Islamic Banking Bulletin

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Islamic Banking Department
State Bank of Pakistan

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Closing Ceremony of the Fifth Islamic Finance Expo & Conference: "Transforming Strategies to Revitalize Growth: Forging the Next Phase of Progress for Islamic Finance in the Region" Organized by The Professional Network

Address by Mr. Riaz Riazuddin,
Deputy Governor, State Bank of Pakistan
Marriott Hotel, Karachi
April 21, 2016

Mr. Younus Muhammad Bashir, President, Karachi Chamber of Commerce and Industry (KCCI), Mr. Mehmood Tareen, Founder & CEO of Professional Network, Mr. Ateeq Ur Rehman, Chairman KCCI Committee on Banking, Distinguished speakers, ladies and gentlemen,

Assalam- o- alaikum

I feel honored to be here today at the fifth Islamic Finance Expo & Conference and address this distinguished gathering of notable scholars, practitioners, and eminent members from academia. The organizers of this event deserve to be highly appreciated for holding this event aimed at showcasing industry players with their products and services. It is highly encouraging to see the level of participation here which is a clear reflection of increasing popularity of Islamic finance in the country.

Ladies & Gentlemen:
Islamic finance is increasingly gaining importance on the global landscape as a viable alternate to the conventional financial system. Islamic finance industry, based on strong fundamentals due to its asset-backed nature and risk sharing principles, has witnessed significant growth. The current asset-base of global Islamic finance industry stands at around 2 trillion US$. In addition to Islamic banking, Islamic wealth management (IWM) is one of the fastest-growing financial segments in the global Islamic finance industry. As of December 2015, the total global Islamic assets under wealth management reached 58 billion US$ and the number of Islamic funds stood over one thousand.

In Pakistan Islamic banking industry has shown significant progress since its re-launch in 2002. At present, the Islamic banking industry has acquired 11.4 percent share in assets and 13.2 percent share in deposits of overall banking industry. State Bank of Pakistan has played an instrumental role in providing an enabling environment for growth of the Islamic Banking industry and its promotion at gross root level. SBP is among the few regulators who have introduced a comprehensive legal, regulatory, and Shariah compliance framework for the Islamic Banking Industry. As a facilitator, SBP is not only actively engaged in capacity building of the industry through various promotion and training programs but in collaboration with the industry has also issued five year strategic plan for the Islamic banking industry which provide a direction and roadmap for the industry to sustain its growth momentum.

Ladies & Gentlemen:
SBP conducted a survey based study; “Knowledge, Attitude and Practices of Islamic Finance in Pakistan (KAP)”, during FY15. The survey findings reflect that there is a huge potential for further development of Islamic banking in Pakistan and a significant proportion of demand lies amongst those who are still financially excluded. We feel that competitive advantage of Islamic banking and finance is yet to be capitalized as depicted by its lower penetration into strategic sectors like agriculture, small & medium enterprises, microfinance, and low income housing

In order to increase financial inclusion and promote financing to priority sectors, the banking industry (including Islamic banking institutions) has been given financing targets for SMEs and Agriculture. In this regard, the banking sector has been given a cumulative target of increasing outstanding SME financing by approximately 100 billion rupees of which about 26 billion rupees have been given to Islamic Banking Institutions (IBIs). Similarly for agriculture sector, a disbursement target of 600 billion rupees has been given to the banking industry of which 7.8 billion rupees have been allocated to IBIs. Similarly to encourage Islamic microfinance, SBP has introduced a comprehensive framework to offer Shariah compliant microfinance services. It is encouraging that NRSP Microfinance Bank Limited has started offering first Islamic microfinance banking services through a dedicated Islamic microfinance branch.

Ladies & Gentlemen:
The present Government has shown a strong commitment and inclination towards promotion of Islamic Banking and formed a higher level Steering Committee for Promotion of Islamic banking in 2013. During the last two years, the committee has worked on various top priority areas including review of amendments in legal, regulatory and taxation frameworks, developing liquidity management solutions, developing solutions for conversion of government debt into Shari’a compliant financing, development of an Islamic capital market, reforms in Modaraba sector, establishment of Centers of Excellence in Islamic Finance Education and several initiatives for capacity building and creating awareness among people about Islamic finance. It is a matter of pleasure for me that some key recommendations of steering committee like establishment of centers of excellence, launch of All Islamic Share Index and policy framework for establishment of Islamic banking subsidiaries have already been implemented.

Ladies & Gentlemen:
Islamic capital markets form an integral part of the Islamic financial system and growth and development of capital markets, mutual funds and takaful, is essential not only for Islamic banking industry but also for the overall growth and development of the country. In Pakistan, Sukuk market has witnessed growth over the years with both sovereign and corporate entities issuing sukuk. SBP is working with Securities and Exchange Commission of Pakistan (SECP), regulator of capital markets to further develop Islamic finance industry in the country. We appreciate and acknowledge key steps taken by SECP in last few years including review of Mudaraba guidelines, issuance of takaful rules, Sukuk guidelines, and believe that these are likely to help in further development of overall Islamic finance industry.

Ladies & Gentlemen:
Using this forum, I would like to highlight that the rapid growth of Islamic finance has also necessitated a need of strong risk management function and prudent corporate governance practices. The improvement in transparency and disclosure of transactions through enhanced financial reporting and effective monitoring is another key area for development of Islamic finance. After the global financial crisis, global regulatory regimes are becoming more stringent and financial institutions are subject to different regulatory instructions from various regulatory authorities. As we know, Islamic financial institutions face some additional risks as compared to their conventional counterparts. Therefore, it is important that Islamic financial institutions should strategically position themselves in the volatile global market by improving their risk management function. Islamic financial institutions should have a comprehensive risk management and reporting process, including appropriate board and senior management oversight to identify, measure, monitor and control different categories of risk. I would also like to emphasize here that risk management framework of Islamic financial institutions should also take into account appropriate steps to comply with Shariah rules and principles. SBP has issued comprehensive Shariah Governance framework and guidelines for risk management for Islamic banking institutions.

Ladies & Gentlemen:
The development and sustainability of any industry critically hinges upon the development of adequate human resource. One of the biggest challenges faced by the Islamic finance industry is the shortage of qualified Islamic finance professionals, who can lead the industry into the next level of growth and development. State Bank of Pakistan being cognizant of the importance of skilled human resource for the industry is encouraging the culture of research and development in Islamic finance. The most significant achievement in this regard is the establishment of three Centers of Excellence in Islamic Finance Education at well renowned educational institutions including Institute of Business Administration (IBA), Karachi, Lahore University of Management Sciences (LUMS), Lahore and Institute of Management Sciences (IM Sciences), Peshawar with the support of SBP. We are hopeful that these centers will not only help in supplying adequate human resource to growing needs of the industry but will also create knowledge environment that promotes innovation.

In the end, I would like to congratulate the organizers for successfully organizing this event and thank them for inviting me here. I look forward to the success and concrete outcomes of this great initiative.

Thank you.

Islamic Banking Industry - Progress & Market Share

Overview

Islamic banking industry (IBI) witnessed growth of 7.4 percent during the quarter April to June 2016 as its assets reached to Rs.1,745 billion. Deposits of IBI also increased by 9.3 percent during the review quarter to reach Rs.1,461 billion. Market share of Islamic banking assets and deposits in overall banking industry stood at 11.4 percent and 13.2 percent respectively by end June 2016 (see **Table 1**). Profit after tax (PAT) of IBI was registered at Rs.6 billion by end June 2016 compared to Rs.4 billion in the same quarter last year. Among other profitability indicators, Return on Equity (ROE) and Return on Assets (ROA) were recorded at 11.3 percent and 0.7 percent respectively during the review quarter.

Table 1: Industry Progress and Market share

	Industry Progress (Amount in billions)			Growth (YoY in percent)			Share in Industry (in Percent)		
	Jun-15	**Mar-16**	**Jun-16**	**Jun-15**	**Mar-16**	**Jun-16**	**Jun-15**	**Mar-16**	**Jun-16**
Total Assets	1,495	1,625	1,745	37.3	24.8	16.8	11.3	11.4	11.4
Deposits	1,281	1,336	1,461	37.4	19.0	14.1	12.8	12.9	13.2
Total Islamic Banking Institutions	22	22	22	–	–	–	–	–	–
No. of Islamic Banking Branches*	1,702	2,082	2,146	–	–	–	–	–	–
No. Islamic Banking Windows	1,006	1,064	1,062						

Source: Data submitted by banks under Reporting Chart of Accounts (RCOA)

* *number includes sub-branches*

Branch Network of Islamic Banking Industry

The network of IBI consists of 22 Islamic Banking Institutions (IBIs); 6 full-fledged Islamic banks (IBs) and 16 conventional banks having standalone Islamic banking branches (IBBs). Branch network of IBI was recorded at 2,146 branches (spread across 98 districts) by end June 2016. Province/ Region wise breakup of branches shows that Punjab and Sindh jointly account for 78 percent share in overall IBI's branch network. The number of Islamic banking windows operated by conventional banks having Islamic banking branches stood at 1,062 by end June 2016 (see **Annexure I** for details).

Table 2: Region Wise Branches (Apr-Jun 2016)

Province/Region	Total Number	Share (percent)
Punjab	1,016	47.3
Sindh	663	30.9
Khyber Pakhtoonkhawa	226	10.5
Baluchistan	84	3.9
Gilgit Baltistan	9	0.4
FATA	7	0.3
Federal Capital	110	5.1
AJK	31	1.4
Total	**2,146**	**100**

Asset and Liability Structure

Assets: Asset base of IBI witnessed growth of Rs.120 billion (7.4 percent) during the quarter April to June 2016 to reach Rs.1,745 billion compared to Rs.1,625 billion in the previous quarter. Market share of IBI in overall banking industry recorded at 11.4 percent by end June 2016. The share of net financing and investments in total assets (net) of IBI stood at 39.8 percent and 36.8 percent respectively at the end of the quarter under review (see section on **Investments** and **Financing** for details).

Analysis of assets by breakup among IBs and IBBs shows that assets of both IBs and IBBs increased by Rs.57 billion (5.7 percent) and Rs.63 billion (10.3 percent) respectively during the review quarter. However, the share of IBs (60.9 percent) remained higher than that of IBBs (39.1 percent) in overall assets of IBI.

Investments

Investments (net) of IBI were recorded at Rs.642 billion by end June 2016 compared to Rs.587 billion in the previous quarter. Break up of investments among IBs and IBBs reveals that investments of IBs increased by Rs.19 billion (6.1 percent) during the review quarter compared to increase of Rs.36 billion (13.1 percent) in investments of IBBs.

Financing and Related Assets

Financing and related assets (net) of IBI witnessed growth of Rs.47 billion during the quarter April to June 2016 and reached Rs.695 billion. Financing to Deposits ratio (FDR) of IBI was at 47.6 percent by end June 2016. A further analysis of FDR shows that FDR of IBs remained higher (54.7 percent) compared to FDR of IBBs (36.5 percent). Amongst various modes of financing (gross), Diminishing Musharaka remained the most preferred mode for financing as its share in overall financing of IBI was recorded at 35.8 percent by end June 2016. Murabaha and Musharaka remained other major modes in overall financing of IBI (see **Table 3**).

Table 3: Financing Mix (Percent Share)

	Jun-15	Mar-16	Jun-16
Murabaha	24.8	22.1	20.1
Ijarah	7.7	7.2	7.2
Musharaka	10.2	14.5	12.9
Diminishing Musharaka (DM)	34.7	32.4	35.8
Salam	5.6	5.3	3.3
Istisna	10.2	8.0	7.3
Others	6.7	10.6	13.4
Total	**100.0**	**100.0**	**100.0**

Table 4: Financing Concentration (Percent Share)

	Jun-15	Mar-16	Jun-16	Industry
Chemical and Pharmaceuticals	8.7	7.7	6.5	4.3
Agribusiness	1.7	5.9	4.0	8.8
Textile	16.7	16.6	13.9	13.3
Cement	1.6	1.6	1.7	1.1
Sugar	4.2	4.7	2.8	3.2
Shoes and leather garments	1.1	0.7	0.6	0.4
Automobile and transportation equipment	1.4	1.7	1.4	1.4
Financial	0.5	0.6	0.6	2.8
Electronics and electrical appliances	1.9	1.5	1.1	1.3
Production and transmission of energy	10.5	9.2	14.9	12.8
Individuals	12.7	12.6	13.2	9.3
Others	38.9	37.2	39.2	41.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

In terms of sector wise financing, textile remained the leading sector; however its share in overall financing of IBI depicted a decline of 2.7 percent during the review quarter. In addition to textile, production & transmission of energy and chemical & pharmaceuticals were some other major sectors in terms of their share in financing of IBI (see **Table 4**).

Review of client wise financing reveals that financing of IBI remained concentrated in corporate sector, having a share of 78.1 percent, followed by consumer financing (10.9 percent) and commodity financing (5.6 percent) (see **Table 5**). Like previous quarters, financing extended by IBI to Small and Medium Enterprises (SMEs) and Agriculture remained lower compared to overall banking industry's averages indicating limited outreach of IBI to these two sectors.

Table 5: Client Wise Financing Portfolio (Percent Share)				
	Jun-15	**Mar-16**	**Jun-16**	**Industry**
Corporate Sector	78.2	74.3	78.1	67.1
SMEs	2.8	2.6	2.8	5.6
Agriculture	0.6	0.7	0.8	5.6
Consumer Financing	11.2	10.9	10.9	6.4
Commodity Financing	4.6	9.0	5.6	13.2
Others	2.6	2.5	1.8	2.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Asset quality indicators of IBI, including non-performing finances (NPFs) to financing (gross), net NPFs to net-financing and net non-performing assets (NPAs) to total capital improved during the quarter under review compared to the previous quarter. Further, Provisions to NPFs ratio was at 91.5 percent by end June 2016 compared to the industry's average of 82.4 percent. It is pertinent to mention here that overall asset quality indicators of IBI are better than those of overall banking industry (see **Table 6**).

Table 6: Assets Quality Ratios (in percent)				
	Jun-15	**Mar-16**	**Jun-16**	**Industry**
NPFs to Financing (gross)	5.8	5.0	4.5	11.1
Net NPFs to Net Financing	0.6	0.5	0.4	2.2
Provisions to NPFs	90.4	90.6	91.5	82.4
Net NPAs to Total Capital	0.9	3.2	2.8	8.9

Liabilities

Deposits of IBI depicted a growth of Rs.125 billion (9.3 percent) during the quarter April to June 2016 and reached Rs.1,461 billion compared to Rs.1,336 billion in the previous quarter. As a result, the market share of IBI's deposits in overall banking industry's deposits increased from 12.9 percent by end March

Table 7: Break up of Deposits					
				Rupees in billion and growth in percent	
				Growth	
	Jun-15	**Mar-16**	**Jun-16**	**YoY**	**QoQ**
Deposits	**1,281**	**1,336**	**1,461**	**14.1**	**9.3**
Customers	**1,207**	**1,253**	**1,359**	**12.6**	**8.4**
Fixed Deposits	353	318	314	(11.1)	(1.3)
Saving Deposits	468	534	567	21.0	6.1
Current accounts - Remunerative	6	6	9	53.0	62.2
Current accounts - Non-remunerative	374	389	460	23.2	18.3
Others	6	7	9	55.5	41.2
Financial Institutions	**74**	**83**	**102**	**37.5**	**23.2**
Remunerative Deposits	57	82	100	77.2	22.9
Non-remunerative Deposits	17	1	2	(91.1)	44.5

2016 to 13.2 percent by end June 2016. Both customers' deposits as well as financial institutions' deposits witnessed positive growth and grew by Rs.106 billion (8.4 percent) and Rs.19 billion (23.2 percent) respectively during the review quarter.

The breakup of deposits shows that current (non-remunerative) and saving deposits increased by Rs.71 billion and Rs.33 billion respectively during the review quarter (see **Table 7**). Bifurcation of deposits among IBs and IBBs reveals that deposits of IBs and IBBs, witnessed increase of Rs.52 billion (6.2 percent) and Rs.73 billion (14.6 percent) respectively. The share of IBs and IBBs in overall deposits of IBI stood at 60.8 percent and 39.2 percent respectively by end June 2016.

Liquidity Ratios

Liquid Assets of IBI increased by Rs.78 billion during the review quarter and recorded at Rs.674 billion by end June 2016. Resultantly, Liquid Assets to Total Assets and Liquid Assets to Deposits ratios depicted growth during the review quarter compared to the previous quarter (see **Table 8**).

Table 8 : Liquidity Ratios (in percent)

	Jun-15	Mar-16	Jun-16	Industry
Liquid Asset to Total Assets	34.4	36.7	38.6	55.2
Liquid Assets to Deposits	40.1	44.6	46.2	77.0

Capital

The capital base of IBI stood at Rs.109 billion by end June 2016 compared to Rs.108 billion by end March 2016. However, ratios like Capital to Assets (6.2 percent) and Total Capital to Total Risk Weighted Assets (RWA) of IBI (13.4 percent) of IBI were lower than those of industry averages which were at 7.5 percent and 16.1 percent respectively (see Table 9).

Table 9 : Capital Ratios (in percent)

	Jun-15	Mar-16	Jun-16	Industry
Capital to Total Assets	6.0	6.6	6.2	7.5
Total Capital to Total RWA	14.6	13.9	13.4	16.1

Profitability

Profit after tax (PAT) of IBI was recorded at Rs.6 billion by end June 2016 compared to Rs.4 billion in the same quarter last year. ROE and ROA of IBI were recorded at 11.3 percent and 0.7 percent respectively during the review quarter (see **Table 10**). In line with general trend, Operating Expense to Gross Income of IBI remained higher than that of overall banking industry mainly due to expansionary phase of the industry.

Table 10: Profitability & Earnings of IBI (in percent)

	Jun-15	Mar-16	Jun-16	Industry
Return on Assets (ROA)	0.6	0.7	0.7	1.3
Return on Equity (ROE)	9.8	10.8	11.3	14.4
Operating Expense to Gross Income	66.0	77.6	75.6	51.0

Country Model: Sudan

Introduction:

Sudan, North Africa's most resource-rich country, is generally considered as the leading Islamic banking and finance provider in the region. The first financial institution to offer Shariah compliant services in the country was Faysal Islamic Bank which was established in 1977 as a full-fledged Islamic bank through a special Act of the Parliament. It is worth mentioning that Sudan completely transformed its banking system into Islamic banking system following the Banking Law (1992) that required all financial transactions to be Shariah compliant. However, a comprehensive peace agreement between the Northern and Southern Sudan in 2005 amended the Central Bank of Sudan Act. Subsequently in 2006 it was agreed that the banking industry in the Northern region would continue to work under Islamic Shariah whereas the Southern region was allowed to set up conventional banking.

According to Global Islamic Finance Review (2015), the size of Islamic financial industry in Sudan was US$ 16 billion in 2014. Amongst the various modes of financing used by the Islamic banking industry in Sudan, Murabaha, Musharaka and Mudaraba remain the most preferred modes with Murabaha accounting for nearly half the financing while Musharaka and Mudaraba collectively have share of nearly 40 percent financing in overall financing.

Historical Development:

Since its inception in 1977, Faysal Islamic Bank remained the sole provider of Shariah compliant financial services in Sudan till 1983 when three new Islamic banks started operating in the country. The year (1983) also witnessed initialization of process of adopting a purely Islamic banking system in Sudan and after a span of nearly ten years, Banking Law was introduced in 1992 that required all financial transactions to be Shariah compliant. In order to oversee compliance and facilitate the Shariah compliant operations of all banks, the Central Bank of Sudan established a High Shariah Supervisory Board (HSSB) in 1993. Later in 2002, Central Bank of Sudan Act was enforced that categorically required all banking system to act in accordance with Islamic Shariah. However, in 2006 it was decided that the banking industry in the Northern region would continue to work under Islamic Shariah whereas the Southern region was allowed to set up conventional banking.

In the Islamic capital markets the first corporate Sukuk in Sudan was issued in 1999 while first sovereign Sukuk was introduced in the country in 2008. For liquidity management purposes, financial certificates complying with Islamic financial principles are also issued. The first Islamic bond of this kind was issued in 1999 and to date Government Musharaka Certificates (GMCs), also known as Shahama Bonds, are used by the state to borrow money in domestic markets. Apart from GMCs other Islamic bonds including Government Investment Certificates (GICs) and Central Bank of Sudan Ijarah Certificates (Shihab) are used for liquidity management.

Takuful services in Sudan began in 1977 when Faisal Islamic Bank set up Islamic Insurance Company of Sudan. The Law of Insurance and Takaful was passed in 2003 which required all insurance operators in Sudan to comply with Shariah principles.

Role of Central Bank of Sudan:

The Central Bank of Sudan has played an active role in promoting the process of Islamization of banking industry in the country. Amongst regulatory initiatives Banking Law 1992 and Central Bank of Sudan Act 2002 remain significant. The Central Bank of Sudan also introduced financial reforms in the country over the period; 1999-2002, according to which Basel requirements, aligned with the Shariah principles, were initiated in the country. For Shariah harmonization and implementation, the central bank established the High Shariah Supervisory Board (HSSB) in 1993 which is the supreme authority with regards to all Shariah matters of Islamic banking industry in the country.

Conclusion:

In general, from the above discussion it can be concluded that Sudan has been consistently been making efforts for promoting Islamic banking and finance in the country and has made favorable environment for Islamic banking institutions with respect to legal, regulatory and Shariah compliance issues. Going forward, with vast experience in Islamic banking and finance, complemented with a large Muslim population, Sudan is in an ideal position to further increase its presence in the African Islamic banking and finance industry.

Sources

- www.islamicfinancenews.com
- Global Islamic Finance Report, Edbiz Consulting Limited, various editions.
- Central Bank of Pakistan website, www.cbos.gov.sd/en

A Brief on Islamic Financial Services Board (IFSB)'s Core Principles for Islamic Finance Regulation (Banking Segment): IFSB 17

Background:
The Islamic financial services industry (IFSI) has rapidly progressed across the globe and encompasses not only an increase in the business volume and number of institutions offering Islamic financial services (IIFS), but also an enhanced variety of the products and services offered, improved legal and regulatory infrastructure, and new initiatives for international cooperation. This cross-border development and growth has raised a number of challenges in respect of the resilience and stability of financial systems where IIFS operate alongside their conventional counterparts.

The global financial crisis in 2008 and the sovereign debt crisis have highlighted the significance of a well-articulated micro-prudential and macro-prudential policy framework for ensuring financial sector stability focusing on: (a) assessment of risks to the financial sector; (b) the financial stability policy framework; and (c) capabilities for resolving crises.

Core Principles, such as those issued by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), have become a standard tool to guide regulators and supervisors in developing their regulatory regimes and practices.

In view of the above, the Islamic Financial Service Board (IFSB) Council, in its 21st meeting held on 12 December 2012 at Islamic Development Bank's headquarters in Jeddah, Kingdom of Saudi Arabia, approved the preparation of a set of IFSB Core Principles for Islamic Finance Regulation (CPIFR) and also the setting up of a Working Group for CPIFR (CPIFRWG).

Main Premises and Objectives:
The first objective of the IFSB is: *"To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shariah principles, and recommending these for adoption."* In pursuit of this objective, the IFSB's approach is to build on the standards adopted by relevant conventional standard-setters – in this case, principally the BCBS – and to adapt or supplement them only to the extent necessary to deal with the specificities of Islamic finance.

The main objective of the CPIFR is to provide a set of core principles for the regulation and supervision of the IFSI, taking into consideration the specificities of the IIFS in the banking segment and the lessons learnt from the financial crisis, and complementing the existing international standards, principally the BCBS's Core Principles for Effective Banking Supervision (Basel Core Principles, or BCPs). In particular, the objectives of the CPIFR include:

a. providing a minimum international standard for sound regulatory and supervisory practices for the effective supervision of the IIFS;
b. protecting consumers and other stakeholders by ensuring that the claim to Shariah compliance made by any IIFS is soundly based;

c. safeguarding systemic stability by preserving the linkages between the financial sector and the real economic sector which underlie Islamic finance; and
d. ensuring that IIFS act in accordance with their fiduciary responsibilities in all their operations, especially in regard to investment account holders (i.e. investors in profit-sharing investment accounts [PSIAs]).

The IFSB envisages that these Core Principles will be used by jurisdictions as a benchmark for assessing the quality of their regulatory and supervisory systems, and for identifying future work to achieve a baseline level of sound regulations and practices for Islamic finance.

Based on the above premises and objectives, 33 CPIFR have been prepared by IFSB. These core principles can be broadly classified into two categories. The first 13 principles (CPIFR 1 to CPIFR 13) relate to supervisory powers, responsibilities and functions while the remaining 20 core principles (CPIFR 14 to CPIFR 33) relate to prudential regulations and requirements for IIFS.

General Approach of the CPIFR

A careful analysis was made of the areas in which the BCP did not adequately address the specificities of Islamic finance. Following this, several new Core Principles have been developed for Islamic finance, while some BCPs have been amended significantly, generally at the level of the assessment criteria rather than the Principles themselves. Other BCPs have been retained in view of their common applicability to both conventional and Islamic finance. The text of these BCPs is given unchanged except for cosmetic changes such as the use of the term "IIFS" instead of "bank" at some points. It should be noted that even where principles or criteria are unchanged, their detailed application to Islamic finance may be different from their application to conventional finance.

Each CPIFR is supported by assessment criteria. These are divided between essential and additional criteria. For the purposes of assessments, the essential criteria are the only elements on which to gauge full compliance with a Core Principle. The additional criteria are suggested best practices that jurisdictions having systemically significant IIFS (i.e. domestic systemically important banks [D-SIBs] or regionally systemically important banks [R-SIBs]) should aim for, and assessment against them is voluntary.

The CPIFR are neutral with regard to different approaches to supervision of IIFS, so long as the over-arching objectives (as set out above) are achieved. Supervisory authorities should apply the CPIFR in the supervision of all Islamic banking institutions within their jurisdictions.

Scope and Application of the CPIFR

The CPIFR are primarily intended to guide the firm-level supervision of full-fledged (i.e. separately incorporated) banking IIFS with due consideration to "proportionality", taking account of their size, sophistication and complexity.

Islamic "windows" (i.e. units that are not separately incorporated) are present in a majority of the IFSB member jurisdictions where Islamic finance is operating, and the supervisory practices for regulating them – in particular, relating to capital requirements – vary considerably across jurisdictions. This diversity of operations of windows raises a number of issues on supervision which may not be substantially the same as those raised by full-fledged IIFS – in particular, from a governance perspective. The CPIFR set out a specific Principle, CPIFR 32, for supervisory authorities having Islamic window operations within their jurisdictions. This Principle covers aspects of regulation and supervision specific to "windows", but the other CPIFR will also apply to windows, subject to recognizing their branch status (which affects governance, etc.) and to materiality. An important aim in this respect is to avoid regulatory arbitrage within the jurisdiction.

In general from the above discussion we can conclude that Core principles for Islamic finance regulation prepared by IFSB can serve the purpose of providing a standard tool to guide regulators and supervisors in developing their regulatory regimes and practices taking into consideration the specificities of the IIFS and help in resilience and stability of Islamic financial services industry (IFSI). Detailed analysis on various Core Principles will be presented in the forthcoming editions of Islamic Banking Bulletin.

Source:

- IFSB website http://www.ifsb.org/

Events and Developments at Islamic Banking Department (IBD)-SBP

Training Programs on "Fundamentals of Islamic Banking Operations" (FIBO)
Held during 11 – 15 April 2016 and 23 – 27 May 2016 at Gujranwala and Quetta respectively

Two iterations 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), were organized from the platform of NIBAF at Gujranwala and Quetta during 11 – 15 April 2016 and 23 – 27 May 2016 respectively. The training programs were attended by academia and Shariah scholars of the respective regions, along with bankers of Islamic banking industry.

Knowledge Sharing Sessions with Dr. Daud Bakar
Held on April 13, 2016 at SBP

SBP arranged two knowledge sharing sessions on April 13, 2016 at SBP wherein Dr. Mohammed Daud Bakar, Chairman Shariah Advisory Council – Bank Negara Malaysia (BNM) was the guest speaker. The first session was attended by Shariah Board members of Islamic Banking Institutions, while the second session was specially for the senior management of SBP. Organizing such sessions is in line with IBD's objective of improving and enhancing awareness of Islamic finance among different internal and external stakeholders.

Awareness Program on Introduction to Islamic Finance
Held on May 18, 2016 at Islamia College University, Peshawar

In line with the SBP's objective of improving awareness of Islamic finance among various segments of the society, an awareness program was held at Islamia College University, Peshawar on May 18, 2016 wherein (i) Mufti Irshad Ahmad Aijaz, Chairman Shariah Board – BankIslami Pakistan Limited and (ii) Mr. Farhan ul Haq Usmani, SVP – Meezan Bank Limited were the Guest Speakers. The same was attended by a good number of people including academia, students, representatives of IBIs, etc. as participants. It was arranged as a supplementary program along with Islamic Banking Focus Group meeting at SBP-BSC Peshawar office, on the same date.

Training Program on Islamic Banking & Finance for Academia and Shariah Scholars
Held during May 17 – 20, 2016 at Sukkur

Keeping in view the training needs identified at various forums, SBP, in collaboration with SBP BSC – Sukkur office, arranged a training program on Islamic Banking & Finance during May 17 – 20, 2016 at Sukkur. The program was delivered by (i) Mufti Bilal Ahmed Qazi, Shariah Board Member – Summit Bank Limited, (ii) Mufti Mohib ul Haq Siddiqui, Chairman Shariah Board – Faysal Bank Limited and (ii) Dr. Zeeshan Ahmed, Associate Professor – Karachi School of Business & Leadership. The program was attended by academia and Shariah scholars of Sukkur region.

Islamic Banking News and Views

News

Experts offer strategies on improving Islamic finance

Islamic finance has come a long way in the last four decades, and now has significant new challenges to face in the coming decades, said panelists at a session to discuss the future of the industry. Speaking at The Economist Conversation panel of the Global Islamic Finance Forum the experts offered ideas on how to move the industry forward even as the Islamic economy begins to emerge along with new markets in different geographical locations. Dr Adnan Chilwan, CEO of Dubai Islamic Bank, said consumer demands will increase rapidly with the emergence of new geographical markets among the world's 1.5 billion Muslims, for instance from the African nations. "There will need to be new products to suit their demands," he said. He added that although technology offered opportunities, a solid foundation has to be put into place first before Islamic finance fully embraces disruptive technologies. Raja Teh Maimunah Raja Abdul Aziz, CEO of Hong Leong Islamic Bank, however, believed that technology may help the industry face new challenges such as coming up with a "differentiated proposition" to make it different from conventional banks.

http://saudigazette.com.sa/business/experts-offer-strategies-improving-islamic-finance/

IIFM publishes global Sukuk report

In a special session held today at the Islamic Banking & Investment Asia/Middle East Congress in Singapore, the International Islamic Financial Market (IIFM) announced the official launch of its latest Sukuk Report (5th Edition) which analysis the growth and development of international and domestic Sukuk issuances in recent years and highlights the different Sukuk structures widely used in various jurisdictions. The findings show that the global Sukuk issuance of USD 61 billion in 2015 reflects a decline in issuance volume from 2014 due to the strategic move by Bank Negara Malaysia to halt issuing short-term investment Sukuk. The report found that currently 84% of the USD 321 billion outstanding Sukuk belong to just three key markets – Malaysia, Saudi Arabia and the UAE. The IIFM research analysts note that this is likely to change gradually as markets such as Indonesia, Turkey, Pakistan and others become more active. A positive trend which has emerged from the research is the steady growth in sovereign, quasi-sovereign and corporate Sukuk issuances and given the continued interest in Islamic finance from new jurisdictions; the outlook for Sukuk in the medium to long term is positive.

http://www.iifm.net/news-updates/iifm-publishes-1

Global institutions call for strong Islamic banking regulations, supervision

A high level forum on Islamic Finance in the Arab region called for strengthening Islamic banking regulation and supervision. It was organised by the Arab Monetary Fund and the Inter-national Monetary Fund, in collaboration with World Bank, Islamic Development Bank, Dubai Islamic Economy Development Centre and the Dubai International Financial Centre. "Islamic banking and financial services are playing a growing role in the Middle East economies. Thus it is in the interest of all stakeholders to strengthen these institutions in terms of regulations, institutional framework and supervision," said Abdul Rahman Al Hamidy, Director General and Chairman of the Board of the Arab

Monetary Fund. Global institutions recognise the huge potential of Islamic finance, despite the relatively small share it has in the global financial sys-tem.
http://pakobserver.net/2016/05/27/global-institutions-call-for-strong-islamic-banking-regulations-supervision/

The IFSB launches the fourth edition of Islamic Financial Services Industry Stability Report 2016
H.E. Dr. Hendar, the Deputy Governor of Bank Indonesia, officially launched the fourth edition of the Islamic Financial Services Board's (IFSB) Islamic Financial Services Industry Stability Report 2016 in Kuala Lumpur. Following the launch, the Secretary-General of the IFSB, Mr. Jaseem Ahmed, said, "The Islamic Financial Services Industry Stability Report 2016 is released at a time of challenging economic times that has led to a moderation in 2015 of the high growth rates of Islamic finance observed since the global financial crisis. Increasing concern about volatility in the global financial system has been a feature in 2015, underscoring the importance of developing robust liquidity infrastructure and strengthening regulatory frame-works for prudential regulation in Islamic finance jurisdictions, which is supported by proactive stress testing and an enhanced set of capabilities for offering financial safety nets. These issues continue to be central to the IFSB's mission, as is elaborated in this report."
http://www.ifsb.org/preess_full.php?id=347&submit=more

Islamic banking industry expected to play positive role in poverty reduction
Islamic banking industry posting huge profit earnings and running in a top gear to increase its market share in the financial sector is really expected to play its due role by strengthening the government policy of poverty reduction in the society. Increasing number of poverty primarily stemmed from growing rate of unemployment calls for concerned efforts to generate economic activity at least by support small enterprises through micro finance at an affordable price, otherwise making huge profits only would not differentiate the Islamic finance from the convention financial system. In the face of growing number of population living below the poverty line it deems quite fit for the Islamic Banking industry to facilitate Islamic microfinance as a strategic tool to provide financial access to the poor. Islamic microfinance can play a major role in poverty alleviation in under-developed nations across the world. A huge part of the Islamic population is unwilling to use conventional financial products due to their strong faith with Islamic principles. Islamic microfinance is a way to promote financial inclusion among such population.
http://pakobserver.net/2016/05/13/islamic-banking-industry-expected-to-play-positive-role-in-poverty-reduction/

Pakistan steps up Islamic finance in infrastructure deals
Pakistan is stepping up its use of Shariah-compliant financing to fund infrastructure deals, which could help to promote the use of longer-term transactions in Islamic finance. Islamic deals are backed by specific assets, which make them convenient for infrastructure projects. But traditionally, Islamic bonds and loans have shorter tenors – often around five years – than their conventional equivalents. This is partly because Islamic markets are generally not as deep and liquid, and products are not as standardized. Also, Islamic banks mostly hold short-term deposits on their books. Recently, however, Pakistani banks arranged Rs100 billion ($955 million) worth of 10-year Islamic bonds (sukuk) for a hydropower plant, the largest infrastructure deal to use Islamic financing in the country. Opportunities for similar deals are

growing with $45 billion worth of domestic infrastructure projects under the China-Pakistan Economic Corridor (CPEC).
http://www.reuters.com/article/islamic-finance-pakistan-idUSL5N17N0FY

SECP updates Modaraba regulatory framework
Aimed at updating the legal framework for registration and flotation of Modarabas, the Securities and Exchange Commission of Pakistan (SECP) has issued a draft of the amendments to the Modaraba Companies and Modaraba Rules, 1981, according to a statement. The amendments include the categorization of Modarabas to deposit-raising and non-deposit-raising Modarabas. Various enabling powers for the Modaraba registrar have been introduced to allow Modarabas to raise funds through the issuance of certificates of in-vestments and Sukuk, among others.
www.islamicfinancenews.com

SBP for robust Islamic banking system
Saeed Ahmad, Deputy Governor of the State Bank of Pakistan (SBP), has stressed on the need for a robust Islamic banking system in the country. Speaking at a learning programme on Islamic Banking and Finance, jointly organized by Bank Alfalah and Centre for Islamic Economics, Ahmed highlighted the steps taken by the central bank to promote Islamic banking and finance in the country. There is a need for robust Islamic banking system, he said and stressed on the need to promote Islamic banking in Pakistan. He also said that the bank is focusing on an innovative player in the industry and is exploring new opportunities in creating an Islamic payment platform to enhance financial inclusion of the unbanked segments of the industry.
http://www.thenews.com.pk/print/102871-SBP-for-robust-Islamic-banking-system

Dar for promoting Shariah compliant banking
Finance Minister Mohammad Ishaq Dar has said that Shariah compliant banking has tremendous growth potential and the government is determined to move ahead with this industry in Pakistan. The Finance Minister expressed these views during his meeting with Governor, State Bank of Pakistan, Ashraf Mahmood Wathra. The meeting reviewed in detail the current profile of Islamic banking in Pakistan. Dar said the government has shown its commitment in facilitating the development of the Islamic finance industry by creating an enabling environment. He particularly lauded the work carried out by the steering committee for the promotion of Islamic banking and finance in the country. He said significant progress has been achieved by the committee in review of the legal, regulatory and taxation frameworks as well as the development of liquidity management solutions and the Islamic capital market which would greatly support further development of this industry.
http://pakobserver.net/2016/03/26/dar-for-promoting-shariah-compliant-banking/

Articles/Views:

Demand for Islamic wealth management keeps growing
Growing demand for asset-based investments in times of fiscal insecurity in major economies in the world and the fact that still only a small portion of the estimated $11.5tn worth of wealth owned by

Muslim individuals, institutions and governments is managed by Islamic financial institutions has turned the attention of investors – both Muslim and non-Muslim – towards Islamic wealth management. According to Malaysia-based International Shariah Research Academy for Islamic Finance, or ISRA, there is a lot of potential to tap for Islamic wealth managers: As of the fourth quarter of 2015, total global Islamic assets under management were "just" $58bn and the number of Islamic funds worldwide stood at 1,053. This compares to $56.4tn of wealth owned by all high-net worth individuals globally combined and to more than 9,200 investment funds in the US alone. Thus, Islamic financial institutions and banks have made efforts to improve and expand the services offered under the label of Islamic Wealth Management, seen as a relatively a new operational focus for Islamic banks, as well as conventional banks with Islamic windows.
http://www.gulf-times.com/story/482962/Demand-for-Islamic-wealth-management-keeps-growing

Islamic crowd funding — making a small but significant step
Crowdfunding has gained widespread recognition among technology-savvy youth as well as start-ups and SMEs seeking funding for innovative and viable entrepreneurial ventures. This alternative financing model is also deemed to be in line with the principles of Shariah as not only does it promote risk-sharing and profit-sharing but it also creates a truly inclusive financial system which allows for the participation from the community at large. While still a few steps behind its conventional counterparts, it can now be ob-served that a multitude of Islamic crowdfunding platforms are developing a strong trend in Muslim markets.
www.islamicfinancenews.com

How to build a global Islamic finance centre
Which of the existing Islamic finance hubs will emerge as the preeminent global centre for Islamic Finance? The prize remains up for grabs with none of the current hubs in the Middle East and South East Asia able to achieve the critical mass to move from a domestic to regional centre, and then upwards into a global Islamic finance centre. These current hubs can be characterized as domestic markets lacking international outlooks, relationships and large banks with cross regional reach. A lack of regulatory confidence as well the perception of political interference is not inspiring foreign issuers to raise capital through them. The leading conventional financial centers of London and New York emerged when a critical mass of firms and people began to locate into them thereby al-lowing them to move from already established regional hubs into global centers. This process is known as *clustering*, something which thus far no Islamic finance hub, with the exception of London (which does not seek the global centre title preferring to be positioned as the leading Western Centre for Islamic finance) has been able to re-create. The lack of a global Islamic finance centre is hampering the growth of the industry by hindering product innovation, market liquidity thus dampening the growth of retail markets and primary and secondary capital markets demand. Kuala Lumpur to date has been the leading centre for Islamic finance, but has failed to achieve critical mass.
https://www.islamicfinance.com/2016/05/build-global-islamic-finance-centre/

The pressing need for the right match of talents in a fast-growing industry
The Finance Accreditation Agency (FAA) estimates that there is currently a shortage of close to 56,000 competent professionals globally, underlining the acute shortage of talents needed to serve the growing

needs of the Islamic financial industry. According to a recent report by the Malaysia International Islamic Financial Center (MIFC), approximately one million Islamic finance professionals are needed by 2020. The internationalization of the Islamic finance industry is most certainly poised to contribute greater mobilization and allocation of resources across borders, and this very much calls into attention the need for world-class human capital development – highly skilled Islamic finance professionals, therefore, are urgently needed. In this regard, there is a need to build solid linkages between industry players and education institutions in order to serve the global Islamic finance markets effectively, and this can be achieved by enhanced strategic partnerships and collaborations among relevant stakeholders.
www.islamicfinancenews.com

Supply chain finance for the Islamic banking community

The question of how best to structure a short-term liquidity instrument for Islamic banks has been an area of much debate, deliberation, and indeed innovation for nearly 20 years. Treasurers of Islamic banks now have both interbank Murabahah and Wakalah placements that they can transact with like-minded institutions, and in some cases central banks, as well as the ability to purchase papers issued by the International Islamic Liquidity Management Corporation (IILM). In the current prolonged period of low-interest/profit rates, treasurers may have the requisite instruments to abide by increasingly stringent liquidity requirements, but to a large degree they lack yielding instruments, something in between IILM returns and Sukuk, which as an asset class remains under pressure. One of the solutions to this problem is the Supply chain finance or SCF.
www.islamicfinancenews.com

Annexure: I

Islamic Banking Branch Network

(As of June 30, 2016)

Type	Name of Bank	No of Branches*	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	136	
	BankIslami Pakistan Limited	207	
	Burj Bank Limited	74	
	Dubai Islamic Bank Pakistan Limited	199	
	Meezan Bank Limited	547	
	MCB -Islamic Bank Limited	8	
		1,171	
Islamic Branches of Conventional Banks	Allied Bank Limited	39	0
	Askari Bank Limited	76	0
	Bank AL Habib Limited	35	58
	Bank Alfalah Limited	157	25
	Faysal Bank Limited	82	0
	Habib Bank Limited	45	492
	Habib Metropolitan Bank Limited	22	207
	MCB Bank Limited	34	0
	National Bank of Pakistan	115	0
	Silkbank Limited	10	0
	Sindh Bank	13	2
	Soneri Bank Limited	16	0
	Standard Chartered Bank (Pakistan) Limited	10	91
	Summit Bank Limited	10	7
	The Bank of Khyber	66	39
	The Bank of Punjab	49	0
	United Bank Limited	42	141
		821	**1,062**
Sub Branches	AlBaraka Bank (Pakistan) Limited	14	
	Askari Bank Limited	3	
	BankIslami Pakistan Limited	133	
	Faysal Bank Limited	1	
	Habib Bank Limited	2	
	United Bank Limited	1	
		154	
		2,146	

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

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of June 30, 2016)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	4		4	1	14	78	32	136
	BankIslami Pakistan Limited	3	12	1	9	2	15	97	68	207
	Burj Bank Limited	1	2		4		3	32	32	74
	Dubai Islamic Bank Pakistan Limited	5	5		10		10	84	85	199
	Meezan Bank Limited	6	20		25	1	35	275	185	547
	MCB -Islamic Bank Limited		2				3	1	2	8
	IB. Total	**18**	**45**	**1**	**52**	**4**	**80**	**567**	**404**	**1,171**
Islamic Branches of Conventional Banks	Allied Bank Limited		4		4		5	22	4	39
	Askari Bank Limited		2		7	1	9	41	16	76
	Bank AL Habib Limited		1		1		2	11	20	35
	Bank Alfalah Limited	1	5		9		8	94	40	157
	Faysal Bank Limited	1	2		4	1	17	35	22	82
	Habib Bank Limited	2	2	1	4		4	21	11	45
	Habib Metropolitan Bank Limited				1		4	8	9	22
	MCB Bank Limited		1		2		2	17	12	34
	National Bank of Pakistan	5	4	1	3		19	57	26	115
	Silkbank Limited		1		1		2	4	2	10
	Sindh Bank	1					2	7	3	13
	Soneri Bank Limited		1		2	1	2	6	4	16
	Standard Chartered Bank (Pakistan) Limited				1		1	2	6	10
	Summit Bank Limited		1		1	2	1	1	4	10
	The Bank of Khyber		3	4	2		45	9	3	66
	The Bank of Punjab	1			4		6	38		49
	United Bank Limited	1	4		1		9	12	15	42
	SAIBBs Total	**12**	**31**	**6**	**47**	**5**	**138**	**385**	**197**	**821**
Sub Branches	AlBaraka Bank (Pakistan) Limited				1			12	1	14
	Askari Bank Limited		1				1	1		3
	BankIslami Pakistan Limited	1	7		10		6	50	59	133
	Faysal Bank Limited							1		1
	Habib Bank Limited								2	2
	United Bank Limited						1			1
	Sub Branches Total	**1**	**8**	**-**	**11**	**-**	**8**	**64**	**62**	**154**
Grand Total		**31**	**84**	**7**	**110**	**9**	**226**	**1,016**	**663**	**2,146**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of June 30, 2016)

S. No	Province	District	No of Branches		S. No	Province	District	No of Branches
1	Sindh	Badin	3		56	Khyber Pakhtunkhwa	Abottabad	16
2		Dadu	6		57		Banu	4
3		Ghotki	3		58		Batagram	4
4		Hyderabad	39		59		Buner	3
5		Jacobabad	3		60		Charsadda	6
6		Jamshoro	1		61		Chitral	5
7		Karachi City	550		62		Dera Ismail Khan	8
8		Kashmore	1		63		Hangu	3
9		Larkana	4		64		Haripur	7
10		Matiari	1		65		Kohat	6
11		Mirpurkhas	10		66		Lower Dir	5
12		Naushero Feroze	1		67		Malakand	5
13		Nawabshah	10		68		Mansehra	13
14		Sanghar	8		69		Mardan	18
15		Shahdadkot	2		70		Nowshera	16
16		Sukkur	13		71		Peshawar	69
17		Tando Allahyar	5		72		Shangla	1
18		Tando Mohammad Khan	1		73		Swabi	6
19		Umer Kot	2		74		Swat	22
Sindh Total			**663**		75		Tank	1
20	Punjab	Attock	22		76		Upper Dir	8
21		Bahawalnagar	12		**KP Total**			**226**
22		Bahawalpur	16		77	Gilgit-Baltistan	Baltistan	2
23		Bhakkar	1		78		Diamir	4
24		Chakwal	10		79		Gilgit	3
25		Chiniot	1			**GB Total**		**9**
26		Dera Ghazi Khan	12		80	**FATA**	Bajaur Agency	1
27		Faisalabad	85		81		Khyber Agency	3
28		Gujranwala	41		82		Orakzai Agency	3
29		Gujrat	43		**FATA Total**			**7**
30		Hafizabad	4		83	**Capital**	Islamabad	110
31		Jhang	8			**Capital**		**110**
32		Jhelum	13		84	**Ba**	Chagi	1
33		Kasur	14		85		Gawadar	1
34		Khanewal	17		86		Kila Abdullah	6
35		Khushab	6		87		Killa Saifullah	4
36		Lahore City	332		88		Lasbela	4
37		Layyah	4		89		Loralai	11
38		Lodhran	4		90		Pishin	1
39		Mandi Bahauddin	9		91		Quetta	52
40		Mianwali	6		92		Zhob	3
41		Multan	63		93		Ziarat	1
42		Muzaffargarh	6		**Balochistan Total**			**84**
43		Nankana Sahib	2		94	**Azad Kashmir**	Bhimber	1
44		Narowal	4		95		Kotli	2
45		Okara	12		96		Mirpur	19
46		Pakpattan	6		97		Muzaffarabad	7
47		Rahim Yar Khan	24		98		Poonch	2
48		Rajanpur	1		**AJK Total**			**31**
49		Rawalpindi	124					
50		Sahiwal	16					
51		Sargodha	29					
52		Sheikhupura	17					
53		Sialkot	32					
54		Toba Tek Singh	6					
55		Vehari	14					
Punjab Total			**1016**		**Grand Total**			**2,146**