

Islamic Banking Bulletin

March 2015

**Islamic Banking Department
State Bank of Pakistan**

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Global Forum on Islamic Finance (GFIF) – A Viable Financial Alternative

Keynote Address by Mr. Saeed Ahmad,
Deputy Governor, State Bank of Pakistan
March 10, 2015 (PC, Lahore)

Distinguished Guests, Ladies and Gentlemen

Assalam-o-alaikum

I am pleased to be here again at this annual forum where all strategic stakeholders-scholars, bankers, practitioners and academics get together to deliberate upon realizing the enormous potential of Islamic finance industry. I commend COMSATS Centre of Islamic Finance for successfully holding this event over the last three years. Such commitment and determination makes me confident of the bright future of Islamic finance industry.

Ladies and Gentlemen

Islamic Finance has come of age and is being recognized as a capable alternative for addressing the structural flaws of conventional finance that are responsible for recurring financial crises globally. Owing to the strengths of being based on real economic activity and being devoid of excessive leveraging, imprudent risk taking while encouraging investment disclosure and setting higher standards of corporate governance, Islamic finance is increasingly winning the confidence of consumers across the globe. In this backdrop, Islamic finance industry needs to be developed in its true spirit by providing comprehensive, sustainable solutions and developing tools based on its distinguished features. Events like this can help the industry in finding solutions to barriers that are preventing the industry from achieving its full potential.

Ladies and Gentlemen

As you all know that the Islamic banking industry has progressed considerably and its share has increased from scratch in 2002 to nearly 11 percent of the overall banking industry in terms of assets as well as liabilities. However, we at State Bank of Pakistan are aware of the growing needs of this evolving industry and to this end we review our regulatory framework on a regular basis. A significant example in this regard is enhancement of Shariah compliance through the introduction of a Shariah Governance Framework which institutionalizes the Shariah compliance function in Islamic Banking Institutions (IBIs). The Framework requires IBIs to constitute Shariah boards along with prescribing an effective mechanism for the Board of Directors' oversight of the Shariah compliance environment and introduces an external Shariah audit requirement. We believe that the Framework will enable a 'best in class' Shariah governance environment to prevail in the country.

Ladies and Gentlemen

The growth of the industry is obviously good news, however, it also increases responsibility on its constituents to demonstrate the core characteristics of equitable distribution of wealth and resources. In my opinion, participatory based modes of finance are an effective route for this and I encourage practitioners to wholeheartedly adopt these modes. The inherent advantage of the Islamic financial

industry to fund projects on the basis of equitable participation and profit sharing between the owners and users of capital enables it to cater to the huge, unmet demands of underserved sectors such as agriculture and SMEs.

Like any other developing economy, agriculture is a strategically important sector of Pakistan's economy having 20% share in GDP and is a major source of livelihood for 65% of the country's population living in rural areas. However, it remains largely un/under-served by banks; only 2.09 million of about 8.3 million farm households in the country have access to bank credit. Similarly, only 135,000 SMEs at present are having access to bank financing out of 3.1 million SMEs across the country; Islamic banking institutions have just around 2,400 SME clients. Presently IBIs are largely concentrated in large urban centers and they will have to expand their outreach to smaller towns and rural/semi rural areas whilst leveraging technology to serve these markets.

Acknowledging the importance of these sectors, we at SBP are persuading the industry to increase their financing to these areas. In this regard, we have introduced targets of 5% of deposits or 10% of outstanding financing for IBIs in terms of their financing exposure to SMEs and agriculture each. These targets are included in the SBP's Strategic Plan of Islamic Banking Industry 2014-18. I am aware of problems like moral hazard, adverse selection and risks involved with participatory based modes but I encourage the industry to develop the desired system and skill to minimise these risks. On behalf of central bank I assure you of our full support and assistance.

Housing finance is another attractive avenue for Islamic banks as depicted by their 26.2 % share in the country's housing finance market, which is more than double their share in the banking system. However, the housing finance market is largely under developed in the country and presents huge potential. I would like to take this opportunity to request the Islamic banking industry to start focusing on low income housing which would pave the way towards the ultimate objective of Islamic finance.

Islamic microfinance can be instrumental in minimizing financial exclusion both voluntary and involuntary. To encourage the private sector in such ventures, we are providing multiple options to extend Islamic microfinance in the country. Unfortunately, no significant progress has been made in this regard. As this forum has gathered diversified stakeholders, I would take this opportunity to stress upon the need for developing Islamic microfinance in the country. This will not only provide investment avenues to Islamic financial institutions but will also enable these institutions to make significant contributions towards poverty alleviation.

Ladies and Gentlemen

The Islamic banking industry is required to focus on research and development for innovative products to meet the diversified needs of its growing clientele. We need to view research as a core ingredient of the overall strategy for achieving fast paced, sustainable growth. The survey based study on Islamic banking; "Knowledge, Attitude and Practices of Islamic banking in Pakistan" by SBP is a reflection of research being a priority for us. The study has identified overwhelming demand of Islamic banking among retail and corporate customers and reiterates the need for innovative solutions. I strongly recommend that we all need to join hands to build this critical block for the industry.

Ladies and Gentlemen

At such an important forum, I also want to highlight the significance of skilled and well trained human resources that are imperative for the continued growth of Islamic finance. Local industry present here must be well aware that SBP has remained at the forefront in developing human resources through conducting regular and customized programs, trainings and courses through our training subsidiary, the National Institute of Banking and Finance (NIBAF). I am pleased to share with you that we with the help of Ministry of Finance are in the process of developing a Centre of Excellence that will not only contribute in providing skilled human resources but will also work as a leading research center .

Ladies and Gentlemen

The present Government has shown a strong commitment and inclination towards promotion of Islamic finance as reflected by its initiatives including formation of a Steering Committee for Promotion of Islamic banking and the re-emergence of Pakistan as an issuer in international sukuk markets after nine years. The Steering Committee is working aggressively towards establishing a conducive environment for the growth of Islamic finance in the country and being the Chairman of the Committee I can proudly share that commencement of Shariah compliant Open Market Operations, issuance of sukuk regulations and the creation of an Islamic Finance Department at Security and Exchange Commission of Pakistan (SECP) along with the initiative of a Centre of Excellence are some of the Committee's significant achievements.

I am pleased to share with you that our efforts are being internationally recognized as demonstrated by Islamic Finance News awarding Pakistan's international sukuk as Pakistan's 'Deal of the Year' in Kuala Lumpur.

Ladies & Gentlemen

We at SBP are cognizant of the premise that the growth and development of capital markets, mutual funds and takaful complements the growth of the Islamic banking industry. Realizing the crucial need of close collaboration in the overall financial system, the joint forum of regulators, SBP and SECP has been revived. I am optimistic that this forum will help in creating a conducive environment that catalyses robust and vibrant institutional arrangements and develops the necessary regulatory standards for the Islamic financial industry

My best wishes for this Forum to be successful and I hope that discussions here would help in finding solutions and formulating the strategies that chart the future course of Islamic finance.

Thank You.

Islamic Banking Industry- Progress & Market Share

Overview

Growth momentum of the Islamic banking industry (IBI) continued during the first quarter of CY15 as both assets and deposits witnessed increases. Assets of IBI grew by 3.5 percent during January to March quarter 2015 to reach Rs 1,302 billion compared to Rs 1,259 billion in the previous quarter. Similarly deposits of IBI witnessed growth during the review quarter and were recorded at Rs 1,122 billion (see **Table 1**). In terms of market share, Islamic banking assets in overall banking industry remained unchanged at 10.4 percent in review quarter compared to the previous quarter. In contrast, market share of deposits in the overall banking industry increased from 11.6 percent by end December 2014 to 12.2 percent by end March 2015. Profitability of the IBI registered at Rs 4.8 billion during the review quarter and remained higher compared to Rs 3.2 billion profit earned during the same quarter last year. However, non-performing financing (NPF) of IBI increased during the first quarter of CY15 resulting in an increase in provisions against financing. Among other earning and profitability indicators, return on equity (ROE) increased during the quarter under review while return on assets (ROA) remained unchanged compared to the previous quarter.

	Industry Progress			Growth (YoY)			Share in Industry		
	Mar-14	Dec-14	Mar-15	Mar-14	Dec-14	Mar-15	Mar-14	Dec-14	Mar-15
Total Assets	1016	1259	1302	20.0%	24.2%	28.2%	9.4%	10.4%	10.4%
Deposits	872	1070	1122	23.9%	23.3%	28.7%	10.7%	11.6%	12.2%
Net Financing & Investment	662	765	768	-0.7%	7.9%	16.0%	7.6%	7.8%	7.5%
Total Islamic Banking Institutions	20	22	22	-	-	-	-	-	-
Total No. of Branches*	1314	1574	1597	-	-	-	-	-	-

Source: Quarterly Unaudited Accounts
*number includes sub-branches

IBI Network Expansion

Branch network of IBI witnessed moderate increase during the first quarter of CY15. This slow rate of branch expansion at the start of the year is in accordance with the usual expansion trend of the banking industry that picks up pace towards the end of year. In all, 23 additional Islamic banking branches started operations during the review quarter. These additional branches were established in Punjab, Sindh, Khyber Pakhtoonkhawa (KPK) and Baluchistan (see **Table 2**). On the contrary, windows operated by Islamic banking divisions (IBDs) of conventional banks depicted a slight decline during the review quarter; 922 compared to 929

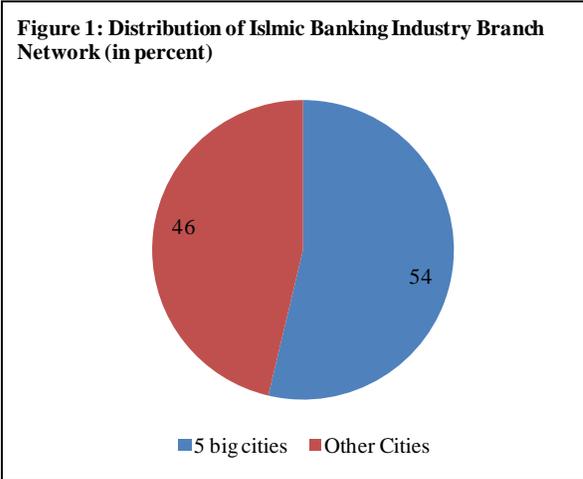
Province	Additional Number	Total Number	Share (percent)
Punjab	13	741	46.4
Sindh	4	513	32.1
Khyber Pakhtoonkhawa	5	170	10.6
Baluchistan	1	63	3.9
Gilgit Baltistan	-	5	0.3
FATA	-	4	0.3
Federal Capital	-	85	5.3
AJK	-	16	1.0
Total	23	1597	100

in previous quarter (see **Annexure 1** for details). It is, however, important to note that the branch networks of IBIs remain concentrated in major cities compared to second and third tier cities as 5 big cities i.e. Karachi, Lahore, Quetta, Peshawar and Islamabad comprise 54 percent of Islamic banking industry branch network (see **Figure 1**).

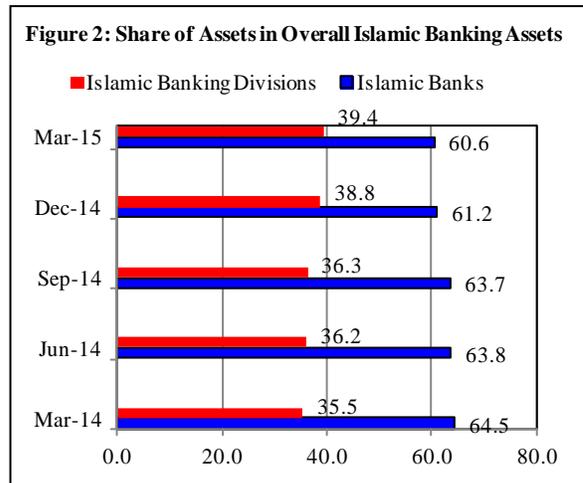
Asset and Liability Structure

Assets: Assets of IBI registered growth of 3.5 percent during January to March quarter 2015 to reach Rs. 1,302 billion from Rs. 1,259 billion in the previous quarter. Market share of Islamic banking in overall banking industry, however, remained unchanged at 10.4 percent as assets of both IBI as well as the overall banking industry grew at the same rate (3.5 percent) during review quarter. Analysis of investments and financing, the two major components of assets, shows that investments of IBI grew while financing witnessed decline during the first quarter of CY15 (see sections on **Investments** and **Financing** for details).

Further break up 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 the previous quarter, however, IBDs recorded relatively better growth (5.1 percent) compared to IBs (2.4 percent). Consequently, share of assets of IBDs in overall assets of IBI witnessed an increase as it improved from 38.8 percent in December 2014 to 39.4 percent in March 2015 (see **Figure 2**).



of investments and financing, the two major



Investments:

Net Investments of IBI increased to Rs 368.2 billion by end March 2015 from Rs 356.7 billion by end December 2014 showing quarterly growth of 3.2 percent (see **Table 3**). All components of investments except “other investments” contributed in this increase in investments. In terms of contribution to overall investments, federal government securities remained the highest contributor (67.3 percent) in overall investments. Increase in overall investment as well as federal government securities can be mainly attributed to “Bai Muajjal” of GoP Ijara Sukuk by SBP during the review quarter.

Table 3: Investments

Rupees in billions					
	Mar-14	Dec-14	Mar-15	Growth	
				YoY	QoQ
Federal government securities	240.4	240.5	248.7	3.4	3.4
Fully paid up ordinary shares	5.5	5.4	5.8	5.6	8.9
TFCs, Debentures, Bonds, & PTCs	34.6	45.1	50.2	44.9	11.4
Other investments	74.9	67.3	64.9	(13.3)	(3.6)
Investments by type					
Held for Trading	0.42	4.03	3.18	656.8	(21.0)
Available for Sale	325.9	331.2	340.1	4.4	2.7
Held to Maturity	15.9	18.3	21.3	34.5	16.6
Surplus /(deficit) on revaluation	6.0	0.7	1.0	(84.0)	46.4
Net Investments	354.0	356.7	368.2	4.0	3.2

Analysis of investments by type shows that majority of investments by IBI (more than 90 percent) is in the type of “available for sale” followed by “held to maturity” (nearly 6 percent of net investments). Both the above mentioned types of investments, i.e. “available for sale” and “held to maturity” increased during the first quarter of CY15 compared to previous quarter resulting in an increase in overall investments of the industry.

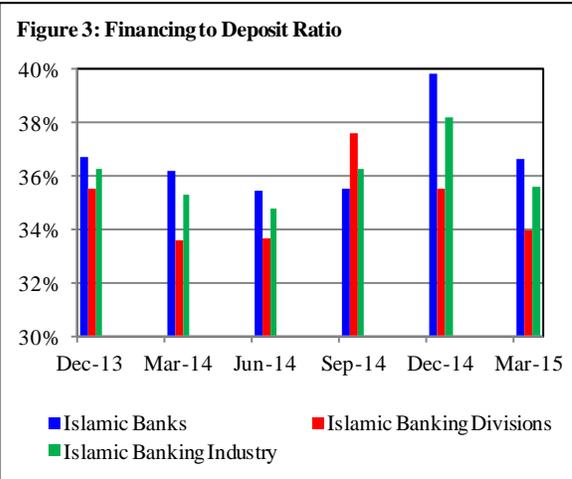
Financing

Gross financing of Islamic banking industry declined during the first quarter of CY15, to reach Rs 417.8 billion by end March 2015 from Rs 422.1 billion by end December 2014 (see **Table 4**). This, however, is in line with the usual trend in which financing declines during first quarter of a calendar year owing to the retirement of financing by majority of client industries due to the nature of their business cycle.

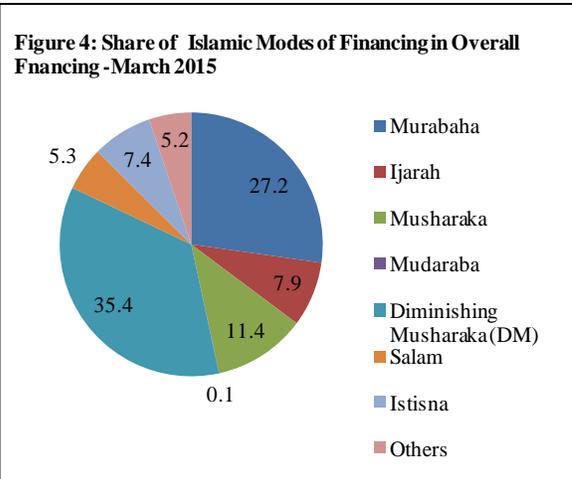
Table 4 : Financing Mix

Amount in billion Rupees			
	Mar-14	Dec-14	Mar-15
Murabaha	106.7	127.2	113.7
Ijara	27.1	32.3	33.1
Musharaka	27.9	46.5	47.6
Mudaraba	0.6	0.2	0.2
Diminishing Musharaka (DM)	107.2	137.7	147.9
Salam	18.6	19.2	22.3
Istisna	19.5	35.2	31.0
Others	15.5	23.8	21.9
Total	323.2	422.1	417.8

Analysis of financing to deposit ratio (FDR) shows that the FDR of Islamic banking declined slightly during the review quarter to be registered at 35.6 percent compared to 38.2 percent in the previous quarter. This was mainly due to decline in financings of IBI. FDR of both Islamic banks as well as Islamic banking divisions of conventional banks declined during the quarter ending March 2015. However in line with the general trend FDR of Islamic banks remained higher compared to FDR to Islamic banking divisions of conventional banks (see **Figure 3**).



Mode wise financing of IBI (see **Figure 4**) remained concentrated in Murabaha and Diminishing Musharaka as these modes collectively contributed nearly 63 percent of overall financing. However, Murabaha declined while Diminishing Musharaka increased both in absolute amount as well as its share in overall financing during the quarter under review. Among other modes of financing, Ijara, Musharaka and Salam witnessed increase in their share in overall financing.



In terms of sector wise financing, textile remained the most concentrated sector with its share in overall financing registering an increase during the quarter ending March 2015 compared to previous quarter. Among other sectors, chemical & pharmaceuticals,

Table 5: Sector Wise Financing - percent share

	Mar-14	Dec-14	Mar-15	Industry
Chemical and Pharmaceuticals	7.6%	7.1%	7.8%	3.6%
Agribusiness	1.7%	1.4%	1.4%	8.0%
Textile	19.0%	21.1%	21.4%	15.6%
Cement	0.7%	0.6%	0.5%	0.8%
Sugar	4.8%	3.1%	4.4%	4.2%
Shoes and leather garments	0.8%	1.0%	1.1%	0.5%
Automobile and transportation equipment	2.2%	2.1%	1.9%	1.5%
Financial	0.7%	0.3%	0.6%	2.3%
Insurance	0.0%	0.0%	0.0%	0.0%
Electronics and electrical appliances	1.7%	2.0%	1.8%	1.4%
Production and transmission of energy	10.8%	11.8%	12.2%	13.2%
Individuals	14.0%	13.0%	13.9%	8.5%
Others	36.1%	36.6%	33.0%	40.4%
Total	100.0%	100.0%	100.0%	100.0%

sugar, shoes & leather garments, financial, production & transmission of energy and individuals witnessed increase in their shares in overall financing during the quarter under review (see **Table 5**).

Client wise financing of IBI remained concentrated in corporate sector, having a share of nearly 77 percent followed by consumer financing (12.4 percent) (see **Table 6**). Like previous quarters, financing extended by Islamic banking in SMEs and agriculture remained lower compared to overall banking industry indicating limited outreach of IBI in these two sectors.

Table 6: Client Wise Financing Portfolio (Share Percent)

	Mar-14	Dec-14	Mar-15	Industry
Corporate Sector	74.4%	76.9%	76.6%	67.9%
SMEs	5.3%	3.6%	3.4%	5.9%
Agriculture	0.1%	0.4%	0.4%	5.8%
Consumer Finance	12.7%	11.9%	12.4%	6.4%
Commodity Financing	5.8%	5.3%	2.9%	11.8%
Staff Financing	1.7%	1.6%	1.7%	2.1%
Others	0.1%	0.3%	2.7%	0.1%
Total	100.0%	100.0%	100.0%	100.0%

Asset Quality

Non-performing financing (NPF) of IBI increased to Rs.20.1 billion by end first quarter CY15. All categories of non-performing financing, except “doubtful” witnessed an increase during the review quarter (see **Table 7**). Decline in “doubtful” category in conjunction with increase in “loss” category can be contributed to shifting of “doubtful” loans to “loss”.

Table 7: Non-Performing Financing & Assets

	Rupees in billions				
	Mar-14	Dec-14	Mar-15	Growth in %	
				YoY	QoQ
NPF	18.8	19.8	20.1	7.1	1.5
Substandard	1.4	1.3	1.6	13.2	25.8
Doubtful	0.9	1.6	0.8	-12.1	-52.1
Loss	16.4	16.8	17.6	6.8	4.7
Provisions	14.4	16.6	17.5	22.1	5.4
Net NPF	4.4	3.2	2.6	-41.5	-19.1
Recovery (year to date)	0.5	0.7	0.4	-20.1	-44.7
NPA	22.4	22.6	22.8	1.7	1.0
Net NPAs	5.3	3.9	3.1	-41.0	-19.6

Increase in non-performing financing also resulted in an increase in provisions against financing during the review quarter. All NPFs categorized as “loss”, which is 87.3 percent of total NPFs, are fully provisioned. Consequently, provisions to NPFs reached 87.2 percent as of March 2015 which is higher than the industry average of 80.2 percent (see **Table 8**). Non-performing assets (NPA) of IBI also increased during the quarter to reach Rs 22.8 billion from Rs 22.6 billion in the previous quarter. Increase in absolute amounts of NPF, NPA and provisions can be attributed to the growing size of the industry. Among other asset quality indicators, NPFs to financing ratio increased while Net NPAs to Capital and Net

Table 8: Performance Indicators

	Mar-14	Dec-14	Mar-15	Industry
Assets Quality Ratio				
NPFs to Financing	5.8%	4.7%	4.8%	12.8%
Net NPFs to Net Financing	1.4%	0.8%	0.6%	2.8%
Provisions to NPFs	76.5%	83.9%	87.2%	80.2%
Net NPAs to Total Capital	7.0%	4.8%	3.7%	10.2%

NPFs to Net Financing both declined compared to previous quarter.

Liabilities

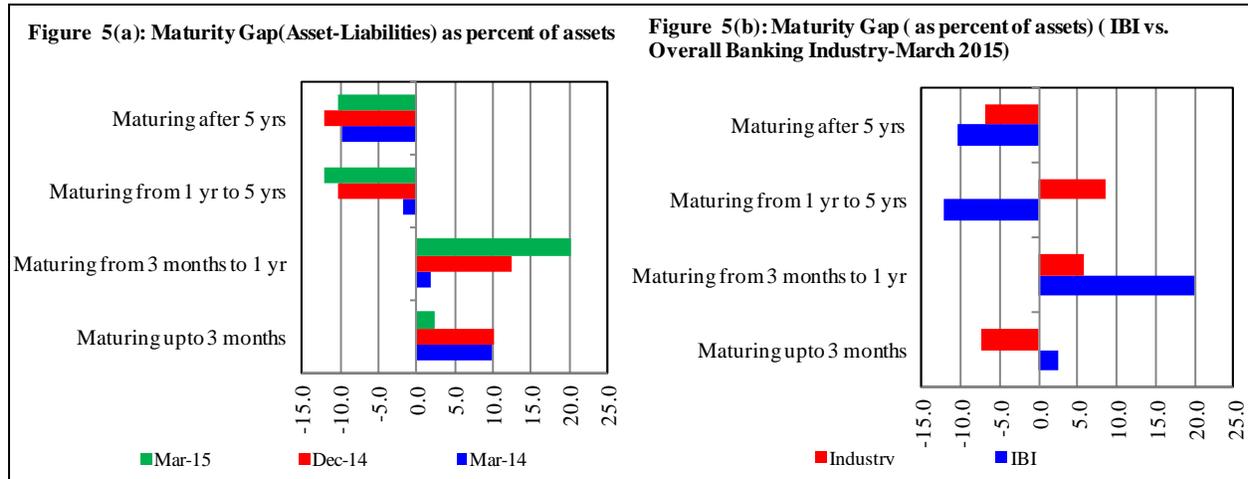
Deposits of IBI continued to increase as they reached Rs. 1,122 billion by end March 2015 showing an increase of 4.9 percent during the quarter. Market share of IBI deposits in overall banking industry deposits also increased from 11.6 percent in December 2014 to 12.2 percent by end March 2015. The rise in overall deposits was mainly contributed by customers' deposits which grew by 6.3 percent during the quarter under review. Within customers' deposits, fixed deposits as well as saving deposits registered positive growth during the period under review with fixed deposits growing at a faster pace compared to saving deposits (see **Table 9**). Other categories of customers' deposits including remunerative as well as non-remunerative current accounts also grew during the review quarter with remunerative current accounts growing higher (12.9 percent) than non-remunerative current accounts (2.0 percent). Bifurcation of deposits among IBs and IBDs shows that deposits of both witnessed increase with deposits of IBDs growing at a higher pace (7.4 percent) compared to growth in deposits of IBs (3.4 percent).

Table 9: Break up of Deposits

	Rupees in billions and growth in percent				
	Mar-14	Dec-14	Mar-15	YoY	QoQ
Deposits	872.1	1,069.7	1,122.3	28.7	4.9
Customers	808.6	1,003.8	1,067.1	32.0	6.3
Fixed Deposits	250.0	292.4	331.9	32.8	13.5
Saving Deposits	340.2	411.3	429.5	26.3	4.4
Current accounts - Remunerative	2.6	3.5	3.9	49.7	12.9
Current accounts - Non-remunerative	212.4	291.7	297.6	40.1	2.0
Others	3.4	4.8	4.1	21.2	(15.5)
Financial Institutions	63.5	65.9	55.2	(13.0)	(16.2)
Remunerative Deposits	62.9	61.8	44.5	(29.3)	(28.1)
Non-remunerative Deposits	0.6	4.1	10.8	1,833.8	164.0

Maturity Gap

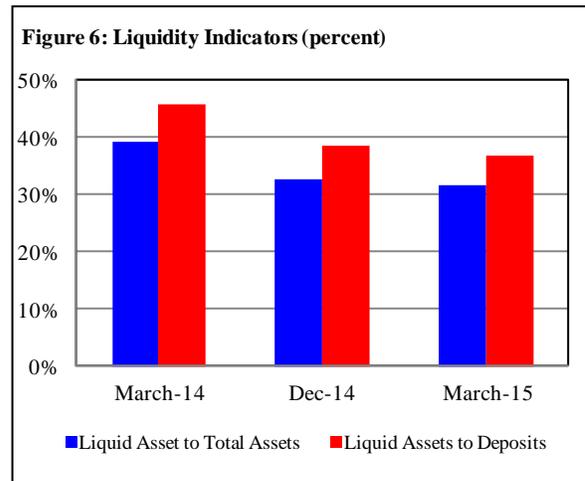
The decline in short term assets during the first quarter CY 15 resulted in significantly reducing the positive gap of IBI for the short term category of up to 3 months (ms). This trend is in line with the overall banking industry, however, for the latter gap in the above mentioned category is negative (see **Figure 5**). For the category of 3ms to 1yr, IBI depicted positive gap following the usual trend owing to



relatively high growth in assets of 3ms to 1yr. However, for longer term categories from 1yr to 5yrs and above 5yrs, IBI exhibited negative trend. For 1yr to 5yrs, the negative gap increased from 10.4 to 12.2 percent due to decline in assets of this tenure given liabilities of this duration remained constant during the mentioned period. While for the category of above 5 yrs, the gap is negative for IBI in keeping with the banking industry despite assets of above 5 yrs exhibiting a small increase whilst liabilities experienced a smaller decline.

Liquidity Ratios

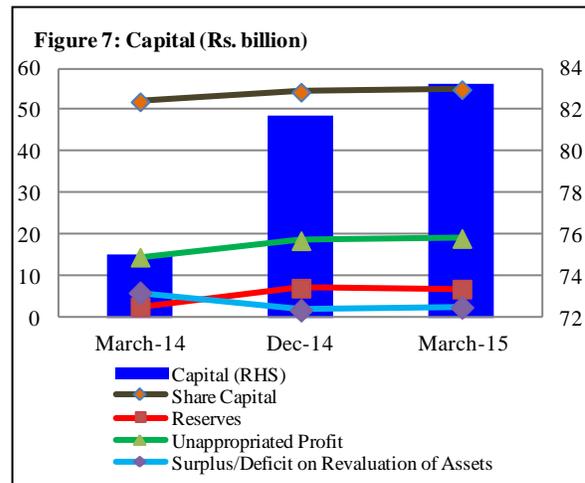
Both Liquid Assets (LA) to Total Assets (TA) and LA to Deposits ratios depicted a small decline in first quarter of CY15 compared to the last quarter as well as same period last year (see **Figure 6**). These lower ratios of IBIs can be mainly associated with low activity of call money financing (short term financing) and relatively small growth in investing in government securities owing to limited availability of Shariah compliant investable assets as the last sovereign sukuk was issued in June 2014¹. Following the ongoing trend LA to TA (32 percent) and LA to Deposits (37 percent) both ratios are significantly lower than those of industry averages of 52 percent and 70 percent respectively for the quarter under review.



¹ Balances with other banks also showed decline though this constitutes a small share.

Capital

Overall capital of IBI increased by PKR 1.6 billion during the first quarter CY15, indicating 1.9 percent quarterly growth. This increase in capital is contributed by increase in paid up capital, unappropriated profit as well as revaluation of assets (see **Figure 7**). The ratio of Capital to Assets of IBIs (6.4 percent) is lower than that of industry which is at 10 percent as Islamic banking institutions (IBIs) are in the process of building up their capital to meet regulatory requirements (see **Table 10**).



Profitability & Earnings

IBI registered profit before tax (PBT) of Rs. 4.8 billion by end of first quarter CY15 depicting a growth rate of 48 percent compared to the same quarter last year. Though profitability of both IBDs and IBs

Table 10: Performance Indicators (Capital)

	Mar-14	Dec-14	Mar-15	Industry
Capital to Total Assets	7.4%	6.5%	6.4%	10.0%
(Capital - Net NPAs) to Total Assets	6.9%	6.2%	6.2%	8.9%

increased compared to the same quarter last year, the increase in profitability of IBDs was much higher (95.0 percent) than increase in profitability of IBs (17.6 percent). Hence contribution of IBDs profitability towards overall profitability of IBI increased to 52 percent by end first quarter CY15 compared to 39 percent in the same quarter last year. This shift in major share in profitability of IBI from IBs to IBDs can be associated with relatively higher growth of assets and expansion of IBD’s network (see section on **Assets** for details).

Profit earned during the quarter is also reflected in improving returns on equity (ROE) compared to the previous quarter while return on assets (ROA) depicted no change (see **Table 11**). Keeping with the usual trend, ROA of IBI is less than that of overall banking industry while ROE is higher than the industry average. However, IBIs have not been able to bring expenses at a level which is comparable to the conventional banking industry as indicated by higher Operating Expense to Gross Income. This can be associated with the expansionary phase of the industry. However, the indicator has shown improvement over the time as it is lower (63 percent) than that for the same quarter last year (68 percent). However, Personnel Expense to Operating Expense of IBI is marginally lower than that of the overall industry average.

Table 11: Earning & Profitability of IBI

	Mar-14	Dec-14	Mar-15	Industry
Net Income to Total Assets (ROA)	1.0%	1.2%	1.2%	1.7%
Return on Equity (ROE)	13.7%	16.5%	18.7%	17.0%
Operating Expense to Gross Income	68.8%	66.0%	63.9%	47.0%
Personnel Expense to Operating Expense	40.0%	38.6%	40.1%	40.8%

Country Model

Kazakhstan:

Islamic banking and finance services began in Kazakhstan in 2009 following an amendment to the Kazakhstan Banking Law. The amendments to the law established regulations for the creation of Islamic banks and for issuing of Islamic securities. In the following year (2010), the first Islamic bank of the country, i.e. JSC “Al Hilal Bank” started operations in the country. Despite five years of introduction, Islamic banking in the country has yet to develop as assets of Islamic banks still account for less than one percent of the entire banking industry.

Legal Framework for Islamic Banks in Kazakhstan:

In terms of the legal framework, Islamic banks are allowed to participate in corporate equities as well as in trading activities. Moreover, issuance of Islamic securities has been allowed. For Islamic banking products, a separate tax regime is in place. At present, work on further improvement of the legislation of Kazakhstan is being carried out and a draft law has been developed. The draft law includes areas including Islamic insurance, amendments providing for recognition of commodity Murabaha as intrinsic to Islamic banking operations, mechanisms and methodologies for tax administration of commodity Murabaha, as well as acceptance of deposits by Islamic banks on the principles of agency activities (Wakala). With regards to financial reporting for Islamic banking institutions, an accounting framework based on standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has been developed.

Islamic Capital Markets in Kazakhstan:

Regulatory changes were made in the Law of the Republic of Kazakhstan during 2011, which allowed issuance of Islamic securities. Thus in 2012, the Development Bank of Kazakhstan, a government owned financial investment institute, issued the first sukuk in the country. At present, Kazakhstan is working with Dubai for bringing more sukuk products to its stock exchange. In this regard, Nasdaq Dubai and the Kazakhstan Stock Exchange have signed a memorandum of understanding, part of which involves co-operation on promoting Islamic capital markets products and solutions. According to reports, the country’s first sovereign sukuk is likely to be issued in 2016.

Road Map for Islamic Finance Development:

In 2010, the President of Kazakhstan expressed his desire for making Almaty a regional centre of Islamic banking in the Commonwealth of Independent States (CIS) and Central Asia and to enter the top ten leading financial centers in Asia by 2020. Thus a “Road Map for Development of Islamic Finance by 2020”, was released in 2012 aimed at expansion of the Islamic banking and finance industry in the country. Consequently, a Regional Financial Centre of Almaty City (RFCA) was established that works towards improving Kazakhstan’s financial services market.

Future Outlook:

The Regional Financial Centre of Almaty City (RFCA) predicts that by 2020, Islamic finance would account for 10 percent of Kazakhstan's GDP. For achieving this goal, the Centre plans further development of Islamic finance in terms of expansion of Islamic financial instruments, creation of favorable conditions for building the infrastructure of an Islamic products market and adoption of incentive measures to attract issuers and investors in conducting their activities based on the principles of Islamic finance in the domestic securities market. With a Muslim population of nearly 70 percent in the country, Islamic banking and finance has great potential in Kazakhstan and the country can create an important place for itself in Central Asia.

Sources:

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Brief on Shariah Governance Framework

Introduction

State Bank of Pakistan (SBP) endeavors to ensure that the operations of Islamic banking institutions (IBIs) remain in conformity with the rules and principles of Shariah. Accordingly, it has been issuing regulations, instructions and guidelines on Shariah compliance since the re-launch of Islamic banking in 2001. In 2008, SBP issued a detailed set of instructions and guidelines for Shariah compliance vide IBD Circular No. 2 of 2008. However, keeping in view the developments taking place in the Islamic banking industry over the recent years, some of the instructions and guidelines have been revisited and a comprehensive Shariah Governance Framework ('SGF or Framework') has been developed. Initially the Framework was notified vide IBD Circular No. 3 of 2014 with the implementation date of October 1, 2014, however, the implementation date was later deferred. In response to the feedback received from all stakeholders, a revised framework was notified via IBD Circular No. 01 of 2015 with the implementation date of July 1, 2015. A brief detail of SGF is as follows;²

The Framework is applicable to all IBIs, i.e. full-fledged Islamic banks, Islamic banking subsidiaries and Islamic banking divisions of conventional banks. The primary objective of the Framework is to strengthen the overall Shariah compliance environment of IBIs and explicitly define the roles and responsibilities of various organs of IBIs including the Board of Directors (BOD), Executive Management (EM), Shariah Board (SB), Shariah Compliance Department (SCD), internal and external auditors towards Shariah compliance.

The SGF of an IBI shall, at the minimum, cover the following:

- i. An effective mechanism for the BOD's oversight of the IBI's Shariah compliance environment.
- ii. Accountability of management and staff of the IBI in implementation of the Framework.
- iii. An independent and effective SB appointed as per the Fit and Proper Criteria (FAPC) set out in Annexure-A of this Framework, with one of its Shariah scholar members working as Resident Shariah Board Member (RSBM) to oversee the procedures and processes to be adopted for implementation of the SB's fatawa, resolutions and guidelines and provide clarification thereon.
- iv. A SCD to assist SB and to serve as a conduit between the SB and the management of an IBI.
- v. Shariah compliance review mechanism to assess operative effectiveness of Shariah governance and compliance framework devised by the SB and BOD of the IBI.
- vi. An independent Internal Shariah Audit Unit (ISAU) which may be a part of internal audit department or an independent unit depending on the size of the IBI.

² This note is a brief description of SGF and should not be considered as regulation of SBP.

The detailed regulation of SBP on Shariah Governance Framework for Islamic banking institutions can be seen at <http://www.sbp.org.pk/ibd/2015/index.htm>

- vii. External Shariah audit to be undertaken along with the annual audit of the IBI.

1. Role of Board of Directors (BOD)

The BOD shall be ultimately responsible and accountable for ensuring full conformity of the IBI's operations with Shariah principles. Like other risks faced by an IBI, the BOD needs to be fully cognizant of the risk of Shariah non-compliance and its potential implications on the reputation and business of the IBI. Towards this end, the BOD shall introduce an effective mechanism including diligent oversight on functioning of the Framework and compliance with the fatawa, instructions, and guidelines of the SB. The BOD will be expected to introduce the necessary mechanisms and risk management systems to safeguard the interests of investment account holders (IAHs)/PLS depositors. The BOD shall appoint a SB to perform such activities and shall take appropriate measures for introducing and implementing an effective Shariah compliance framework.

2. Role of Executive Management (EM)

The EM of an IBI shall be responsible for implementation of the Framework while the management is expected to arrange programs on a regular basis for orienting and sensitizing the BOD and key executives about the business utility and importance of an enabling Shariah compliance environment. Instances of Shariah non-compliance shall also have a strong bearing on their performance appraisals, promotions, increments, bonuses, etc.

3. Shari'ah Board (SB)

A. Constitution of the SB and Appointment of SB Members

Every IBI shall have a SB comprising at least three Shariah scholars appointed by the BOD as per the Fit and Proper Criteria prescribed by SBP. The appointment of the SB members shall be subject to prior written clearance of SBP. IBIs may, in consultation with the SB, also seek services of or engage lawyers, accountants, economists and such other professionals to assist and advise the SB on banking, legal, financial, economic and other relevant matters. The engagement of such members shall however be of advisory nature and they shall not have any voting rights in the meetings of SB.

The SB members shall be appointed for a term of three years and shall be eligible for reappointment. Upto three years from the date of coming into force of this Framework, SB members, except RSBM, may serve on the SBs of up to three IBIs in Pakistan. At least two months prior to the expiry of the term, members (including the Chairperson) of SB may be reappointed as a member of SB for another term, subject to prior written clearance of SBP and pursuant to Fit and Proper Criteria.

The decision to terminate any member of SB shall be subject to prior approval from SBP on sufficient cause being shown by the IBI and upon giving such member due opportunity of being heard by the BOD of the IBI. In case any SB member resigns before the expiry of his/her term, such member shall submit the resignation, together with reasons thereof, to the BOD in case of domestic banks and Country Manager in case of foreign banks along with a copy to SBP. A casual vacancy arising on the SB caused by resignation, removal or termination or death of a member shall be filled by the BOD within three months from the date on which such vacancy was caused.

B. Role of Shariah Board

The SB shall be empowered to consider, decide and supervise all Shariah related matters of the IBI. All decisions, rulings, fatawa of the SB shall be binding on the IBI whereas SB shall be responsible and accountable for all its Shariah related decisions. The SB shall cause to develop a comprehensive Shariah compliance framework for all areas of operations of the IBI.

All reports of internal Shariah audit and Shariah compliance reviews shall be submitted to the SB for consideration and prescribing appropriate enforcement action. The SB shall take up the unresolved issues with management and shall include all significant outstanding issues in its annual report on the Shariah compliance environment of the IBI.

The SB shall also specify the process/procedures to be adopted for changing, modifying or revisiting fatawa, rulings and guidelines already issued by it. Notwithstanding anything contained herein, all decisions and rulings of the SB of the IBI shall be in conformity with the directives, regulations, instructions and guidelines issued by SBP in accordance with the rulings of SBP's Shariah Board.

C. Shariah Board Meetings, Quorum, Minutes

The SB shall, in addition to its meetings with the BOD meet at least on a quarterly basis and each member of the SB shall attend at least two thirds of the meetings held during a calendar year. Further, in addition to the mandatory quarterly meeting, the Chairperson of the SB may convene SB's meetings as and when he deems it necessary. The quorum of the SB meetings, including that with BOD of the IBI, shall be at least two thirds of Shariah scholar members.

The SB decisions should preferably be made through consensus of the Shariah scholar members; however in case of difference of opinion, the decisions may be made by a majority vote of the Shariah scholar members. In the event of equality of votes, the Chairperson shall have a second or casting vote.

The minutes of meetings of the SB shall be submitted to IBD-SBP within 45 days of the meeting for information and record. Further, the minutes shall be made available to the BOD, SBP inspection teams, internal and external auditors on request, enabling them to appreciate and understand the rationale and background of the SB rulings, decisions and fatawa.

D. Independence of Shariah Board (SB)

The SB shall discharge its duties independently and objectively. The members of the SB shall continuously assess their relationships with their respective IBIs to identify any situation where any issue related to independence may actually or potentially arise or can reasonably be inferred. The BOD shall ensure that the SB is not subject to any undue influence or pressure from the management and/or its own members.

E. Report of Shariah Board

The SB shall, based on the findings and reports of internal and external Shariah audits and Shariah compliance review, prepare a report on the IBI's Shariah compliance environment and conditions. The report shall be signed by all members of the SB. Further, the report shall also be placed before the BOD meeting for discussion and shall be published in the IBI's annual report.

4. Resident Shariah Board Member (RSBM)

The SB of an IBI shall, in consultation with the management, designate one of the SB members other than the Chairperson as RSBM. The RSBM shall oversee the procedures to be adopted for implementation of the resolutions, pronouncements and fatawa of the SB and provide guidance thereon. The explanation or clarification given by RSBM shall be binding on IBI.

In principle, RSBM shall be appointed on a full time basis; however, SB having regard to specific circumstances of the IBI may, at its own discretion, allow RSBM to devote some time to academic activities related to the Shariah. Further, RSBM of an IBI shall not serve in any capacity whatsoever in any other IBI in Pakistan. However, he may with prior approval of the SB of IBI serve as a member of Shariah Board of a maximum two other IFIs.

5. Shariah Compliance Department (SCD)

Every IBI shall have a SCD which may be headed by a RSBM or a suitably qualified, trained and experienced officer recommended by the SB. The SCD shall work under the overall guidance and supervision of the SB and its Head shall report to the SB and his/her performance appraisal shall be finalized by SB. The SCD shall be responsible for (i) being Secretariat of the Shariah Board (ii) conduit between Management and the Shariah Board (iii) Shariah compliance review (iv) enforcement of Shariah audit reports (v) training on Shariah compliance and (vi) other functions such as preparation of a comprehensive procedure manual and website update to ensure dissemination of the desired information. The SCD shall submit a report regarding the status of compliance of audit observations to the SB for information on a periodic basis.

6. Internal Shariah Audit

Every IBI shall have an Internal Shariah Audit Unit (ISAU) which may be a part of the internal audit department or an independent unit, depending on the size of the IBI. The IBI shall ensure that staff of ISAU are adequately qualified and trained to perform their duties. Internal Shariah audit staff shall be dedicated to Shariah audit only; however, internal Shariah audit and regular audit of a branch or a function can be performed simultaneously. The final internal Shariah audit report shall be submitted to SB for consideration and for determining appropriate corrective action(s).

The final report along with the enforcement/corrective actions determined by the SB shall be sent to the Board Audit Committee (BAC) for information and ensuring compliance with SB directives on the report.

7. External Shariah Audit

In order to have an independent assessment of the Shariah governance and compliance environment of an IBI, the scope of external audit of IBIs shall also include an independent and objective assessment of the conformity of IBI's operations with Shariah rules and principles. The audit firms would need to take appropriate measures to have the capacity in relation to resources and methodology to conduct the Shariah audit of an IBI. The external auditors shall prepare a report for the BOD while a copy of the report shall also be submitted to IBD-SBP.

8. *Conflict Resolution*

In case of any difference of opinion between IBD-SBP and an IBI or between IBI and SBP inspection team or any other department of SBP regarding Shariah conformity of IBI's products, services, contracts and transactions, the matter shall be referred to IBD-SBP. If deemed appropriate by IBD-SBP, it may escalate the case to SBP's Shariah Board for consideration and decision. The SB of the IBI may also refer Shariah issues to SBP for seeking opinion of its Shariah Board.

9. *Competence of the Organs Dealing with Shariah Governance Framework*

The BOD and EM of an IBI are expected to have a reasonable knowledge of Shariah principles and their broad application in the context of the Islamic finance. It shall be ensured that the members of the BOD and the EM are provided orientation sessions/training in Islamic banking on a regular basis which, apart from their professional development, would also facilitate an effective implementation of this Framework. Similarly, members of the SB of an IBI shall also be required to undergo and attend training sessions and orientation programs related to the applicable legal and regulatory framework, banking, finance, treasury operations, etc to improve their understanding of such matters in the context of an IBI.

Events and Developments at IBD

3rd Round of Financial Innovation Challenge Fund (FICF) on Promoting Excellence in Islamic Finance

Held on January 9, 2015 at Serena Hotel, Islamabad

The launching ceremony of 3rd Challenge Round of Financial Innovation Challenge Fund (FICF) on “Promoting Excellence in Islamic Finance” under the UKAID-sponsored “Pakistan Financial Inclusion Programme” was held on January 9, 2015 at Serena Hotel, Islamabad. Senator Mohammad Ishaq Dar, the Honorable Federal Minister for Finance, Revenue, Statistics, Economic Affairs & Privatization was the Chief Guest on the occasion which was well attended by Presidents/Executives from Islamic Banking Institutions, Shariah Advisors and academia.

Training Program on “Fundamentals of Islamic Banking Operations” (FIBO)

Held during February 16 – 20, 2015 at Mirpur, AJK

The sixth program of series of training program titled “Fundamentals of Islamic Banking Operations” (FIBO) focused on enhancing skills and knowledge base of field staff of Islamic Banking Institutions (IBIs) particularly Branch Managers (BMs), Operation Managers (OMs) and Relationship Managers (RMs), was organized from the platform of NIBAF on 16-20 February, 2015 at Mirpur University of Science & Technology (MUST), Mirpur, AJK. The program was also attended by academia and students of AJK region.

Knowledge Sharing Session with Mr. Sohail Jaffer

Held on February 24, 2015 at LRC, SBP

SBP organized a knowledge sharing session on “Islamic Wealth Management- Global Trends & Opportunities in Pakistan” and “Takaful & Bancatakaful – Challenges and Opportunities in Pakistan” on February 24, 2015 at LRC, SBP, wherein Mr. Sohail Jaffer, Deputy CEO – FWU Global Takaful Solutions, was the guest speaker. The session was attended by Shariah advisors and officials of IBIs, Modaraba companies, asset management companies and Takaful companies. 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 Sessions on Islamic Finance for Officials of Ministry of Finance

Held on February 26, 2015 at NIBAF – Islamabad

SBP arranged a special session for officials of Ministry of Finance on February 26, 2015 at National Institute of Banking and Finance (NIBAF), Islamabad. In this regard, a team comprising Shariah Advisor and SBP officials briefed the participants.

Opening Ceremony of Proposals on Establishment of Centre of Excellence for Promotion of Islamic Finance

Held on March 25, 2015 at LRC Auditorium, SBP

SBP hosted the opening ceremony of proposals on Establishment of Centre of Excellence for Promotion of Islamic Finance on March 25, 2015 at LRC, SBP. Senator Mohammad Ishaq Dar, the Honorable

Federal Minister for Finance, Revenue, Statistics, Economic Affairs & Privatization was the Chief Guest on the occasion which was well attended by Presidents/Executives from Islamic banking institutions, Takaful asset management and Modaraba companies, along with Shariah advisors, academia and media personnel.

Awareness Programs & Focus Group Meetings during January to March 2015

Islamic Banking Focus Group meetings were held at Lahore and Gujranwala. The same were attended by IBD officials as guest speakers. Further, in line with the SBP's objective of improving awareness of Islamic finance among various segments of the society, various awareness programs were also held in Faisalabad, Gujrat, Gujranwala, D.I. Khan and Lahore. The same were attended by SBP representatives, Islamic banking professionals and Shariah scholars as guest speakers, while a good number of people including academia, students, representatives of IBIs, members of Chamber of Commerce & Industries, etc. attended these programs as participants.

Islamic Banking News and Views

News

Islamic banking and finance industry has progressive outlook in 2015

The year 2014 proved to be tremendous for Islamic banking and finance industry. It not only exceeded the limit of 2 trillion dollars assets but it also got access to the new markets including various new destinations of European region, Korea, Australia, Brazil, Malta, Argentine, China and many more. Islamic banking and finance gained popularity in its traditional markets of e.g. Malaysia, Pakistan and Middle East as well.

<http://www.brecorder.com/money-a-banking/198/1138766/>

Bahrain engineers pioneering mechanism to advance Islamic debt capital market

Home to the world's leading international Islamic finance institutions, Bahrain has a longstanding reputation for being a formidable Islamic finance player strongly bolstered by solid government and market support. The Central Bank of Bahrain (CBB) and Bahrain Bourse (BHB) introduce a pioneering mechanism which is expected to increase the sophistication of its Islamic capital market. According to an official announcement by the BHB, the new mechanism allows both individual and institutional investors to secure direct ownership in government debts (conventional and Islamic) issued by the CBB in the primary market through the bourse as of January 2015 making Bahrain the first country in the Middle East to introduce such a system.

www.islamicfinancenews.com

Get ready for corporate sukuk boom after sovereign rush

The busiest year on record for sovereign Islamic bond sales is poised to be eclipsed as a revival in corporate issuance takes hold in 2015. Companies in the U.K. and Hong Kong may be among those selling sukuk this year as they follow debut issues from their governments, according to National Bank of Abu Dhabi PJSC, the biggest Middle Eastern underwriter of Islamic bonds in 2014. Corporates in the

Gulf Cooperation Council will be encouraged to tap the market as bank liquidity and credit conditions deteriorate amid declining oil prices, Moody's Investors Service said last month.

<http://www.bloomberg.com/news/articles/2015-01-05/get-ready-for-company-boom-after-sovereign-rush-islamic-finance>

Unlocking the Islamic banking opportunity in Africa

With the fast rise of African economies, huge potential for Islamic finance grows but financial institutions need to be prepared for Shari'ah-compliant tech requirements, explains Kedarnath Sridhara, Principal Consultant, Infosys Finacle. Over the past decade, the African economy has consistently grown faster than the developing world. It is heartening to note that this time growth is less dependent on volatile commodity exports and instead led by increasing domestic consumption due to a burgeoning middle class with good disposable income levels. Buoyed by robust domestic demand, macroeconomic stability, ongoing economic reforms and strong export performance, GDP growth for sub-Saharan Africa is expected to reach 5.3 per cent in 2014 and 5.5 per cent in 2015.

http://www.zawya.com/story/Unlocking_the_Islamic_banking_opportunity_in_Africa-ZAWYA20150114063407/

IMF study sees banking holes threatening growth of Islamic finance

Islamic banks have yet to devise strategies for attracting large swathes of the global Muslim population, limiting the industry's prospects, according to researchers at the International Monetary Fund. Growth of Shariah-compliant finance has done little to boost inclusion for individuals and businesses without bank accounts, a working paper from staff at the Washington-based fund said this month. Banks need to focus on small and medium-sized enterprises and pursue private equity and venture capital initiatives, according to the paper. The research underscores some of the challenges facing an industry that Ernst & Young LLP says may more than double to \$3.4 trillion between 2014 and 2018. "

<http://www.telegram.com/article/20150218/NEWS/302189668&Template=printart>

SECP sets up specialized department to regulate Islamic finance companies

To regulate and develop the Islamic financial market, the Securities and Exchange Commission of Pakistan (SECP) has established an Islamic Finance Department. The new specialized department shall carry out the functions of Shariah regulation and compliance, product development, market awareness, Shariah securities market development and international liaison and networking, said a statement. The Islamic Finance Department will act as a backbone for coordination between the SECP's operational departments with the primary objective of regulating and promoting Islamic finance and Shariah compliance in the capital market.

<http://www.brecorder.com/pakistan/business-a-economy/223916-secp-sets-up-specialized-department-to-regulate-islamic-finance-companies.html>

Musharakah gaining popularity among Pakistani Islamic banking institutions

While Islamic finance in Pakistan may have been pioneered by Modaraba (known as Mudarabah in IFN pages) institutions in the mid 1980s, latest statistics by the State Bank of Pakistan reveal that the Musharakah concept is gaining favor among Islamic banking institutions. Prior to the third quarter of

2014, the growth of Musharakah financing hovered in the single-digit realm but since March 2012, this particular mode of financing has been steadily increasing in terms of market share, finally breaking the double-digit barrier for the first time last September. Musharakah commanded 10.1% of Pakistan's bank financing mix at the end of the third quarter, more than double the 4.2% share in the corresponding period of 2013.

www.islamicfinancenews.com

SECP approves rules for sukuk issue

The Securities and Exchange Commission of Pakistan (SECP) has approved regulations for the issuance of sukuk in an effort to develop the Islamic capital market and to facilitate fund-raising through Shariah-compliant financial products. A draft of Sukuk Regulations 2015 was earlier notified for seeking public comments. According to the SECP, the Islamic capital market is considered an important segment of a developed and broad-based capital market.

<http://tribune.com.pk/story/833639/secp-approves-rules-for-sukuk-issue/>

ADB steps up Islamic finance efforts, eyes infrastructure

The Asian Development Bank (ADB) is stepping up efforts to assist member countries to use Islamic finance in areas such as infrastructure financing, ranging from technical assistance to providing credit guarantees, an ADB official said. The Manila-based development lender sees Islamic finance, a sector which now holds systemic importance in countries such as Pakistan and Bangladesh, as complementing its objectives to boost financial inclusion and promote financial stability. Sharia-compliant instruments such as sukuk, or Islamic bonds, have gained prominence as funding tools for a wide range of countries over the last year, a trend which the ADB is keen to extend to several of its 67 member countries.

<http://arynews.tv/en/adb-steps-up-islamic-finance-efforts-eyes-infrastructure>

IFSB adds financial inclusion to Islamic banking's to-do list

The Islamic Financial Services Board (IFSB) is adding financial inclusion to the industry's to-do list, launching initiatives aimed at widening the reach of Shariah-compliant banking to include poorer people. After years of rapid growth, Islamic finance is under pressure from some scholars to build stronger credentials for social responsibility. One criticism is that it has neglected farmers, small traders and poor households. Guidance from the Kuala Lumpur-based IFSB, one of the main standard-setting bodies for Islamic finance globally, could help address this issue in majority-Muslim countries where less wealthy people have stayed out of the formal banking system for religious reasons, such as Islam's ban on interest payments. "Going forward, the IFSB plans to include a dedicated work stream on financial inclusion in its new strategic performance plan 2016-2018," IFSB secretary-general Jaseem Ahmed told Reuters.

<http://www.reuters.com/article/2015/04/14/islam-financing-ifsb-idUSL5N0XB03C20150414>

G20 sets sights on sukuk for infrastructure financing

The G20 group of major nations has included discussion of Islamic bonds as an infrastructure financing tool in its annual agenda, a move that could potentially spur the use of project-based sukuk. Developing countries spend about US\$1 trillion a year on infrastructure and an additional US\$1-1.5 trillion will be needed through 2020 in areas such as water, power and transportation projects, according to the World Bank. That need could be filled in part by sukuk, which are gaining prominence beyond the industry's

core markets of the Middle East and Southeast Asia. Britain and Hong Kong executed debut sukuk issues last year.

<http://www.businesstimes.com.sg/banking-finance/g20-sets-sights-on-sukuk-for-infrastructure-financing>

Islamic finance body IFSB launches industry indicators

IFSB has launched a databank of industry indicators covering 15 member countries, helping shed new light on the size and shape of the Shariah-compliant banking sector. The Kuala Lumpur-based IFSB, one of the main standard-setting bodies for Islamic finance, is supporting a range of initiatives to improve supervision of the sector as it achieves greater prominence in several Muslim-majority countries. The 188-member IFSB added financial inclusion to the industry's agenda this month and released final guidance on liquidity management for Islamic banks.

<http://arynews.tv/en/islamic-finance-body-ifsb-launches-industry-indicators>

Women Shariah finance student ranks swelling

The only educational institute dedicated to Islamic finance is seeing a surge in female students from around the world, helping fill a shortage of experts in a global industry set to double to \$3.4 trillion by 2018. Malaysia's International Centre for Education in Islamic Finance, better known as INCEIF, saw total enrollment rise 67 percent in two years to 507 in 2014, of whom 185 were women, its President Daud Vicary Abdullah said in an interview. In 2012, the number of females was about 80. The university is attracting students not only from Shariah hubs in Malaysia, Indonesia and Saudi Arabia, but also from countries that don't have Islamic laws such as South Korea, New Zealand, Japan and China, he said.

<http://www.bloomberg.com/news/articles/2015-03-23/women-shariah-finance-students-on-rise-in-malaysia-fill-shortage>

IMF endorses Islamic finance, warns it must be implemented better

The International Monetary Fund has endorsed the principles of Islamic finance, saying it could prove safer than conventional finance, but the multilateral lender warned Islamic bankers that they must tighten rules and follow them more consistently. A report released by the IMF this week showed the lender's growing interest in Islamic banking, which is expanding in much of the world. Last October, the IMF launched discussions with an external advisory group of Islamic finance experts and industry bodies.

http://www.todayszaman.com/business_imf-endorses-islamic-finance-warns-it-must-be-implemented-better_377354.html

IFSB issues core principles for Islamic banking operations

The Kuala Lumpur-based Islamic Financial Services Board (IFSB) clarified the tools that Islamic banks can use to meet Basel III regulatory requirements, now being phased in for both conventional and Shariah-compliant banks around the world. The core principles deal only with the regulation and supervision of Islamic banking. Other sectors of Islamic finance (principally Takāful and Islamic capital markets) raise different issues, says the IFSB, where it proposes to develop similar principles for these sectors in the future.

<http://www.ftsglobalmarkets.com/news/ifsb-issues-core-principles-for-islamic-banking-operations.html>

Islamic loan books shift towards profit-sharing in Pakistan, Indonesia

The make-up of Islamic banks' loan books is changing in Pakistan and Indonesia with the growing use of profit-sharing contracts that could help Islamic finance win more customers in the two largest Muslim-majority countries. Over the past year Pakistan and Indonesia have stepped up efforts to develop their Islamic finance sectors, with regulators and religious scholars addressing criticism that the industry often merely mimics conventional finance. The shift towards profit-sharing contracts, shown in central bank data, could help Islamic finance gain ground in two markets. Growing demand for participatory financing tools and improved client awareness of Islamic finance are behind the change, said Abdullah Ghaffar, Head of Investment Banking at Al Baraka Bank Pakistan, a unit of Bahrain's Al Baraka Banking Group.

<http://www.dawn.com/news/1179199>

IFSB guidance for Islamic banks may spur sukuk issues, deposit insurance

IFSB has released final guidance on liquidity risk management for Islamic banks, which may spur national authorities to issue more sukuk and establish Shariah-compliant deposit insurance schemes. The guidance note, known as GN-6, clarifies the tools that Islamic banks can use to meet Basel III regulatory requirements, now being phased in for both conventional and sharia-compliant banks around the world. It defines the types of high-quality liquid assets (HQLA) that Islamic banks can hold and the weights that should be assigned to Islamic deposits, which can be more volatile than conventional ones for various reasons, including the fact that they have relatively short maturities. "Based on the size of the Islamic finance industry, its composition, and its growth trajectory, we estimate the need for HQLA to reach about \$100 billion in the next few years," S&P added.

<http://www.reuters.com/article/2015/04/20/islam-banking-deposits-idUSL5N0X60QV20150420>

Housing finance - Islamic banks in the lead

Call it the religious preferences or the general confidence in the Islamic industry, borrowers seem to be more at ease with Islamic banks than with other conventional institutions. Islamic banks too, are taking advantage of this trend by lending aggressively for housing finance and their efforts are yielding good results. This is the notion depicted by SBPs latest housing finance review for the quarter ended December 2014. In line with the boom in the real estate sector, gross housing finance is growing in general. During the quarter ended December 2014, gross financing touched Rs53.7 billion mark, depicting an increase of 1.5 percent over the preceding quarter. The interesting point, however, is that the growth has stemmed mainly from the aggressive lending drive of Islamic banks. Islamic banks outstanding financing witnessed a whopping rise of 32 percent over the previous year to Rs15.3 billion.

<http://www.brecorder.com/br-research/44:miscellaneous/5273:housing-finance---islamic-banks-in-the-lead/>

SECP envisages promotion of Islamic finance

The Securities and Exchange Commission of Pakistan (SECP) has envisaged a roadmap for restructuring and reorganizing of the Islamic capital market. The initiative aims at the promotion of Shariah compliance in the capital markets of Pakistan. The roadmap entails centralization of Shariah related capital market activities, introduction of uniform Shariah regulation for the Takaful, Modarabas, Islamic mutual funds,

Islamic pension funds, Islamic REITs, other Islamic financial institutions (other than banking), Shariah compliant (non-financial) companies, Islamic products and instruments.

<http://pakobserver.net/detailnews.asp?id=261588>

Moody's affirms Pakistan sukuk rating

Moody's affirms Pakistan US dollar Trust Certificates issued by "The Second Pakistan International Sukuk Company Limited" with Caa1 rating, whilst revising the outlook on Pakistan's foreign currency government bond rating to positive from stable.

<http://www.sukuk.com/article/moodys-affirms-pakistan-sukuk-rating-revising-outlook-foreign-currency-government-bond-rating-positive-3923/>

Articles/Views:

Does Islamic Finance Matter?

There is much hype about Islamic finance and its potential. However, the truth is that it remains a niche player. Global Islamic finance assets were estimated at \$1.66 trillion in 2013 by the recently issued "State of the Global Islamic Economy 2014-15" report – which also forecasts the potential universe of Islamic finance assets in its core market to touch \$4.2 trillion in 2014. However, despite the surge and purported popularity of Islamic finance, the industry is inconsequential in comparison to conventional finance.

<http://gulfbusiness.com/2015/01/dr-nasser-saidi-islamic-finance-matter/>

Does Islamic finance understand what is expected of it?

It isn't just about prohibition of pork, interest, speculation and uncertainty that wins people over! After 40 years, Islamic finance has touched less than 1% of the Muslims, 38 million according to an Ernst & Young study, and less than 1% of the global banking assets. Notwithstanding the small percentage numbers, it is still a remarkable feat when placed in the context of an entrenched, inter-connected and expanding centuries-old conventional banking system. So, whilst we pause and look back with pride at the achievements, we also need to realise that we have only reached the base-camp on our climb to the summit which envisages a parallel financial inclusionary system linked to the real economy.

<http://www.themalaysianinsider.com/opinion/rushdi-siddiqui/article/does-islamic-finance-understand-what-is-expected-of-it>

The Islamic microfinance challenge

That there is a need for microfinance in predominantly Islamic countries is taken as a given by most, yet providing Shariah-compliant microfinance seems to be beyond many financial institutions. So what can be done? What has been lacking is the requisite ecosystem to nourish the development of Shariah-compliant microfinance, similar to the one that has helped to elevate conventional microfinance since the 1970s. To be effective, this ecosystem requires the concerted efforts of national regulators, finance providers, non-governmental organisations and religious authorities, among others, to develop a coordinated approach to drive the industry's growth at national, regional and international levels.

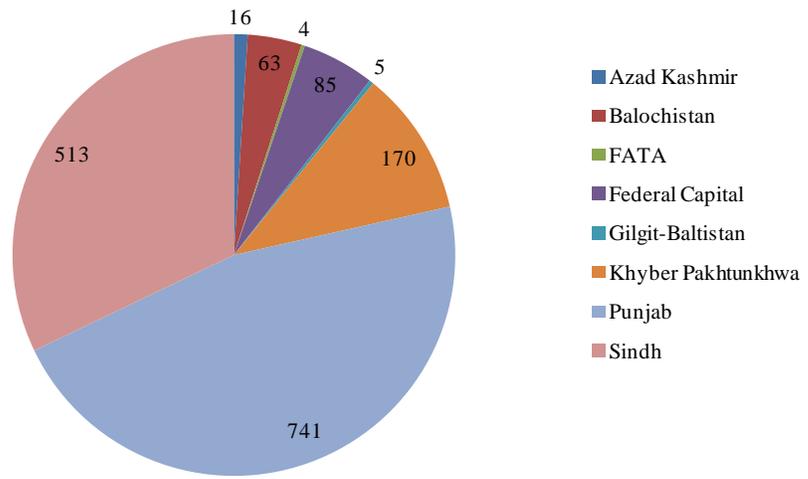
<http://www.thebanker.com/Markets/Islamic-Finance/The-Islamic-microfinance-challenge?ct=true>

Annexure: I			
<i>Islamic Banking Branch Network</i>			
(As of March 31, 2015)			
Type	Name of Bank	No of Branches*	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	121	
	BankIslami Pakistan Limited	123	
	Burj Bank Limited	74	
	Dubai Islamic Bank Pakistan Limited	174	
	Meezan Bank Limited	419	
		911	
Islamic Branches of Conventional Banks	Allied Bank Limited	4	0
	Askari Bank Limited	53	0
	Bank AL Habib Limited	18	8
	Bank Alfalah Limited	156	0
	Faysal Bank Limited	58	0
	Habib Bank Limited	43	488
	Habib Metropolitan Bank Limited	10	202
	MCB Bank Limited	34	3
	National Bank of Pakistan	38	0
	Silkbank Limited	10	0
	Sindh Bank	5	2
	Soneri Bank Limited	15	0
	Standard Chartered Bank (Pakistan) Limited	10	98
	Summit Bank Limited	3	1
	The Bank of Khyber	54	39
The Bank of Punjab	37	0	
United Bank Limited	24	81	
		572	922
Sub Branches	AlBaraka Bank (Pakistan) Limited	14	
	Askari Bank Limited	1	
	BankIslami Pakistan Limited	95	
	Faysal Bank Limited	1	
	Habib Bank Limited	2	
	United Bank Limited	1	
		114	
		1597	922

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

										Annexure: II
<i>Province wise Break-up of Islamic Banking Branch Network</i>										
(As of March 31, 2015)										
Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	4		4	1	12	67	31	121
	BankIslami Pakistan Limited	1	10	1	6	2	13	48	42	123
	Burj Bank Limited	1	2		4		3	32	32	74
	Dubai Islamic Bank Pakistan Limited	1	5		8		9	73	78	174
	Meezan Bank Limited	5	15		20		33	202	144	419
	IB. Total	10	36	1	42	3	70	422	327	911
Islamic Branches of Conventional Banks	Allied Bank Limited							4		4
	Askari Bank Limited		2		5	1	6	27	12	53
	Bank AL Habib Limited		1				1	4	12	18
	Bank Alfalah Limited	1	5		8		8	94	40	156
	Faysal Bank Limited		2		3		16	25	12	58
	Habib Bank Limited	2	2	1	4		4	19	11	43
	Habib Metropolitan Bank Limited				1			3	6	10
	MCB Bank Limited		1		2		2	17	12	34
	National Bank of Pakistan	1			1		7	20	9	38
	Silkbank Limited		1		1		2	4	2	10
	Sindh Bank						1	3	1	5
	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	1	3
	The Bank of Khyber		3	2	2		35	9	3	54
	The Bank of Punjab					3		6	28	37
United Bank Limited	1	2		1		4	8	8	24	
	SAIBBs Total	5	21	3	34	2	94	274	139	572
Sub Branches	AlBaraka Bank (Pakistan) Limited				1			12	1	14
	Askari Bank Limited						1			1
	BankIslami Pakistan Limited	1	6		8		4	32	44	95
	Faysal Bank Limited							1		1
	Habib Bank Limited								2	2
	United Bank Limited						1			1
	Sub Branches Total	1	6	-	9	-	6	45	47	114
	Grand Total	16	63	4	85	5	170	741	513	1,597

Figure A1: Province wise Break-up of Islamic Banking Branch Network



Annexure: III							
<i>District wise Break-up of Islamic Banking Branch Network</i>							
(As of March 31, 2015)							
S. No	Province	District	No of Branches	S. No	Province	District	No of Branches
1	Sindh	Badin	3	51	Khyber Pakhtunkhwa	Abottabad	14
2		Dadu	4	52		Banu	4
3		Ghotki	1	53		Batagram	3
4		Hyderabad	30	54		Buner	2
5		Jacobabad	1	55		Charsadda	5
6		Jamshoro	1	56		Chitral	3
7		Karachi City	428	57		Dera Ismail Khan	7
8		Larkana	4	58		Hangu	2
9		Matitari	1	59		Haripur	6
10		Mirpurkhas	6	60		Kohat	6
11		Naushero Feroze	1	61		Lower Dir	2
12		Nawabshah	6	62		Malakand	1
13		Sanghar	6	63		Mansehra	12
14		Shahdadkot	2	64		Mardan	12
15		Sukkur	11	65		Nowshera	9
16		Tando Allahyar	5	66		Peshawar	55
17		Tando Mohammad Khan	1	67		Shangla	1
18		Umer Kot	2	68		Swabi	5
Sindh Total			513	69		Swat	13
19	Punjab	Attock	13	70		Tank	1
20		Bahawalnagar	11	71		Upper Dir	7
21		Bahawalpur	10		KP Total		170
22		Chakwal	8	72	Gilgit-Baltistan	Baltistan	1
23		Dera Ghazi Khan	10	73		Diamir	3
24		Faisalabad	65	74		Gilgit	1
25		Gujranwala	28		GB Total		5
26		Gujrat	27	75	FATA	Khyber Agency	1
27		Hafizabad	2	76		Orakzai Agency	3
28		Jhang	6		FATA Total		4
29		Jhelum	9	77	Capital	Islamabad	85
30		Kasur	8		Capital		85
31		Khanewal	14	78	Balochistan	Chagi	1
32		Khushab	5	79		Gawadar	1
33		Lahore City	250	80		Kila Abdullah	5
34		Layyah	1	81		Killa Saifullah	3
35		Lodhran	3	82		Lasbela	3
36		Mandi Bahauddin	4	83		Loralai	6
37		Mianwali	5	84		Pishin	1
38		Multan	54	85		Quetta	40
39		Muzaffargarh	5	86	Zhob	3	
40		Nankana Sahib	1		Balochistan Total		63
41		Okara	10	87	Azad Kashmir	Mirpur	11
42		Pakpattan	4	88		Muzaffarabad	4
43		Rahim Yar Khan	16	89		Poonch	1
44		Rawalpindi	88		AJK Total		16
45		Sahiwal	13		Grand Total		1597
46		Sargodha	20				
47		Sheikhupura	14				
48		Sialkot	24				
49	Toba Tek Singh	5					
50	Vehari	8					
Punjab Total			741				