from financial and economic stress, and by reducing the risk of spillover from the financial sector to the real economy.

In this background the Council of the IFSB, in its 17th meeting held at Islamic Development Bank Headquarters based in Jeddah, Saudi Arabia on 14 December 2010, approved the revision of IFSB-2 and IFSB-7 and the formation of the Revised Capital Adequacy Standard Working Group (RCASWG) , to promote the soundness and stability of the Islamic financial services industry. The RCASWG prepared a revised standard on capital adequacy for IIFS; IFSB-15, that would provide comprehensive guidance to supervisory authorities and IIFS in this area.

IFSB-15: Revised Capital Adequacy Standard for institutions offering Islamic Financial Services

This standard consists of following six sections;

Section –I: After providing the background this section discusses objectives, scope and coverage of the standard.

Objectives: The primary objective of this standard is to align standards of IFSB with the global capital standards and provides comprehensive guidance to supervisory authorities on the application of capital adequacy regulations for Institutions offering Islamic financial services (IIFS) by combining and enhancing the contents of IFSB-2 and IFSB-7. This will extend a level playing field to IIFS vis-à-vis market players. The main objectives of this Standard are as follows:

a) to assist the IIFS and their supervisory authorities in the implementation of a capital adequacy framework that will ensure effective coverage of risk exposures of the IIFS and allocation of appropriate capital to cover these risks, thus enhancing the resilience of the IFSI;
b) to provide guidance on the maintenance of high-quality regulatory capital components by IIFS, which comply with *Sharī`ah* rules and principles;
c) to address the capital adequacy requirements of various risk exposures related to *Sharī`ah* compliant products and services offered by IIFS;
d) to provide guidance on the capital adequacy treatment of an IIFS's involvement in *Sukūk* issuance and securitisation processes in various capacities, including as originator, servicer and credit enhancer; and
e) to adapt international best practices, as well as current and emerging standards, relating to capital adequacy for IIFS.

Scope and Coverage:
According to the given scope, this standard is applicable to institutions offering Islamic financial services including full fledged commercial banks. Islamic investment banks/companies, Islamic banking branches/divisions/units of conventional banks and such other financial as may be determined by respective supervisory authority. This standard is not applicable to Islamic Insurance (Takaful) institutions and Islamic Collective Investment schemes.

This is clearly stipulated that the standard will be applicable on a fully consolidated basis at the holding company level within a group or sub-group of Islamic financial institutions or on a solo basis or on both fully consolidated and solo basis subjective to the decision of supervisory authority. While explaining the structure of the standard, this section briefly mentions specifities of Islamic financial instruments and their related risk.

Section –II: This section outlines basic features and criteria for various components of capital to be applicable to IIFS, as well as regulatory adjustments and deductions attached to these components. This section also illustrates the application of the capital conservation buffer, countercyclical buffer and leverage ratio for IIFS, keeping in view their balance sheet structure and specificities in the application of these requirements.

Section-III: This section expands the guidelines which has been provided earlier in standards and guideline of IFSB for calculation of credit risk, market risk and operational risk, in order to incorporate recent enhancements in the global capital standards. The significant areas covered in this section include

(i) sub- section on credit risk mitigation that has been restructured to cover new credit risk mitigation techniques.
(ii) sub- sections on market risk and operational risk have been updated.
(iii) sub-section on profit-sharing investment accounts (PSIAs) that has been enhanced to provide a more comprehensive guideline on the treatment of PSIAs and adjustments in capital adequacy ratio (CAR).

However, this Standard does not cover advanced approaches for the calculation of capital requirements in respect of various risks, such as the foundation and advanced internal rating-based (IRB) approaches for calculation of credit risk capital requirements, and the advanced measurement approach (AMA) for the calculation of operational risk capital requirements. Supervisory authorities, at their discretion, may allow the IIFS in their jurisdiction to migrate to the advanced approaches subject to their satisfaction with the techniques/ models etc of those institutions.

Section IV : This section sets out the minimum capital adequacy requirements for both credit and market risks for each of the Sharī`ah-compliant financing and investment instruments; (i) Murābahah and Murābahah for the purchase orderer; (ii) commodity Murābahah transactions (CMT); (iii) Salam and Parallel Salam; (iv) Istisnā`and Parallel Istisnā`; (v) Ijārah and Ijārah Muntahia Bittamlīk; (vi) Mushārakah, including Diminishing Mushārakah; (vii) Muḍārabah; (viii) Qarḍ; and (ix) Wakālah.

Section V : This section combines guidance on capital adequacy treatment of Sukūk and securitisation exposures of IIFS included in IFSB-2 and IFSB-7, and incorporates global regulatory developments related to originating, issuing and holding Sukūk in various stages of the securitisation process.

Section VI: This last section specifies capital requirements for exposures of IIFS related to real estate financing and investment activities, when an IIFS utilises its own (shareholders') funds or those generated from PSIA and other fund providers. This section has also been updated to cover best practices of supervisory authorities to improve supervision of IIFS' real estate exposures.

It is expected from supervisory authorities to implement this standard in their jurisdiction by 1st January, 2015, however, earlier implementation can also be made. However, the compliance of such implementation should be in compliance with prevalent Shariah, legal and regulatory framework of the implementing jurisdiction.

Sources:

www.ifsb.org

http://www.ifsb.org/1DBDBB7A-4E83-4B6C-9389-67E97C55AA40/FinalDownload/DownloadId-DFF51E330CE4818D42D5184891FC2171/1DBDBB7A-4E83-4B6C-9389-67E97C55AA40/standard/2014-01-28_eng_IFSB15%20Revised%20Capital%20Adequacy_(Jan%202014).pdf

Events and Developments at IBD

Developments

Revision in Capital Requirements for setting up Islamic banking subsidiary

The initial paid-up capital requirement for Islamic banking subsidiary has been revised through issuance of BPRD Circular No. 10 dated October 17, 2014. This revision is aimed at encouraging conventional banks to upscale their Islamic banking operations by establishing Islamic banking subsidiaries; the initial paid-up capital requirement for subsidiaries has been revised to Rs.6 billion. However, the intending Islamic banking subsidiary shall be required to raise its paid-up capital (net of losses) upto Rs.10 billion within a period of 5 years from the date of commencement of its operations.

Events

Dunya Media Group's Seminar – The Islamic Banking, Progress & Future in Pakistan
Held on July 17, 2014 at Marriott Hotel, Karachi

SBP provided intellectual support to Dunya Media Group (Dunya News TV Channel & daily Dunya) for conducting a half day seminar on "The Islamic Banking, Progress & Future in Pakistan" on July 17, 2014 at Marriott Hotel, Karachi. The seminar aimed to enlighten and educate about the emerging need of Islamic banking and Islamic financial solutions available in Pakistan. Mr. Saeed Ahmad, DG (FM, IB & SIs) was the Chief Guest at the occasion, while the Chief/CEOs of Islamic Banking Institutions & academicians were main speakers of the seminar.

Module – II of "Fundamentals of Financial Accounting" for Shariah Scholars
Held on August 19 – 22, 2014 at LRC, SBP, Karachi

Keeping in view the training needs identified at various forums, Islamic Banking Department (IBD), SBP organized Module – II of training course on "Fundamentals of Financial Accounting" for Shariah Advisors of Islamic Banking Institutions (IBIs) during August 19 – 22, 2014 at LRC – SBP. The same was inaugurated by Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan. The training was attended by Shariah Advisors from IBIs. Conducting such programs is in line with IBD's objective of improving and enhancing awareness of Islamic finance among different segments of society.

Knowledge Sharing Session on "Shariah Audit & Compliance Review – AAOIFI Standards & International Best Practices" with Dr. Shahul Hameed,
Held on August 22, 2014 at LRC, SBP, Karachi

SBP organized a knowledge sharing session on "Shariah Audit & Compliance Review in accordance with AAOIFI Standards & International Best Practices" on August 22, 2014 at LRC, SBP, wherein Dr. Shahul Hameed, Head of CIFP Department at International Centre for Education in Islamic Finance (INCEIF) – Malaysia, was the guest speaker. The session was attended by Shariah Advisors (SAs) and heads of Shariah audit and compliance of Islamic Banking Institutions (IBIs), and representatives from leading audit firms. Organizing such sessions is in line with IBD's objective of improving and enhancing awareness of Islamic finance among different segments of society.

Knowledge Sharing Session on Islamic Private Equity
Held on August 22, 2014 at LRC, SBP, Karachi

On the recommendation of the Committee on Islamic Capital Market (ICM) formed by the Steering Committee on Promotion of Islamic banking in its fourth meeting a knowledge sharing session was arranged by SBP for Islamic banking industry on Islamic Private Equity on September 16, 2014 (Tuesday) at LRC, SBP Karachi. This three hours session (from 10 am to 1 pm) was targeted at providing orientation to peculiarities of Islamic Private Equity, international best practices and the use of Private Equity for growth of Agriculture, SME and Micro Finance.

The session was conducted by three experts from the industry; (i) Mohammad Sajid (Partner at JS Private Equity**)** (ii) Ahmad Jalal (Aureos Capital Ltd.) (iii) Ali Saigol (Indus Basin Holdings) and nearly sixty participants including Presidents of Full fledged Islamic banks, Group Heads of Islamic branches of Conventional banks, Shariah advisors, members of ICM and some selected senior officials of SBP attended the program.

Launching of KAP Report
Held on October 03, 2014 at LRC, SBP, Karachi

State Bank of Pakistan (SBP) has launched the survey based report on Islamic banking; “Knowledge, Attitude and Practices of Islamic Banking in Pakistan (KAP)” on October 3, 2014 at LRC auditorium, SBP, Karachi. The ceremony was chaired by Mr. Ashrad Mahmood Wathra, Governor, State Bank of Pakistan and attended by presidents of banks and senior industry representatives, Shariah scholars, reputed members of academia, officials of SECP, DFID, World Bank.

This first study of its kind, is the most comprehensive analysis of Islamic banking sector in Pakistan which is based on a nation-wide survey of 9,000 households (Banked and Non-Banked) and 1,000 Corporates. The study has quantified the demand for Islamic banking in the country both for retail and corporate customers and has also identified demand supply gaps. According to survey findings there is huge potential for further development of Islamic banking in Pakistan.

Islamic Banking News and Views

News

Malaysia en-route to establishing world's first Islamic megabank

Malaysia's industry heavyweights CIMB Group, RHB Capital and Malaysia Building Society (MBSB) have thrown their hats into the ring after receiving regulatory approval from the central bank to commence discussions on merging the businesses of both RHB and CIMB as well as creating an enlarged Islamic banking franchise with MBSB. Following the consent, all three parties have entered into a 90-day exclusivity agreement to negotiate and finalize pricing, structure, and other relevant terms and conditions for a proposed merger of the three entities and the creation of a mega Islamic bank.
www.islamicfinancenews.com

Luxembourg approves bill paving way for sukuk this year

Luxembourg's parliament passed a bill that will allow the AAA-rated government to issue its first Islamic bond later this year, becoming only the second European sovereign after Britain to tap the market for sukuk. The bill allows Luxembourg to securitise three government properties to back a sukuk worth €200 million ($275 million), designed to boost its Islamic finance credentials to attract more business from cash-rich Gulf countries.
http://www.arabianbusiness.com/luxembourg-approves-bill-paving-way-for-sukuk-this-year-557364.html

RBI begins review process of Islamic banking regulations in India

India's central bank, Reserve Bank of India (RBI), has begun a review of regulations on Islamic banking in India. According to local reports, the central bank has established an internal committee consisting of senior RBI officials: Rajesh Verma, the deputy general manager of the department of banking operations; Archana Mangalagiri, the general manager of non-banking supervision; and Bindu Vasu, a joint legal adviser. The call for a re-evaluation of Islamic banking regulations was initiated following RBI's introduction of differentiated banks in India, particularly payments banks and smaller banks, as a start.
www.islamicfinancenews.com

IDB approved request for technical support to Azerbaijan in establishment of the national legislation on Islamic banking

The Islamic Development Bank (IDB) has preliminary approved the Azerbaijan's request to promote the establishment and application of legislation on Islamic banking. Behnam Gurbanzadeh, the Head of the Islamic Banking Department of the International Bank of Azerbaijan (IBA), stated that IDA has preliminary agreed to render such support and sent a mission to Baku for preparation of the support program. As a part of situation assessment, the mission held a special seminar on bringing the national legislation into conformance with the requirements of Islamic banking.
http://abc.az/eng/news/79583.html

Turkey plans state-run Islamic banks

The Turkish government plans to establish three state-owned Islamic banks as a subsidiary of the current state-run conventional banks by the end of 2015, according to Ali Babacan, deputy prime minister responsible for the economy. Babacan said that they want three state-owned banks -- Ziraat Bank, Halkbank and Vakifbank -- to each have an Islamic, interest-free bank under their roof. "We made our decision politically on the issue and wish the public sector to take part in the Islamic banking sector," Babacan said.

http://www.turkishweekly.net/news/169964/turkey-plans-state-run-islamic-banks.html

Islamic banking legislation comes into force in Tajikistan

The law 'On Islamic Banking Activity' approved in draft form by the Republic of Tajikistan's lower chamber of parliament in May, has come into force this week, according to reports. The law, which has been mooted by Tajikistan's government since 2012 with the aim of granting licenses to financial institutions operating on Shariah principles and regulating their activities, came into effect on the 5th August following its publication in the official government gazette.

www.islamicfinacenews.com

Islamic finance to provide a solution for Russia's financing needs

The imposition of sanctions on Russia is leading the country's banks to call for development of its Islamic finance provision, as an alternative to funding from currently inaccessible options in Europe and the US. The Association of Russian Banks has recommended that the Bank of Russia, the country's central bank, develop rules for Islamic banking, a view echoed by Theodore Karasik, director of research and consultancy at the Institute for Near East and Gulf Military Analysis in Dubai, in a recent interview: "The Kremlin should move quickly into the Islamic finance market as a way forward."

www.islamicfinacenews.com

Islamic banks to benefit form Basel III capital rules

The Islamic Financial Services Board's (IFSB) revised capital requirements for Basel III could help to strengthen the Islamic finance industry in terms of capitalisation and liquidity management, according to credit rating agency Standard & Poor's. However the rating agency said the implementation of Basel III capital rules will be neutral for Islamic banks' quality of capital as their capital mainly comprises of common equity.

http://gulfnews.com/business/banking/islamic-banks-to-benefit-form-basel-iii-capital-rules-1.1373655

SC introduces Sukuk framework to facilitate SRI initiatives

Following a proposal made in the 2014 budget speech last October, the Securities Commission Malaysia (SC) has introduced the Sustainable and Responsible Investment (SRI) Sukuk Framework. The guideline is part of the regulator's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers, and is also in line with the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote sustainable and responsible investing.

www.islamicfinacenews.com

Growth of Islamic insurance sector rebounding, study finds

Growth of takaful (Islamic insurance) business is rebounding, fuelled by improved economic conditions across its core markets and increased underwriting needs from the broader Islamic banking sector, a study found. Takaful is seen as a bellwether of consumer appetite for Islamic financial products. Expansion of its core markets in the Gulf and southeast Asia helped the sector reach $12.3 billion in gross contributions globally last year, the study by consultants Ernst & Young (EY) showed. http://in.reuters.com/article/2014/09/09/islam-insurance-idINL5N0RA0RZ20140909

Pakistan's EFU insurance group to launch Shariah-compliant products

Pakistan's largest private insurance group will offer sharia-compliant insurance products, or takaful, through its general and life units, adding further momentum to government efforts to expand the Islamic finance industry. Both EFU Life Assurance and EFU General Insurance plan to open takaful windows, a practice which allows firms to offer Islamic and conventional products side by side, ac-cording to separate filings with the Karachi stock exchange.
http://www.reuters.com/article/2014/07/25/islamicfinance-pakistan-insuranceidUSL6N0Q00PH20140725

On the surge: NBP jumps on the Islamic banking bandwagon

National Bank of Pakistan (NBP) President Syed Iqbal Ashraf has said the state-owned bank will open 175 Islamic branches in com-ing months besides establishing a wholly-owned Islamic banking subsidiary. Inaugurating its 19th Islamic banking branch along with State Bank of Pakistan (SBP) Deputy Governor Saeed Ahmad, Ashraf said the NBP will open new Islamic banking branches and convert many others, which currently exist as conventional branches, into Shariah-compliant branches.
http://tribune.com.pk/story/735629/on-the-surge-nbp-jumps-on-the-islamic-banking-bandwagon/

Up to 25 new takaful windows expected next year in Pakistan

The insurance penetration level in Pakistan which is currently at 0.9% of GDP is set to get a boost with the regulator, the Securities and Exchange Commission of Pakistan (SECP), granting two takaful licenses to conventional players in the market and another 10 applications being processed by the regulator. The regulator also expects another 20 to 25 new takaful window operators in the market within one year. Pakistan introduced new takaful rules in 2012, allowing the use of takaful windows, which enables insurers to offer sharia-compliant and conventional products side by side, provided client money is segregated.
http://www.asiainsurancereview.com/Magazine/ReadMagazineArticle?aid=35575

Orix Leasing to tap Islamic finance market

Orix Leasing Pakistan Limited (OLPL) plans to tap the high growth Islamic finance market. The company has chosen an innovative way to attain its objective. It has entered into a non-binding Memorandum of Understanding (MoU) with Standard Chartered Bank (Pakistan) Limited (SCBPL) with regard to a prospective merger/amalgamation of Standard Chartered Leasing Limited (SCLL), a subsidiary of SCBPL with and into OLPL or acquisition of SCBPL’s 86.45 per cent equity stake in SCLL. http://www.dawn.com/news/1133691/orix-leasing-to-tap-islamic-finance-market

Articles/Views:

What's in a name? Islamic banking rebrands in attempt to go mainstream

Islamic banking is based on core principles of the religion. So it is striking that some banks are removing the word "Islam" from their names - a sign of both the potential of Islamic finance to grow, and the obstacles to it becoming mainstream. In January, Dubai-based Noor Islamic Bank changed its name to Noor Bank. Abu Dhabi Islamic Bank (ADIB), the emirate's largest Shariah-compliant lender, now plans to call itself Abu Dhabi International Bank when operating abroad. In both cases, the changes are part of the banks' plans to expand.
http://www.reuters.com/article/2014/07/02/islam-financing-namechange-idUSL6N0PC4SD20140702

Islamic banking: growing fast but can it be more than a niche market?

For years, Islamic banks have been growing at a double digit pace. Ernst and Young (E&Y), in their latest World Islamic Banking Competitiveness report, shows the assets of Islamic banks grew at an average rate of 17% per year between 2008 and 2012. This is two to three times faster than the rate at which conventional banks grew over the same period, due in part to the global financial cri-sis. It is partly because economic growth has been strong in several emerging market countries with a large Muslim population. E&Y identify 25 "rapid growth market" countries which they predict will account for half of global GDP by 2020. Of these, 10 have a high Muslim population..
http://www.bbc.com/news/business-28365639

Mudaraba bridges Islamic-conventional banking gap

Islamic finance operates in an environment where it has to compete with conventional financial institutions and, in some cases, partner with them to provide Shariah-compliant financing. This creates challenges to structure documentation in a way that allows the products to be attractive to conventional banks without diluting Shariah compliance. Achieving this delicate balance has helped Islamic finance to prosper even though it is a relatively small part of the global financial sector. https://www.zawya.com/story/Mudaraba_syndication_explained-ZAWYA20140805074647/

Post crisis Islamic banks must revise business model

A growing global sentiment around ethical and socially conscious businesses is emerging. Large segments of the world's consumers are showing a preference to work with businesses that are socially conscious. Six years after the economic crisis there is still much cynicism and anger directed at the conventional banks. People across the globe have a hunger for a more ethical, transparent and robust financial system. This has opened a window of opportunity for Islamic banks to emerge as a values-driven alternative to conventional banks, for those who seek a wholesome banking experience. http://gulfnews.com/business/banking/post-crisis-islamic-banks-must-revise-business-model-1.1372962

Asia: the future of Islamic finance

Last month, Britain became the first government outside the Islamic world to issue sovereign sukuk , otherwise known as Islamic bonds, declaring its intention to become the western capital for Islamic finance. Attracting more than £2 billion in orders, the bond sale was met with enthusiastic demand from investors worldwide, from both within and without the Muslim world. Later this year, Hong Kong is

expected to join the rank of countries venturing into Islamic finance, putting up its first offering of sukuk, believed to be between US$500 million and US$1 billion. Earlier in March, the financial hub had passed a tax bill allowing sukuk sales and leveling the playing field between Islamic bonds and conventional financing.
http://news.alibaba.com/article/detail/news/101014547-1-asia%253A-future-islamic-finance.html

The imperfect reality of modern Islamic finance

God has a problem with interest. That much is clear from the scriptures of almost every major religion on the planet. Jews, Christians and Hindus have over the centuries made their peace with usury, but many Muslims still have a profound distaste for this bedrock of modern finance. Over the past few decades an array of clerics, lawyers and bankers have worked hard to reconcile the core principles of Islam with conventional finance to ensure that Muslims can enjoy access to the same services and products as the rest of the world. They succeeded beyond their wildest dreams.
http://www.dawn.com/news/1130454

Annexure: I

Islamic Banking Branch Network

(As of September 30, 2014)

Type	Name of Bank	No of Branches*
Islamic Banks	AlBaraka Bank (Pakistan) Limited	108
	BankIslami Pakistan Limited	117
	Burj Bank Limited	74
	Dubai Islamic Bank Pakistan Limited	149
	Meezan Bank Limited	390
		838
Islamic Branches of Conventional Banks	Allied Bank Limited	4
	Askari Bank Limited	43
	Bank AL Habib Limited	17
	Bank Alfalah Limited	148
	Faysal Bank Limited	53
	Habib Bank Limited	41
	Habib Metropolitan Bank Limited	10
	MCB Bank Limited	27
	National Bank of Pakistan	23
	Silkbank Limited	10
	Sindh Bank	1
	Soneri Bank Limited	15
	Standard Chartered Bank (Pakistan) Limited	10
	Summit Bank Limited	1
	The Bank of Khyber	46
	The Bank of Punjab	17
	United Bank Limited	22
		488
Sub Branches	AlBaraka Bank (Pakistan) Limited	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	89
	Faysal Bank Limited	1
	Habib Bank Limited	2
	United Bank Limited	1
		97
		1423

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

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of September 30, 2014)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	1	3		4	1	11	58	30	108
	BankIslami Pakistan Limited	1	10	1	6	2	13	46	38	117
	Burj Bank Limited	1	2		4		3	32	32	74
	Dubai Islamic Bank Pakistan Limited	1	5		7		7	61	68	149
	Meezan Bank Limited	5	14		18		33	184	136	390
	IB. Total	**9**	**34**	**1**	**39**	**3**	**67**	**381**	**304**	**838**
Islamic Branches of Conventional Banks	Allied Bank Limited							4		4
	Askari Bank Limited		2		4	1	6	21	9	43
	Bank AL Habib Limited		1				1	3	12	17
	Bank Alfalah Limited	1	5		8		8	86	40	148
	Faysal Bank Limited		2		3		14	22	12	53
	Habib Bank Limited	2	2	1	3		4	18	11	41
	Habib Metropolitan Bank Limited				1			3	6	10
	MCB Bank Limited		1		2		2	13	9	27
	National Bank of Pakistan	1			1		2	11	8	23
	Silkbank Limited		1		1		2	4	2	10
	Sindh Bank								1	1
	Soneri Bank Limited		1		2	1	1	6	4	15
	Standard Chartered Bank (Pakistan) Limited				1		1	2	6	10
	Summit Bank Limited								1	1
	The Bank of Khyber		2	2	2		30	7	3	46
	The Bank of Punjab						5	12		17
	United Bank Limited	1	2		1		4	8	6	22
	SAIBBs Total	**5**	**19**	**3**	**29**	**2**	**80**	**220**	**130**	**488**
Sub Branches	AlBaraka Bank (Pakistan) Limited				1				1	2
	Askari Bank Limited				1				1	2
	BankIslami Pakistan Limited	1	6		8		4	32	38	89
	Faysal Bank Limited							1		1
	Habib Bank Limited								2	2
	United Bank Limited						1			1
	Sub Branches Total	**1**	**6**	**-**	**10**	**-**	**5**	**33**	**42**	**97**
Grand Total		**15**	**59**	**4**	**78**	**5**	**152**	**634**	**476**	**1,423**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of September 30, 2014)

S. No	Province	District	No of Branches
1	Sindh	Badin	3
2		Dadu	4
3		Ghotki	1
4		Hyderabad	27
5		Jacobabad	1
6		Jamshoro	1
7		Karachi City	398
8		Larkana	3
9		Matiari	1
10		Mirpurkhas	6
11		Naushero Feroze	1
12		Nawabshah	6
13		Sanghar	6
14		Sukkur	11
15		Tando Allahyar	4
16		Tando Mohammad Khan	1
17		Umer Kot	2
Sindh Total			**476**
18	Punjab	Attock	13
19		Bahawalnagar	8
20		Bahawalpur	5
21		Chakwal	7
22		Dera Ghazi Khan	7
23		Faisalabad	59
24		Gujranwala	25
25		Gujrat	21
26		Hafizabad	2
27		Jhang	5
28		Jhelum	8
29		Kasur	4
30		Khanewal	10
31		Khushab	5
32		Lahore City	223
33		Layyah	1
34		Lodhran	3
35		Mandi Bahauddin	3
36		Mianwali	4
37		Multan	44
38		Muzaffargarh	5
39		Nankana Sahib	1
40		Okara	9
41		Pakpattan	3
42		Rahim Yar Khan	15
43		Rawalpindi	78
44		Sahiwal	6
45		Sargodha	17
46		Sheikhupura	9
47		Sialkot	23
48		Toba Tek Singh	4
49		Vehari	7
Punjab Total			**634**

S. No	Province	District	No of Branches
50	Khyber Pakhtunkhwa	Abottabad	12
51		Banu	4
52		Batagram	3
53		Buner	2
54		Charsadda	5
55		Chitral	3
56		Dera Ismail Khan	7
57		Hangu	2
58		Haripur	6
59		Kohat	5
60		Lower Dir	1
61		Malakand	1
62		Mansehra	12
63		Mardan	10
64		Nowshera	7
65		Peshawar	50
66		Shangla	1
67		Swabi	5
68		Swat	10
69		Tank	1
70		Upper Dir	5
KP Total			**152**
71	Gilgit-Baltistan	Baltistan	1
72		Diamir	3
73		Gilgit	1
	GB Total		**5**
74	**FATA**	Khyber Agency	1
75		Orakzai Agency	3
FATA Total			**4**
76	**Capital**	Islamabad	78
	Capital		**78**
77	Balochistan	Chagi	1
78		Gawadar	1
79		Kila Abdullah	5
80		Killa Saifullah	3
81		Lasbela	2
82		Loralai	6
83		Pishin	1
84		Quetta	38
85		Zhob	2
Balochistan Total			**59**
86	**Azad Kashmir**	Mirpur	11
87		Muzaffarabad	3
88		Poonch	1
AJK Total			**15**
Grand Total			**1423**