ISLAMIC BANKING BULLETIN

October - December 2021

Islamic Banking Department
State Bank of Pakistan

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Progress & Market Share of Islamic Banking Industry

Overview

Assets of Islamic Banking Industry (IBI) grew by Rs 693 billion (14.2 percent) during the quarter October to December 2021 and crossed five-trillion mark to reach Rs 5,577 billion by end December 2021. Deposits of IBI demonstrated a growth of Rs 389 billion (10.2 percent) and leaped over four-trillion during the quarter under review and were recorded at Rs 4,211 billion by end December 2021.

During CY21, assets and deposits of IBI witnessed a phenomenal Year on Year (YoY) increase of Rs 1,308 billion (30.6 percent) and Rs 822 billion (24.2 percent), respectively. It is important to highlight that this is the highest ever increase in assets and deposits of IBI in a year. Accordingly, market share of Islamic banking assets and deposits in the overall banking industry jumped to 18.6 percent and 19.4 percent, respectively by end December 2021 (**Table-1**). Further, financing (net) of IBI recorded a stunning rise of Rs 716 billion (38.1 percent) during CY21, which is also maximum acceleration in financing portfolio in a year.

Table-1: Industry Progress and Market Share (Amount in Rs Billion)

Particulars	Period			Yearly Growth (YoY) in %			Share in Overall Banking Industry (in %)		
	Dec-20	Sep-21	Dec-21	Dec-20	Sep-21	Dec-21	Dec-20	Sep-21	Dec-21
Assets	4,269	4,884	5,577	30.0	28.2	30.6	17.0	17.0	18.6
Deposits	3,389	3,822	4,211	27.8	26.0	24.2	18.3	18.6	19.4
No. of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
No. of Branches*	3,456	3,651	3,956	7.0	10.5	14.5	-	-	-
No. of Islamic Banking Windows	1,638	1,579	1,442	19.3	13.9	(12.9)	-	-	-

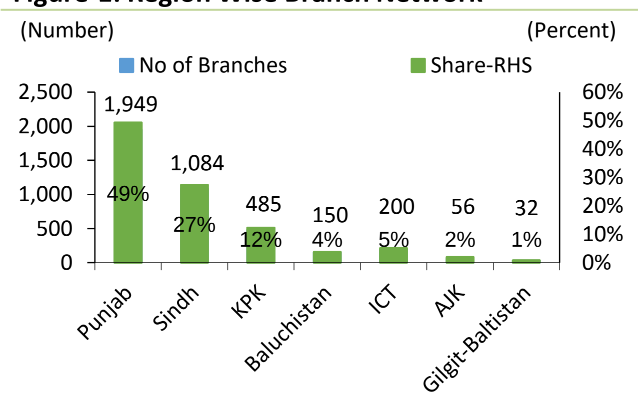
** including sub-branches*

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

Branch Network of Islamic Banking Industry

The composition of the industry remained unchanged with 22 Islamic Banking Institutions (IBIs), consisting of 5 full-fledged Islamic Banks (IBs) and 17 conventional banks having Islamic banking branches (IBBs). During the quarter under review, 305 stand-alone branches were added to the overall branch network of Islamic banking industry taking the total to 3,956 (spread across 125 districts of the country) by

Figure-1: Region Wise Branch Network



Source:SBP

end December 2021. **Figure-1** shows concentration of branches in different regions of Pakistan. The number of Islamic banking windows (dedicated counters at conventional branches) operated by IBBs stood at 1,442 by end December 2021 (**Annexure I**).

Assets and Liabilities Structure

Assets

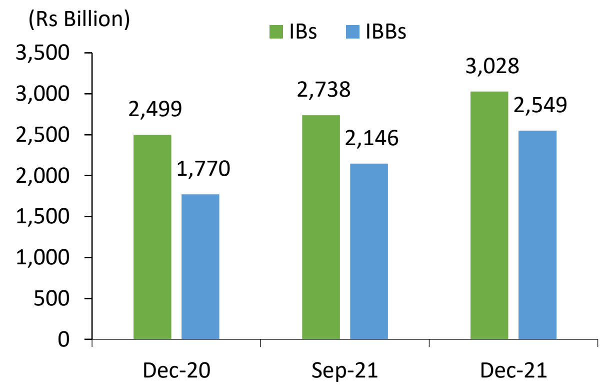
Assets of IBI were recorded at Rs 5,577 billion by end December 2021 compared to Rs 4,884 billion at the end of the previous quarter, exhibiting a quarterly growth of 14.2 percent (Rs 693 billion). This notable surge in assets of IBI was mainly backed by investments (net), which was up by Rs 481 billion (35.1 percent) during the period under review. Similarly, financing (net) of IBI showed a quarterly growth of Rs 331 billion (14.6 percent). Due to growing asset base, market share of Islamic banking assets in the overall banking industry increased to 18.6 percent by end December 2021 compared to 17.0 percent in the previous quarter.

The share of financing (net) and investments (net) in total assets (net) of IBI registered at 46.6 percent and 33.2 percent, respectively by end December 2021 (see section below on **Investments** and **Financing and Related Assets** for details).

Breakup of Assets of IBs and IBBs

Analysis of assets by division among IBs and IBBs reflects that the assets of IBs expanded by 10.6 percent (Rs 290 billion) during the period under review and stood at Rs 3,028 billion by end December 2021. Correspondingly, assets of IBBs revealed a growth of 18.7 percent (Rs 403 billion) and touched Rs 2,549 billion by end December 2021. In terms of share, IBs and IBBs accounted for 54.3 percent and 45.7 percent share, respectively in overall assets of IBI by end December 2021 (**Figure-2**).

Figure-2: Breakup of Assets

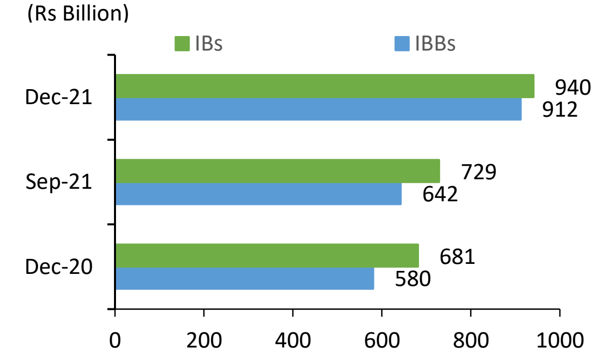


Source: SBP

Investments

Investments (net) of IBI registered a significant growth of 35.1 percent (Rs 481 billion) during the period under review and were registered at Rs 1,852 billion by end December 2021. This increase in investments (net) was mainly due to funds invested by IBIs in multiple Government of Pakistan (GoP) domestic Ijarah Sukuk (GIS). It is worth mentioning here that GoP issued seven GIS

Figure-3: Breakup of Investments



Source: SBP

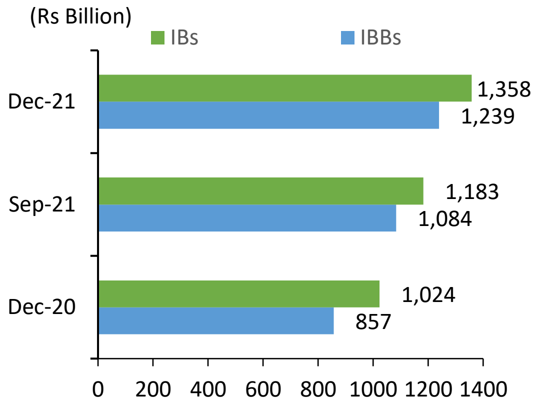
amounting Rs 632 billion during the period under review.

Bifurcation of investments (net) portfolio of IBs and IBBs divulges that investments (net) of IBs increased by 29.1 percent (Rs 211 billion) during the quarter under review and were recorded at Rs 940 billion by end December 2021. Similarly, investments (net) of IBBs unveiled a growth of 41.9 percent (Rs 270 billion) to reach Rs 912 billion (**Figure-3**).

Financing & Related Assets

Financing & related assets (net) of IBI displayed double-digit growth of 14.6 percent (Rs 331 billion) during the period under review and were registered at Rs 2,597 billion by end December 2021. Breakup of financing and related assets (net) among IBs and IBBs discloses that financing & related assets (net) of IBs experienced a quarterly rise of 14.8 percent (Rs 175 billion) to reach Rs 1,358 billion by end December 2021. Similarly, financing and related assets (net) of IBBs enlarged by 14.3 percent (Rs 155 billion) during the period under review and were recorded at Rs 1,239 billion (**Figure-4**).

Figure-4: Breakup of Financing



Source: SBP

In terms of mode wise financing, the share of Diminishing Musharaka (33.8 percent) remained highest in overall financing of IBI, followed by Musharaka (24.9 percent) and Murabaha (13.6 percent) by end December 2021 (**Table-2**). Sector wise financing shows that textile and agribusiness remained two leading sectors and their share in overall financing of IBI was 16.2 percent and 13.9

Table-2: Mode Wise Financing (Share in Percent)

Mode	Dec-20	Sep-21	Dec-21
Murabaha	13.7	15.9	13.6
Ijarah	4.8	4.8	4.4
Musharaka	22.7	22.0	24.9
Diminishing Musharakah	33.6	35.1	33.8
Salam	1.9	1.7	2.0
Istisna	8.3	6.9	8.3
Others	15.0	13.6	13.0
Total	100.0	100.0	100.0

Table-3: Sector Wise Financing (Share in Percent)

Sector	Dec-20	Sep-21	Dec-21	Overall Banking Industry
Chemical & pharmaceuticals	4.4	3.7	3.9	3.4
Agribusiness	9.0	11.5	13.9	8.5
Textile	14.9	15.1	16.2	16.4
Cement	3.6	3.1	2.7	2.0
Sugar	2.7	1.8	2.4	2.3
Shoes and leather garments	0.5	0.5	0.4	0.4
Automobile & transportation equipment	1.3	1.2	1.3	1.8
Financial	0.3	0.2	0.2	3.1
Insurance	0.0	0.0	0.0	0.1
Electronics & electrical appliances	0.9	1.1	1.2	1.4
Production & transmission of energy	14.0	12.1	11.0	13.9
Individuals	10.2	11.6	11.2	9.8
Others	38.4	38.2	35.5	36.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

percent, respectively by the end December 2021 (**Table-3**).

Review of Client wise financing portfolio depicts that the share of Corporate Sector (68.0 percent) remained dominant in overall financing of IBI followed by Commodity Financing (16.7 percent) and Consumer Finance (10.6 percent). While, the share of SMEs and Agriculture Financing almost remained same compared to previous quarter (**Table-4**).

Table-4: Client Wise Financing Portfolio (Share in Percent)

Segment	Dec-20	Sep-21	Dec-21	Overall Banking Industry
Corporate Sector	70.3	67.9	68.0	70.9
SMEs	3.0	2.4	2.3	4.8
Agriculture	0.3	0.9	0.8	3.7
Consumer Finance	9.8	10.9	10.6	7.5
Commodity Financing	15.0	16.1	16.7	9.1
Others	1.2	1.7	1.3	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Key indicators of asset quality like non-performing finances (NPFs) to financing (gross) and net NPFs to net financing, indicated further improvement compared to previous quarter and were recorded at 2.7 percent and 0.3 percent, respectively. The provisions to NPFs ratio stood at 90.8 percent by end December 2021. On overall basis, asset quality ratios of IBIs were relatively better than the overall banking industry averages (**Table-5**).

Table-5: Assets Quality Ratio (Share in Percent)

Ratio	Dec-20	Sep-21	Dec-21	Overall Banking Industry
NPFs to Financing (gross)	3.2	3.1	2.7	7.9
Net NPFs to Net Financing	0.6	0.4	0.3	0.7
Provisions to NPFs	82.4	86.2	90.8	91.3

Liabilities

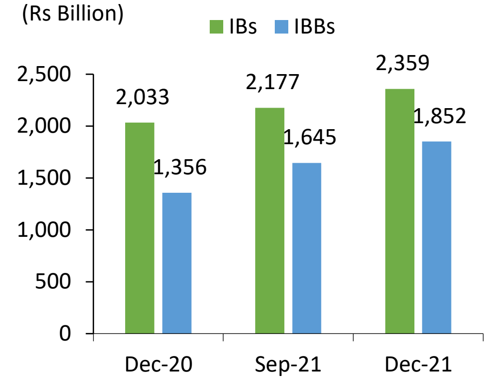
Deposits of IBI depicted a quarterly growth of 10.2 percent (Rs 389 billion) during the period under review and were recorded at Rs 4,211 billion by end December 2021. Market share of Islamic banking deposits in the overall banking industry increased to 19.4 percent by end December 2021 compared to 18.6 percent in the previous quarter.

Table-6: Break up of Deposits (Rs in Billion, Growth in Percent)

Category	Dec-20	Sep-21	Dec-21	Yearly Growth (YoY) in %	Quarterly Growth in %
A. Deposits (1+2)	**3,389**	**3,822**	**4,211**	**24.2**	**10.2**
1. Customers	**3,153**	**3,538**	**3,878**	**23.0**	**9.6**
Fixed Deposits	681	642	667	(2.0)	3.9
Saving Deposits	1,248	1,448	1,526	22.3	5.3
Current Deposits	1,185	1,405	1,642	38.6	16.9
Others	39	43	43	10.2	0.6
2. Financial Institutions	**236**	**284**	**333**	**41.1**	**17.3**
Remunerative Deposits	229	272	316	40.0	16.2
Non-remunerative Deposits	7	12	17	142.9	41.7
Local Currency Deposits	3,206	3,622	3,979	24.1	9.8
Foreign Currency Deposits	183	200	232	26.8	16.0

The category wise breakup of deposits shows that all categories of deposits witnessed rise during the period under review. Current deposits grew by 16.9 percent (Rs 237 billion), saving deposits increased by 5.3 percent (Rs 77 billion) and fixed deposits observed a growth of 3.9 percent (Rs 25 billion). Similarly, deposits of financial institutions up by 17.3 percent (Rs 49 billion) during the period under review (**Table-6**).

Figure-5: Breakup of Deposits



Source: SBP

The division of deposits between IBs and IBBs reveals that deposits of IBs augmented by 8.4 percent (Rs 182 billion) during the period under review and were recorded at Rs 2,359 billion by end December 2021. Likewise, deposits of IBBs increased by 12.6 percent (Rs 207 billion) to reach Rs 1,852 billion. The share of IBs and IBBs in overall deposits of IBI was registered at 56 percent and 44 percent, respectively, by end December 2021 (**Figure-5**).

Liquidity

Liquid assets to total assets and liquid assets to total deposits ratio of IBI improved compared to previous quarter and stood at 33.2 percent and 44.0 percent, respectively by end December, 2021. This increase in both ratios can be attributed to investments made by IBIs in GIS during the period under review. Financing to deposits ratio (net) of IBI also increased to 61.7 percent by end December 2021, mainly due to a rise (Rs 331 billion) in the financing portfolio of IBI. It is pertinent to mention here that financing to deposits ratio of IBI remained significantly higher compared to the advances to deposit ratio of overall banking industry, which was recorded at 46.6 percent by end December 2021 (**Table-7**).

Table-7: Liquidity Ratios (Share in Percent)

Ratios	Dec-20	Sep-21	Dec-21	Overall Banking Industry
Liquid Assets to Total Assets	28.7	27.0	33.2	55.4
Liquid Assets to Deposits	36.2	34.5	44.0	76.7
Financing to Deposits (Net)	55.5	59.3	61.7	46.6

Capital

The ratios of 'capital to total assets' and 'capital minus net NPAs to total assets' of IBI stood at 5.7 percent and 5.5 percent, respectively by end December 2021 (**Table-8**).

Table-8: Capital Ratios (Share in Percent)

Ratios	Dec-20	Sep-21	Dec-21	Overall Banking Industry
Capital to Total Assets	6.1	6.3	5.7	6.3
(Capital - Net NPAs) to Total Assets	5.7	6.0	5.5	6.1

Profitability

Profit before tax of IBI stood at Rs 94.6 billion by end December 2021 compared to Rs 88.4 billion in the same quarter last year. Profitability ratios, i.e. **'**Return on Assets (ROA)' and 'Return on Equity (ROE)' (before tax) was recorded at 2.0 percent and 32.6 percent, respectively by end December 2021. Whereas, operating expense to gross income ratio of IBI remained almost same compared to the previous quarter (**Table-9**).

Table-9: Profitability Ratios (in Percent)

Particulars	Dec-20	Sep-21	Dec-21	Overall Banking Industry
Profit before tax (Rs billion)	88.4	66.4	94.6	451.3
ROA before tax	2.4	1.9	2.0	1.6
ROE before tax	36.4	31.3	32.6	24.0
Operating Expense to Gross Income	47.5	50.7	50.6	53.5

Share of Islamic Banking in SBP's Schemes/Initiatives

IBI has been playing a pivotal role in the implementation of various measures taken in the wake of COVID-19 pandemic and several other key initiatives to promote financing for low cost housing and SMEs and digitization. During the COVID-19 pandemic, SBP introduced Temporary Economic Refinancing Facility (TERF), a concessionary refinance facility aimed at promoting investment both new and expansion and/or Balancing, Modernization and Replacement (BMR). In the disbursement of financing under TERF, the IBI also contributed significantly with a sizable share of 38 percent in total amount disbursed.

In addition to the above, IBI is actively contributing under the flagship initiative of Mera Pakistan Mera Ghar (MPMG), a financing facility to promote affordable housing. The existing share of IBI is 49 percent in total disbursements and 58 percent in total approved amount of financing under MPMG. Similarly, in case of Roshan Digital Account, IBIs have been able to attract sizable investment in Islamic Naya Pakistan Certificates (INPCs) with a share of 46 percent to total inflows under Naya Pakistan Certificates (NPCs).

Country Model: Malaysia

i. Introduction:

Malaysia is a Southeast Asian country with the fourth-largest economy in the region according to International Monetary Fund. The country's economy has been transformed since 1970 from one based primarily on the export of raw materials to one that is among the most robust, most diversified, and fastest-growing in Southeast Asia. The country's GDP declined by 5.6 percent in 2020, however, IMF has projected the GDP to grow by 6 percent in 2022. Malaysia has an active and growing financial sector, which has been encouraged by government policies that promote foreign investment, market competition, and the privatization of publicly held enterprises.

ii. Islamic Banking and Finance

Islamic Banking in Malaysia began with the promulgation of the Islamic Banking Act 1983, enabling the establishment of the first Islamic Bank i.e., Bank Islam Malaysia Berhad. Islamic banking expanded further with the liberalization of the Islamic financial system in the country. The country has 16 Islamic banks and 10 Islamic banking windows as of September 2021. As of 3Q21, Islamic banking assets registered a y-o-y growth of 8.68 percent, and reached the market of approximately 30% in the overall banking assets. In terms of share in global Islamic banking assets, Malaysia stands third with an 11.4 percent share.

iii. Regulatory Environment

The Islamic Banking Act (IBA) (1983) was the first regulatory act that required the licensing and regulation of full-fledged Islamic banks in Malaysia to undertake Shariah-compliant business and establish a Shariah advisory board to advise on the banks' operations. Similarly, the promulgation of the Banking and Financial Institution Act (1989) enabled conventional banks to operate Islamic banking businesses by establishing Islamic banking windows.

In 2005, the first systematic effort to develop a Shariah Governance Framework (SGF) was undertaken by Bank Negara Malaysia (BNM). It issued the Guidelines on the Governance of the Shariah Committee for Islamic Financial Institutions. Since then, the SGF has been revised several times to enhance the existing regulatory requirements and expectations on Shariah governance for IFIs. Revisions to SGF 2010 were also made in SGF 2019, given the growing scale and complexity of Islamic financial business and recent policy developments in the area of governance, compliance, and risk management.

iv. Sukuk

In Malaysia, the issuance of Sukuk is regulated by the Securities Commission Malaysia, through the framework provided under the Guidelines on Sukuk. Malaysia pioneered the development of the global Sukuk market with the launch of the first sovereign five-year global Sukuk worth US$600 million in 2002. During the period January 2001 to December 2020, Malaysia has issued 175 international and 7,626 domestic Sukuk of different categories, worth USD 85.633 billion and USD 714.311 billion, respectively.

The country remained one of the top global markets in Sukuk issuance in 2020. The total market share of global outstanding Sukuk issuance stood at 43.43 percent.

Malaysia has also been the pioneer of Green Sukuk by rolling out the world's first Green Sukuk in 2017 and holds the highest number of green Sukuk issuance. To further encourage sustainable finance and investment, the Security Commission has expanded its Green Socially Responsible Sukuk (SRI) Grant Scheme to encourage more companies to finance green, social and sustainability projects through SRI Sukuk.

v. Takaful

The takaful industry in Malaysia is relatively old compared to other jurisdictions. Takaful operators began working in the country with the enactment of the Takaful Act 1984. According to Bank Negara Malaysia, there are 15 takaful operators. The development of the takaful industry jump started by the decree issued by the Malaysian National Fatwa Committee, which ruled that life insurance in its present form is a void contract due to the presence of the elements of Gharar (uncertainty), Riba' (usury) and Maisir (gambling). Malaysia's takaful assets reached USD 9.1 billion as of December 2019, with the share of takaful net contributions as a proportion of the total insurance and takaful business at 18.3 percent.

vi. Way forward

Islamic banking in Malaysia has been exhibiting tremendous growth over the years. This growth results from a conducive environment provided by the government in the form of robust regulatory and governance framework, coupled with product innovation, diversity of financial institutions and a broad range of innovative Islamic investment instruments. The adaptability and flexibility of the country's Islamic financial system have enabled Malaysia to be among the global leader in Islamic Finance. The Islamic banking industry can be further enhanced by leveraging financial technology and the implementation of universal best practices.

Sources of Information

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- Bank Negara Malaysia {https://www.bnm.gov.my/}
- International Islamic Financial Market Sukuk Report 2021 {https://www.iifm.net/}
- Islamic Financial Services Board Annual Report 2021 {https://www.ifsb.org/}
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- Emerald Insight {https://www.emerald.com/insight/}

Special Section: Overview of Global Sukuk Market

(In the special section of this issue, an abridged version of the IIFM's Sukuk Report 2021 is being presented).

The Global Sukuk market closed the year 2020 with yet another new record issuances. The year closed at an increase of around 19.8% (USD 174.641 Billion) where the main factors for this growth trajectory were economic stimulus measures implemented by the governments, positive outlook of global economy, relatively stable to rising commodity prices including oil, continuation of increase in Sovereign Sukuk issuances, increase in Financial Institutions issuances, issuers refinancing requirements and increase in short term as well as longer tenor issuances.

There were several events during 2020 which can be noted as landmark events such as private sector led issuance from various jurisdictions and increase in activity from countries such as Nigeria, Pakistan, and Bangladesh etc. Moreover, the continued interest from well-established sovereign, quasi sovereign and financial institutions issuers such as Governments of Malaysia, Bahrain, Indonesia, Turkey, Pakistan, Oman, Saudi Arabia, United Arab Emirates, Kuwait and Islamic Development Bank which has kept the Sukuk market active.

- **Global Sukuk Issuances**

Total global issuance amounted to USD 174.641 billion in 2020 which is the highest value of yearly Sukuk issuances to date. In 2020, the short term Sukuk issuances in volume and percentage terms are more than long term issuances i.e., the short term issuances increased by around 44.50% versus long term issuances which increased by around 12%. The steady issuance volume during 2020 was mainly due to sovereign Sukuk issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continue to dominate the Sukuk market though share of countries like Indonesia, UAE, Saudi Arabia and Turkey increased with good volume.

- **Leading Sukuk Issuers**

Since its inception (Jan 2001 – Dec 2020) Asia continues to be the dominant player in the global Sukuk market and accounts for 67.84% of global Sukuk issuances followed by GCC & ME as the second largest destination of Sukuk issuance with market share 25.47%. As for the global Sukuk issuances during the year 2020, Malaysia is the dominant player with market share of 37.90%. Other jurisdictions in order of their approximate share in the global market are Indonesia (14.92%), Saudi Arabia (15.61%), UAE (5.56%), Bahrain (3.20%), Qatar (1.32%) and Turkey with increasing market share of 15.10%. Pakistan's share in the global market stands at 2.96% with Sukuk issuance of USD 5.161 billion in 2020.

- **International Sukuk Issuances**

Total (long-term & short-term) international Sukuk issuances stood at USD 42.408 billion in 2020 which translate into an increase of USD 3.93 billion or positive 9.25% from 2019 level of USD 38.476 billion. Though in terms of issuance volume the year 2020 recorded a new high but the short-term Sukuk issuances have entirely contributed to this increase while long-term issuances were unchanged from previous year. The Sukuk issuances by sovereign, IFIs and to some extent by corporates and quasi sovereign mainly from GCC, Indonesia, Malaysia and Turkey have contributed an increase of volumes hence surpassing the previous year issuances.

- **Domestic Sukuk Issuances**

The domestic Sukuk issuances have increased in volume from their 2019 level of USD 107.226 billion to USD 132.233 billion or around positive 23%; the biggest chunk of this increase is coming from the Malaysian market contribution of USD 53.70 billion followed by Indonesia USD 23.50 billion, Turkey USD 23.00 billion and Saudi Arabia USD 18.70 billion.

- **Distribution of the Global Sukuk Issuance by Issuer Status**

- **Sovereign Sukuk**

As the case previous years, the sovereign Sukuk issuances are the main contributor of the global Sukuk market progression and the sovereign issuances in 2020 grew by around 19.50% to USD 88.867 billion as compared to 2019 issuances of USD 74.37 billion. The sovereign issuers led by Saudi Arabia, Indonesia, Malaysia, UAE, Turkey continue to provide a strong foundation to the Sukuk market. As of end 2020, total sovereign Sukuk issuance since inception stands at USD 769.61 billion, which is around 50.88% of all global Sukuk issuances.

- **Corporate Sukuk**

With a slight increase of only USD 0.645 million during 2020, the corporate issuances remained lackluster, also as the case previous years and did not cross the 2013 issuance record of USD 34.60 billion. This is typical of corporate sector response even in the conventional world as they are first to cut back on spending and expansion and development projects in the wake of an economic downturn.

- **Quasi-sovereign**

During 2020, quasi-sovereign issues registered a meager increase of USD 1.73 billion. The issues have mainly come from the Bahrain sovereign wealth fund Mumtalakat, DanaInfra Nasional Malaysia, Dubai Aerospace Enterprise, Power Holding Government of Pakistan, Dubai DP World, and the Saudi-based Islamic Development Bank (IsDB).

- **Structural Break-up of Global Sukuk Market**

As far as the international Sukuk market is concerned, Sukuk Al Wakalah, is the most popular structure for some time now, the share of Wakalah among Sukuk issuances made up around 51.00% during 2010-2018 period. The share of Sukuk Al Ijarah continue to decline from initial years and in 2020 its share increased to 18% as compared to 11% in 2019. The shift from Ijarah to Wakalah model started in 2015 and since then this trend has continued in 2020 where Sukuk Al Wakalah share stood at USD 21.427 billion (51%) of the total international issuances. The Sukuk Al Wakalah provides flexibility in structuring and the issue of shortage of available assets is abridged.

In the domestic market, Sukuk Al Murabahah has historically been the most dominant structure for Sukuk issuances even in 2020 where around USD 38.09 billion or 29% of total domestic issuances were based on the Murabahah structure.

- **Sukuk Outstanding**

On the back of record number of global Sukuk issuances during 2012 to 2020 period where 2020 is the record year so far in terms in total Sukuk issuances, the outstanding Sukuk issuances in 2020 reached USD 648.00 billion as compare to USD 551.44 billion in 2019 which is a clear indication of growing interest in Sukuk though supply and demand gap remains to be bridged particularly for International Sukuk but signs are encouraging. The breakdown for sovereign, quasi sovereign, corporate and FIs works out to be 47.73%, 20.16%, 24.19% and 7.93% respectively.

Note: Full version of IIFM Sukuk Report 2021 is available at IIFM website Sukuk Report – International Islamic Financial Market (iifm.net)

Events and Developments at Islamic Banking Department (IBD) – State Bank of Pakistan (SBP)

A. Events

Training Programs on "Fundamentals of Islamic Banking Operations (FIBO)"

IBD, SBP in collaboration with National Institute of Banking and Finance (NIBAF) conducted five (05) online iterations of FIBO program for participants in different cities across the country. These programs were aimed to enhance the capacity of the industry professionals, Shariah scholars, academia, etc. The sessions were organized for participants in Gujranwala, Hyderabad, Peshawar, Bahawalpur and Sukkur during the quarter October to December 2021.

Capacity Building Programs on "Islamic Banking Branch Operations (IBBO)"

A short duration capacity building program named 'Islamic Banking Branch Operations' was continued in this quarter as well. This program is especially designed for upscaling capacity levels of Islamic banking branch staff. During the quarter, IBD, SBP conducted three (03) online iterations of IBBO program. The sessions were organized for participants in Gujranwala, Mansehra and Islamabad.

Islamic Banking Certification Program for Shariah Scholars

To upgrade the capacity levels of Shariah scholars serving the industry, Phase-1 of the 'Islamic Banking Certification Program for Shariah Scholars' was conducted during November–December 2021. The program was attended by Shariah scholars from across the industry and was divided into six (06) modules covering various aspects of Shariah compliant banking.

Awareness Session on SBP Shariah Compliant Refinance Schemes

Considering the need of the market and demand from business owners, IBD, SBP conducted an online awareness session on 25th November, 2021 on 'SBP Shariah Compliant Refinance Schemes for Focal Persons of Chambers of Commerce'. Chambers' representatives from across Pakistan attended the session, who were apprised of the Shariah compliant versions of various refinance schemes that SBP has issued to facilitate the exporters.

Awareness Sessions for University Students

In the strive to increase awareness and clarify doubts about Islamic banking & finance in the young minds, IBD, SBP conducted two (02) awareness sessions for university students. The first session was conducted at COMSATS University, Abbottabad on December 13, 2021, while the second session was conducted at GC University for Women, Faisalabad on December 15, 2021.

B. Developments

SBP introduces Shariah Compliant Liquidity Facilities for Islamic Banking Institutions

In line with State Bank's strategic plan to improve Liquidity Management Framework for Islamic Banking Industry and enhance the effectiveness of monetary policy implementation, SBP has introduced Shariah Compliant Standing Ceiling Facility and Open Market Operations (injections) for Islamic Banking Institutions (IBIs). Details are as under:

- **Shariah Compliant Standing Ceiling Facility**, introduced vide DMMD Circular No. 24 of 2021, is a Mudarabah based Financing Facility (MFF) whereby SBP will provide financing to IBIs on an overnight basis against Shariah compliant collateral. IBIs shall place the funds received from SBP in a special pool consisting of high quality assets. The MFF will be offered at an 'Expected Rate' - equivalent to conventional overnight reverse repo rate–based on a Profit Sharing Ratio agreed between the SBP and IBI at the onset of the transaction.

- **Shariah Compliant Open Market Operations (Injections) Facility**, introduced vide DMMD Circular No. 25 of 2021, is based on Mudarabah mode of financing. This open market operations (OMOs) facility will currently be available for 'injection' i.e. provision of liquidity purposes only. Similar to conventional OMOs, SBP will be conducting Shariah Compliant OMOs (Injections) based on market liquidity conditions through a multiple price competitive bidding process for tenors as announced by SBP from time to time, against collateral. Once the expected rate of return is finalized through a competitive bidding process, the funds provided by SBP shall be invested in a pool of high quality assets by the respective IBI. SBP and IBI shall agree a Profit Sharing ratio at the onset of the transaction.

Islamic Banking News and Views

I. Local Industry News

SBP's Reza Baqir appointed chairman of IFSB Council

State Bank of Pakistan (SBP) Governor Dr Reza Baqir has been appointed as the chairman of the Council of Islamic Financial Services Board (IFSB), Malaysia for the year 2022. Baqir's appointment was approved by the IFSB Council in its 39th meeting held on December 9, 2021 in Abu Dhabi, United Arab Emirates (UAE). He had been serving earlier as the deputy chairman of the IFSB Council for the year 2021. Speaking on the occasion, the SBP governor said that he felt deeply honored to assume the chairmanship of the council of IFSB. Baqir said that with the support of his fellow council members, he aspires to help IFSB realize its mandate. He also pledged to transform IFSB into one of the most progressive and robust standard-setting body globally.

https://www.brecorder.com/

ITFC gives $761 million to Pakistan for energy imports

The International Islamic Trade Finance Corporation (ITFC), a subsidiary of the Islamic Development Bank, and Pakistan signed an agreement under which the former would make available $761.5 million of syndicated loan for commodity financing, particularly oil and gas. A financing agreement was formally signed by ITFC's Chief Executive Officer and, Secretary Ministry of Economic Affairs (MEA) for their respective sides. The financing would be used for import of crude oil, refined petroleum products and LNG etc. This Syndicated Murabaha Financing facility is for a period of one year and is a part of umbrella Framework Agreement signed with ITFC in June 2021 for total envelop of $4.5bn ($1.5m annually) for a period of three years.

https://www.dawn.com/

Islamic finance industry needs rapid digitisation

Speaking at the 15th Islamic Finance Services Board (IFSB) Summit hosted by the Saudi Central Bank in Jeddah, State Bank of Pakistan Governor Dr Reza Baqir, said that the Islamic finance industry needs to speed up digitisation of its services and transform processes to improve efficiency, reduce intermediation cost and increase outreach to a wider segment of society. Mr. Baqir said that digital transformation of the global Islamic financial services industry has become a necessity for its growth and it needs to focus on innovation in ways of service delivery to meet the expectations of today's tech-savvy and convenience-driven customers. He said that digitalisation of Islamic financial services offered tremendous opportunities in achieving a more inclusive financial system for Islamic countries, where a significantly large number of adult population is unbanked.
https://www.dawn.com/

II. International Industry News

IIFM introduces Islamic solutions for risk-free rate benchmark as LIBOR phases out

With the days of the London Inter-Bank Offered Rate (LIBOR) numbered, the International Islamic Financial Market (IIFM) has introduced a series of Shariah compliant solutions for an alternative benchmark risk-free rate (RFR) to minimize the disruption to the global Islamic finance industry as the financial world transitions away from the LIBOR. These new measures come as the LIBOR is to be discontinued at the end of this year, or in some cases in June 2023, for a number of important currencies including the US dollar, euro, UK pound sterling, Japanese yen and Swiss franc, among other hard currencies.
https://www.islamicfinancenews.com/

High level working group on Green Sukuk launched at UN Climate Summit

The Islamic Finance Council UK (UKIFC), Her Majesty's Treasury, Ministry of Finance in the Republic of Indonesia Ministry, Islamic Development Bank, London Stock Exchange Group and the Global Ethical Finance Initiative (GEFI) have come together as founding partners to launch a High Level Working Group on Green Sukuk (HLWG). The 3-year initiative will direct investment to reduce greenhouse gas emissions in the world's regions in most need. The announcement follows work of the Global Islamic Finance and UN SDGs Taskforce and a recent report "Innovation in Islamic Finance: Green Sukuk for SDGs" commissioned by UNDP Indonesia in which the UKIFC estimated that an additional US$30+ billion of capital towards the SDGs can be raised by 2025 through green and sustainability Sukuk. To unlock this finance, the HLWG has been launched to coordinate international efforts. The report showed how green and sustainability Sukuk can be a viable financial instrument attracting billions of dollars of capital for green projects that support the delivery of the Paris Agreement.
https://www.zawya.com/

Islamic finance industry set to hit $4.94trn in 2025

Islamic finance industry is projected to reach $4.94 trillion in 2025 according to the Islamic Finance Development Indicator (IFDI) 2021 released by Refinitiv, a London Stock Exchange Group (LSEG) business. The report highlighted new trends this year, including the expansion of the fintech industry

and digital banks led by Malaysia, Indonesia, Saudi Arabia, Bahrain, and the UAE. The Southeast Asian nations Malaysia and Indonesia retained their top rankings for the second year in a row. According to the report, global assets for the industry maintained double-digit growth, rising 14% to $3.374 trillion in 2020. Sukuk, the second-biggest sector in Islamic finance, grew by 16% in 2020 driven by the GCC and Southeast Asia.
http://www.tradearabia.com/

Russia expands limited global Exchange-Traded Fund universe with debut Shariah ETF

Just a month after it introduced the country's first Islamic indices, Russia's largest bank, Sberbank, has unveiled an Islamic exchange-traded fund (ETF) through its asset management arm, a promising sign for the Russian Federation, which has seen fragmented Islamic finance progress. Sber Asset Management's latest offering is known as Halal Investments which is benchmarked against the MOEX Shariah Total Return Index, one of the two indices which Sberbank launched last month in collaboration with the Moscow Exchange. The ETF has been certified Shariah compliant by Global Islamic Financial Services Firm. Denominated in roubles, total commission and expenses of the ETF are below 1% per year, with the management fee set at 0.8%. Positioning the fund as a socially responsible asset class, dividends from the ETF will be reinvested with its composition to be altered when the index is revised and when necessary.
https://www.islamicfinancenews.com/

III. Articles and Views

LIBOR transition: Challenges for Islamic banks

After evaluating several alternative benchmarks over the last four years, the majority of the market participants have arrived at a consensus on adopting the Alternative Reference Rates for major currencies. This backward-looking nature of ARR throws a major challenge for Islamic financial institutions where Gharar (uncertainty) is not allowed. For financing transactions linked to LIBOR, a reset of reference rates will happen at the close of the reference period, which makes profit payment uncertain. This is especially challenging for Murabahah transactions based on any reference rate, where the rate for a forward sale cannot be changed under any circumstances. Apart from pure financing transactions, hedging transactions like profit rate swaps (PRS) and cross-currency swaps, where one leg is linked to LIBOR, also need to be re-evaluated. Another challenge for market participants is the amendments to the existing documents like financing agreements and Master Tahawwut agreements. While conventional financial institutions have developed addendums to the ISDA document, similar documents have not yet received the wider acceptance of Islamic financial institutions. After evaluating several solutions, Islamic financial institutions are closing in on some practicable solutions for ARR. However, formal approval from all the stakeholders is awaited. To conclude on a positive note, the industry appears to have successfully managed to overcome a major challenge, which did not have any precedents.
https://www.islamicfinancenews.com/

Fintech and the rise of Islamic finance

When it comes to fintech innovation, most conversations typically revolve around the diversification of a sector once dominated by legacy institutions. Fintech is entering what commentators are now deeming to be the third phase of its evolution. With technology firmly embedded into existing financial frameworks, attention is turning to the advantages blockchain could offer in improving the way different financial institutions operate, from operational efficiency to cost savings. Importantly, fintech is also empowering certain segments of investors and consumers who have yet been unable to take full advantage of 21st century banking. Of these, one area primed for digital disruption is Islamic finance. According to Refinitiv's Islamic Finance Development Indicator, the Islamic finance sector is projected to reach $4.9tn (£3.7tn) in 2025. S&P Global Ratings also projects the industry to grow by 10 to 12 per cent over 2021 and 2022. And the UK is on a mission to become a global hub for Sharia-compliant finance. With 2022 set to be the year of expansion for Islamic finance, it is important for financial professionals to understand its basic principles as well as the impact that technology is having in fueling a new rise of Islamic fintech companies.

https://www.ftadviser.com/

Building back better: Cybersecurity considerations for Islamic financial institutions

In the UK, Islamic financial institutions whose parent companies are located outside of the EU, such as the GCC countries — as well as investment advisory firms which routinely share sensitive data with investors in those jurisdictions — ought to be particular-y mindful of cybersecurity risks as, in general, the concept of data protection is relatively new to GCC countries. The need to exercise continued caution when processing and storing personal data applies equally to those UK Islamic financial institutions which offer home purchase plans and other products to a wide range of retail customers, not least due to Principles 3, 6 and 7 of the FCA Handbook which, among other matters, require firms to organize and control their affairs responsibly and effectively, with adequate risk management systems. The need for robust cybersecurity measures has never been more pressing, with the acceleration of the digital economy aided by COVID-19 thrusting many traditional firms to reassess their historic approach to cybersecurity. As the global economy begins to return to some semblance of normality — and management teams of Islamic financial institutions focusing firmly on meeting financial targets for the year ahead — it would be easy for seemingly less exciting topics such as cybersecurity to be overlooked in the return to the office. However, if COVID-19 has taught us anything, it is that black swan events might be closer on the horizon than we think.

https://www.islamicfinancenews.com/

Annexure I: Islamic Banking Branch Network

Islamic Banking Branch Network (As of December 31, 2021)			
Type	**Name of Bank**	**No. of Branches**	**Windows**
Islamic Banks	AlBaraka Bank (Pakistan) Limited	176	-
	BankIslami Pakistan Limited	229	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Meezan Bank Limited	902	-
	MCB Islamic Bank Limited	176	-
	Sub-Total	**1,693**	
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	117	110
	Askari Bank Limited	98	-
	Bank Al Habib Limited	138	145
	Bank Alfalah Limited	231	-
	Faysal Bank Limited	593	3
	Habib Bank Limited	259	614
	Habib Metropolitan Bank Limited	49	218
	National Bank of Pakistan	188	-
	Silk Bank Limited	27	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	35	15
	Standard Chartered Bank (Pakistan) Limited	2	39
	Summit Bank Limited	14	35
	The Bank of Khyber	110	39
	The Bank of Punjab	111	14
	United Bank Limited	112	197
	Zarai Taraqiati Bank Limited	5	-
	Sub-Total	**2,103**	**1,442**
	Total Full-Fledged Branches	**3,796**	**-**
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Askari Bank Limited	3	-
	Bank Alfalah Limited	1	
	BankIslami Pakistan Limited	113	-
	MCB Islamic Bank Limited	1	
	The Bank of Khyber	4	
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	2	
	Habib Bank Limited	1	-
	United Bank Limited	2	-
	Total Sub-Branches	**160**	**-**
	Grand Total Branches/Sub-Branches	**3,956**	**1,442**

Source: Information/Data obtained from different banks

Annexure II: Province/Region wise Break-up of Islamic Banking Branch Network

Province/Region wise Break-up of Islamic Banking Branch Network
(As of December 31, 2021)

Type	Name of Bank	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	5	7	3	15	98	46	176
	BankIslami Pakistan Limited	4	14	9	4	22	100	76	229
	Dubai Islamic Bank Pakistan Limited	7	5	15	3	10	86	84	210
	Meezan Bank Limited	8	34	40	3	65	482	270	902
	MCB Islamic Bank Limited	2	10	10	1	18	88	47	176
	Sub-Total	**23**	**68**	**81**	**14**	**130**	**854**	**523**	**1,693**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	2	4	6	1	12	69	23	117
	Askari Bank Limited	-	3	9	1	15	50	20	98
	Bank Al Habib Limited	1	8	8	1	26	42	52	138
	Bank Alfalah Limited	1	7	16	-	25	133	49	231
	Faysal Bank Limited	8	23	26	7	49	326	154	593
	Habib Bank Limited	7	4	12	2	24	142	68	259
	Habib Metropolitan Bank	1	1	1	-	12	15	19	49
	National Bank of Pakistan	9	4	6	1	40	94	34	188
	Silk Bank Limited	-	1	3	-	4	11	8	27
	Sindh Bank Limited	1	1		-	2	7	3	14
	Soneri Bank Limited	-	1	2	1	9	15	7	35
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	1	2
	Summit Bank Limited	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	6	3	-	88	10	3	110
	The Bank of Punjab	1	6	6	2	17	75	4	111
	United Bank Limited	1	5	7	-	19	45	35	112
	Zarai Taraqiati Bank Limited		-	1	-	1	2	1	5
	Sub-Total	**32**	**75**	**108**	**18**	**344**	**1,039**	**487**	**2,103**
	Total Full-Fledged Branches	**55**	**143**	**189**	**32**	**474**	**1,893**	**1,010**	**3,796**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-		6	6
	Askari Bank Limited	-	1	-	-	1	1	-	3
	Bank Alfalah Limited			1					
	BankIslami Pakistan Limited	1	6	9	-	5	41	51	113
	Dubai Islamic Bank Pakistan Limited	-	-	-	-	-	9	16	25
	MCB Islamic Bank Limited						1		
	Faysal Bank Limited		-	-	-	-	2	-	1
	Habib Bank Limited	-	-	-	-	-	-	1	2
	The Bank of Khyber	-	-	-	-	4	-	-	3
	The Bank of Punjab	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	1	-	1	-	-	2
	Total Sub-Branches	**1**	**7**	**11**	**0**	**11**	**56**	**74**	**160**
	Grand Total	**56**	**150**	**200**	**32**	**485**	**1,949**	**1,084**	**3,956**

Annexure III. District wise Break-up of Islamic Banking Branch Network

District wise Break-up of Islamic Banking Branch Network

(As of December 31, 2021)

S. No.	Province	District	No. of Branches*	S. No.	Province	District	No. of Branches*
1	Sindh	Badin	3	67	Khyber Pakhtunkhwa	Abbottabad	29
2		Dadu	8	68		Bannu	14
3		Ghotki	5	69		Batagram	3
4		Hyderabad	67	70		Buner	9
5		Jacobabad	5	71		Charsadda	12
6		Jamshoro	3	72		Chitral	8
7		Karachi City	884	73		Dera Ismail Khan	18
8		Kashmore	2	74		Hangu	10
9		Khairpur	4	75		Haripur	17
10		Larkana	9	76		Karak	4
11		Matiari	4	77		Kohat	16
12		Mirpurkhas	14	78		Lakki Marwat	1
13		Naushahro Feroze	5	79		Lower Dir	24
14		Shaheed Benazir Abad	19	80		Malakand	20
15		Sanghar	14	81		Mansehra	21
16		Shikarpur	1	82		Mardan	25
17		Sukkur	20	83		Nowshera	27
18		Shahdadkot	2	84		Peshawar	122
19		Tando Allahyar	4	85		Shangla	6
20		Tando Mohammad Khan	3	86		Swabi	12
21		Thatta	3	87		Swat	46
22		Umer Kot	5	88		Tank	2
Sindh Total			**1,084**	89		Torghar	1
23	Punjab	Attock	27	90		Upper Dir	11
24		Bahawalnagar	28	91		Kohistan	2
25		Bahawalpur	36	92		Bajaur Agency	6
26		Bhakkar	6	93		Khyber Agency	12
27		Chakwal	22	94		Mohmand Agnecy	1
28		Chiniot	8	95		Orakzai Agency	2
29		Dera Ghazi Khan	26	96		Kurram Agency	3
30		Faisalabad	158	97		North Waziristan Agency	1
31		Gujranwala	97	**KPK Total**			**485**
32		Gujrat	75	98	ICT	Islamabad	200
33		Hafizabad	10	**Islamabad Total**			**200**
34		Jhang	18	99	Gilgit-Baltistan	Astore	1
35		Jhelum	21	100		Baltistan	1
36		Kasur	23	101		Ghizer	1
37		Khanewal	35	102		Hunza	1
38		Khushab	8	103		Skardu	6
39		Lahore City	605	104		Diamir	7
40		Layyah	10	105		Gilgit	15
41		Lodhran	5	**Gilgit-Baltistan Total**			**32**
42		Mandi Bahauddin	18	106	Balochistan	Chaghi	3
43		Mianwali	11	107		Duki	1
44		Multan	112	108		Gawadar	8
45		Muzaffargarh	19	109		Harnai	1
46		Nankana Sahib	10	110		Jaffarabad	2
47		Narowal	11	111		Kech	2
48		Okara	34	112		Khuzdar	3
49		Pakpattan	17	113		Lasbela	6
50		Rahim Yar Khan	53	114		Loralai	6
51		Rajanpur	8	115		Noshki	2
52		Rawalpindi	187	116		Nasirabad	2
53		Sahiwal	41	117		Panjgur	3
54		Sargodha	48	118		Pishin	8
55		Sheikhupura	32	119		Qilla Abdullah	8
56		Sialkot	72	120		Qilla Saifullah	7
57		Toba Tek Singh	29	121		Quetta	75
58		Vehari	29	122		Sibi	2
				123		Turbat	3
Punjab Total			**1,949**	124		Zhob	5
59	Azad Kashmir	Bagh	4	125		Ziarat	3
60		Bhimber	2	**Baluchistan Total**			**150**
61		Dadyal	4				
62		Hattian Bala	1				
63		Kotli	6				
64		Mirpur	21				
65		Muzaffarabad	13				
66		Poonch	5				
Azad Kashmir Total			**56**	**Grand Total**			**3,956**

*including sub-branches