



ISLAMIC BANKING BULLETIN

January - March 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) increased by Rs 120 billion during the quarter January to March, 2021 and were recorded at Rs 4,389 billion by end March 31, 2021. **Deposits** of IBI also experienced a quarterly growth of Rs 68 billion during the period under review to reach Rs 3,457 billion. Assets and deposits of IBI achieved year on year growth of 30.6 percent and 28.4 percent, respectively. Market share of Islamic banking industry's assets and deposits in the overall banking industry was recorded at 17.0 percent and 18.7 percent, respectively (see **Table-1**).

Particulars	Period			Yearly Growth (YoY) in %			Share in Overall Banking Industry (in %)		
	Mar-20	Dec-20	Mar-21	Mar-20	Dec-20	Mar-21	Mar-20	Dec-20	Mar-21
Assets	3,360	4,269	4,389	20.4	30.0	30.6	15.2	17.0	17.0
Deposits	2,692	3,389	3,457	22.4	27.8	28.4	16.9	18.3	18.7
No. of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
No. of Branches*	3,250	3,456	3,504	13.3	7.1	7.8	-	-	-
No. of Islamic Banking Windows	1,375	1,638	1,595	7.1	19.3	16.0	-	-	-

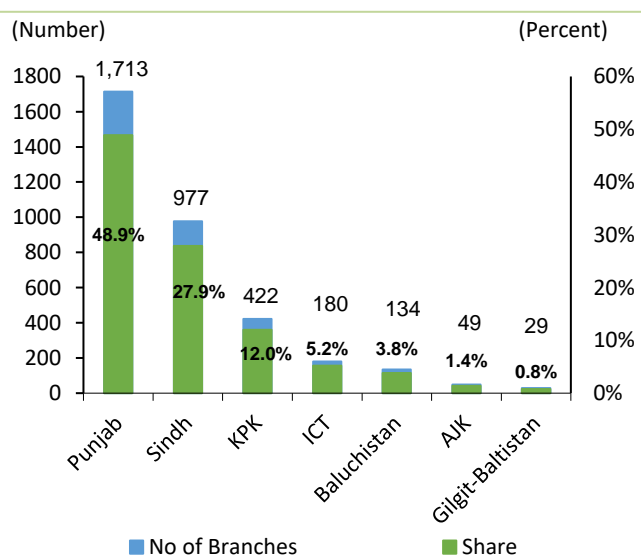
* including sub-branches

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

Branch Network of Islamic Banking Industry

The composition of Islamic banking industry remained same with 22 Islamic Banking Institutions (IBIs) comprising of 5 full-fledged Islamic Banks (IBs) and 17 Conventional Banks having standalone Islamic Banking Branches (IBBs) by end March, 2021. During the period under review, 48 branches were added in branch network of IBI; as a result, the branch network of IBI increased to 3,504 branches (spread across 124 districts of the country) by end March, 2021. **Figure 1** depicts region wise concentration of branches in Punjab, followed by Sindh and Khyber-Pakhtunkhwa (KPK).

Figure 1: Region Wise Branch Network



Source:SBP

The number of Islamic banking windows (dedicated counters at conventional branches) operated by IBBs stood at 1,595 by end March, 2021 (see **Annexure I** for details).

Asset and Liability Structure

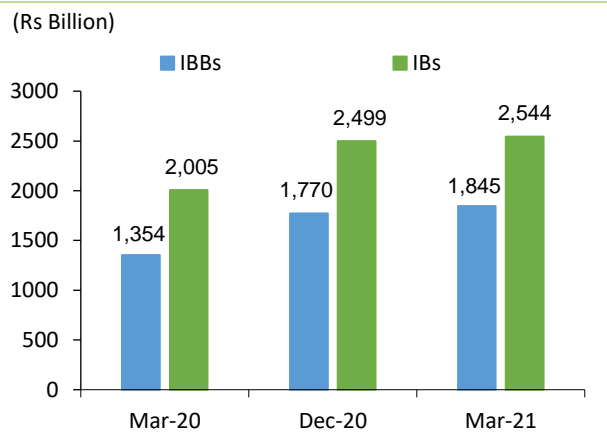
Assets

Assets of IBI increased by Rs 120 billion during the quarter January to March, 2021, and were registered at Rs 4,389 billion, compared to Rs 4,269 billion in the previous quarter. This growth in assets was mainly contributed by investments (net) that reflected a quarterly growth of Rs 84 billion. While, financing (net) of IBI, recorded an increase of Rs 72 billion during the period under review. Market share of Islamic banking industry's assets in overall banking industry's assets was recorded at 17.0 percent by end March, 2021. The share of net financing and investments in total assets (net) of IBI stood at 44.5 percent and 30.6 percent, respectively by end March, 2021 (see section below on **Investments** and **Financing** for details).

Break-up of Assets of IBs and IBBs

Bifurcation of assets among IBs and IBBs reveals that assets of IBs recorded a quarterly growth of Rs 44 billion during the review quarter to reach Rs 2,544 billion (see **Figure 2**). On the other hand, assets of IBBs witnessed growth of Rs 75 billion and their assets increased to Rs 1,845 billion by end March, 2021. In terms of share in overall assets of IBI, IBs and IBBs accounted for 58 percent and 42 percent share, respectively.

Figure 2: Breakup of Assets

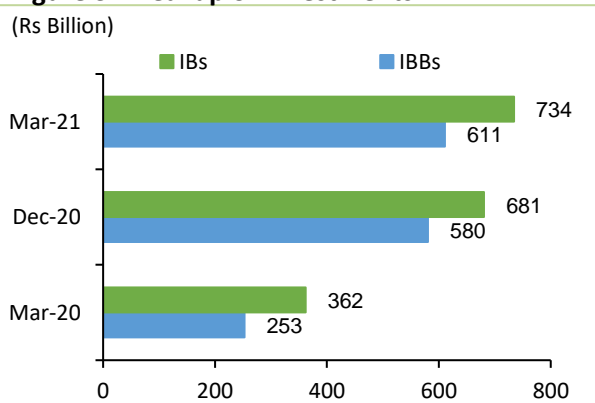


Source: SBP

Investments

Investments (net) of IBI registered an increase of Rs 84 billion during the period under review and stood at Rs 1,345 billion by end March, 2021. This increase in investments (net) can be mainly attributed to investments made by IBI in Government of Pakistan (GoP) domestic Ijarah Sukuk. It is worth mentioning here that GoP issued two domestic Ijarah Sukuk of Rs 75 billion (approximately) during the period under review.

Figure 3: Breakup of Investments



Source: SBP

Financing and Related Assets

Financing & Related Assets (net) of IBI registered a quarterly growth of Rs 72 billion during the period under review to reach Rs 1,953 billion by end March, 2021 compared to Rs 1,881 billion in the previous quarter. Breakup of financing and related assets (net) among **IBs** and **IBBs** shows that financing & related assets (net) of IBs saw a quarterly rise of Rs 41 billion to reach Rs 1,064 billion. Similarly, financing and related assets (net) of IBBs also experienced growth of Rs 32 billion and were recorded at Rs 889 billion by end March, 2021.

Mode wise breakup of financing (gross) shows that the share of Diminishing Musharakah (34.2 percent) remained the highest in overall financing of IBI followed by Musharakah (24.8 percent) and Murabaha (13.5 percent) {see **Table-2** for details}.

In terms of **sector wise financing**, textile and production & transmission of energy sectors remained two leading sectors and their individual share in overall financing of IBI was recorded at 14.8 percent and 13.8 percent, respectively by end March, 2021 (see **Table-3**).

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

Mode	Mar-20	Dec-20	Mar-21
Murabaha	14.2	13.7	13.5
Ijarah	5.6	4.8	4.9
Musharakah	19.4	22.7	24.8
Diminishing Musharakah	31.8	33.6	34.2
Salam	2.7	1.9	2.4
Istisna	10.8	8.3	8.9
Others	15.5	15.0	11.3
Total	100.0	100.0	100.0

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

Sector	Mar-20	Dec-20	Mar-21	Overall Banking Industry
Chemical & pharmaceuticals	3.6	4.4	3.5	3.2
Agribusiness	6.0	9.0	7.5	6.7
Textile	14.9	14.9	14.8	15.2
Cement	3.9	3.6	3.4	2.1
Sugar	4.6	2.7	4.6	3.9
Shoes and leather garments	0.5	0.5	0.4	0.4
Automobile & transportation equipment	1.4	1.3	1.1	1.6
Financial	0.3	0.3	0.3	2.5
Insurance	0.0	0.0	0.0	0.1
Electronics & electrical appliances	1.0	0.9	0.9	1.3
Production & transmission of energy	15.7	14.0	13.8	15.8
Individuals	10.8	10.2	10.8	9.4
Others	37.3	38.2	38.9	37.8
Total	100.0	100.0	100.0	100.0

Review of **client wise financing** reveals that corporate sector accounted for 69.7 percent share in overall financing of IBI, followed by commodity financing and consumer financing with a share of 14.9 percent and 10.5 percent, respectively. While, the share of SMEs and agriculture financing in

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

Segment	Mar-20	Dec-20	Mar-21	Overall Banking Industry
Corporate Sector	76.2	70.3	69.7	71.3
SMEs	3.0	3.0	3.0	4.9
Agriculture	0.4	0.3	0.3	3.5
Consumer Finance	9.9	9.8	10.5	7.4
Commodity Financing	9.2	15.0	14.9	9.1
Staff Financing	1.2	1.2	1.2	1.9
Others	0.1	0.4	0.4	1.9
Total	100.0	100.0	100.0	100.0

overall financing of IBI remained low compared to the overall banking industry averages (see **Table-4**).

Asset Quality

Assets quality indicators of IBI including non-performing finances (NPFs) to financing (gross) and net NPFs to net financing were recorded at 3.5 percent and 0.6 percent, respectively by end March, 2021. It is worth mentioning here that both these ratios were better than those of overall banking industry's averages (see **Table-5**).

Ratio	Mar-20	Dec-20	Mar-21	Overall Banking Industry
NPFs to Financing (gross)	5.0	3.2	3.5	9.3
Net NPFs to Net Financing	2.6	0.6	0.6	1.3
Provisions to NPFs	50.5	82.4	82.2	87.7

Liabilities

Deposit base of IBI grew by Rs 68 billion during the period under review and stood at Rs 3,457 billion by end March, 2021. Market share of IBI's deposits in overall banking deposits increased to 18.7 percent by end March, 2021 compared to 18.3 percent in the previous quarter. The share of IBs and IBBs in overall deposits of IBI stood at 58.9 percent and 41.1 percent, respectively by end March, 2021.

The category wise breakup of deposits shows that saving deposits and current deposits increased by Rs 44 billion and Rs 40 billion, respectively; while fixed deposits witnessed a decline of Rs 37 billion during the period under review (see **Table-6**).

Category	Mar-20	Dec-20	Mar-21	Yearly Growth (YoY) in %	Quarterly Growth in %
A. Deposits (1+2)	2,692	3,389	3,457	28.4	2.0
1. Customers	2,482	3,153	3,205	29.1	1.6
Fixed Deposits	610	681	644	5.6	(5.4)
Saving Deposits	1,020	1,248	1,292	26.7	3.5
Current Deposits	828	1,185	1,225	47.9	3.4
Others	24	39	44	83.3	12.8
2. Financial Institutions	210	236	252	20.0	6.8
Remunerative Deposits	206	229	242	17.5	5.6
Non-remunerative Deposits	4	7	10	150.0	42.9
Local Currency Deposits	2,533	3,206	3,275	29.3	2.2
Foreign Currency Deposits	158	183	182	14.8	(0.5)

Liquidity

Liquid assets to total assets and liquid assets to total deposits ratios stood at 27.8 percent and 35.3 percent, respectively by end March, 2021. Financing to deposits ratio (net) of IBI increased to 56.5 percent by end March, 2021 compared to 55.5 percent in the previous quarter, mainly due to increase in financing portfolio of IBI (see **Table-7**).

Table-7: Liquidity Ratios (Share in Percent)

Ratios	Mar-20	Dec-20	Mar-21	Overall Banking Industry
Liquid Assets to Total Assets	20.0	28.7	27.8	55.4
Liquid Assets to Deposits	24.9	36.2	35.3	77.0
Financing to Deposits (Net)	60.7	55.5	56.5	45.2

Capital

The ratios of 'capital to total assets' and 'capital minus net NPAs to total assets' of IBI were registered at 6.2 percent and 5.9 percent, respectively by end March, 2021 (see **Table-8**).

Table-8: Capital Ratios (Share in Percent)

Ratios	Mar-20	Dec-20	Mar-21	Overall Banking Industry
Capital to Total Assets	6.8	6.1	6.2	6.9
(Capital - Net NPAs) to Total Assets	5.4	5.7	5.9	6.5

Profitability

Profit before tax of IBI was recorded at Rs 21.3 billion by end March, 2021 compared to Rs 20.6 billion in the same quarter last year. Operating expense to gross income of IBI was registered at 51.5 percent by end March, 2021 compared to 47.5 percent in the previous quarter (see **Table-9**).

Table-9: Profitability Ratios (in Percent)

	Mar-20	Dec-20	Mar-21	Overall Banking Industry
Profit before tax (Rs billion)	20.6	88.4	21.3	96.5
ROA before tax	2.5	2.4	2.0	1.5
ROE before tax	36.7	36.4	31.9	21.0
Operating Expense to Gross Income	47.4	47.5	51.5	54.8

Country Model: Kuwait

i. Introduction

Kuwait is considered a prosperous country with a relatively open economy. The country's economy is mainly based on petroleum products and is among the top ten oil producing countries in the world. Since the introduction of special section on Islamic Banking in Central Bank Law 1968, Islamic Banking has witnessed tremendous growth in the country. Islamic banking and finance in Kuwait has become systemically important in the domestic financial market as well as in the global Islamic finance landscape. As per the latest Financial Stability Report published by the Central Bank of Kuwait, Islamic banking in Kuwait accounted for a sizeable share of 42% in the consolidated banking system by end December 2019, which represents one of the most significant presence of Islamic banks in any country across the globe with a dual banking system.

ii. Regulatory Framework

The banking sector in Kuwait is regulated by the Central Bank of Kuwait, whereas the capital market is regulated by Capital Market Authority (CMA). The establishment of Islamic banks in Kuwait was permitted under the Central Bank Law (CBK) of 1968 through amendments made in 2003 by incorporating a special section containing provisions of Islamic banking. Precisely, Section no. 10 (articles: 86-100) provides the legal provision pertaining to the rules and regulations of Islamic Banks. In 2015, the CMA issued Sukuk regulations which provided greater clarity to issuances in terms of structuring and governance. In 2019, the CBK issued comprehensive Shari'ah audit regulations.

In Kuwait, Article 93 of section 10 of Central Bank Law requires all Islamic financial institutions to establish an independent Shari'ah board, which shall be appointed by the bank's General Assembly. This is unlike other Shari'ah governance approaches followed globally which allow the appointment of Shari'ah board by the bank's Board of Directors (BOD). Recently, Article 93 was amended in 2020 with inclusion of two paragraphs; i) A committee shall be formed in the Central Bank under the title "The Higher Committee of Shari'ah Supervision"... ii) Should a difference of opinion arises among the members of the Shari'ah Supervisory Board in an Islamic bank concerning a Shari'ah ruling, the Board of Directors of the bank may refer the matter to the Higher Committee of Shari'ah Supervision in the Central Bank of Kuwait that shall serve as the final authority of the matter.

iii. Islamic Banking and Finance

Islamic finance in Kuwait can be traced back to 1977, when Kuwait Finance House was established as the first Islamic bank in the State of Kuwait, under a special law (Decree Law No. 72 of 1977). At present, Islamic Banking Industry is running in parallel to conventional banking in Kuwait. Currently, there are 6 full-fledged Islamic banks in Kuwait namely, Kuwait International Bank, Kuwait Finance House, Boubyan Bank, Warba Bank, Ahli United Bank and Al Rajhi Banking & Investment Corporation, whereas Islamic banking window operations is not permitted by the central bank as yet. Islamic Banking in Kuwait accounted for 6.3 percent of the global Islamic banking industry's assets as of September 2019 (IFSB Stability Report, 2020). Due to Covid-19, the planned merger between Kuwait Finance House and Ahli United Bank has been put on hold, it is expected that this merger would result in the world's largest Islamic bank. Apart from Islamic banks, there are 32 finance and investment companies providing Shari'ah financial services in the country.

iv. Takaful

The takaful sector in Kuwait is regulated by the Ministry of Commerce and Industry under Kuwait's Insurance Law No. 24 of 1961. The law provides little recognition of or provision for takaful as a distinctive type of insurance. However, a number of changes have been made since 2011 in the existing insurance law, which also include plans to create an independent regulator for the industry as well as plans to include specific sections to cater for takaful. In January 2019, the Council of Ministries approved the establishment of a separate regulatory body for the insurance sector.

v. Sukuk

The Kuwait Sukuk market, though small, witnessed quite a few developments over the last year in the corporate sector. The Warba Bank issued a US\$500 million Sukuk facility, and KIB issued a US\$ 300 million Tier 2 Sukuk facility. The Boubyan Bank also announced its plan to issue a US\$ denominated Sukuk paper. According to International Islamic Financial Market Sukuk report, Kuwait as of December 2019 has issued 19 global Sukuk, which collectively amounted for US\$ 4,127 million i.e., 1.4 percent of the global Sukuk issuance. While for the sovereign papers, the central bank continued to regularly issue short term Sukuk under the Tawarruq structure alongside conventional papers.

vi. Conclusion

With the continuous support of Kuwait's government, the Islamic financial services has been growing tremendously in Kuwait. In the presence of strong infrastructure for Islamic banking and finance and home to majority Muslim population, Kuwait is expected to increase its significance in the international Islamic financial industry.

Source of Information

- Islamic Finance News {<https://www.islamicfinancenews.com/brunei>}
- Central Bank of Kuwait {<https://www.cbk.gov.kw/en>}
- The World Bank {<https://www.worldbank.org/>}
- International Monetary Fund {<https://www.imf.org/external/index.htm>}
- Global Islamic Finance Report {https://www.gifr.net/gifr_2017.htm}
- Central Intelligence Agency the Fact Book {<https://www.cia.gov/the-world-factbook/countries/kuwait/>}
- IIFM Sukuk Report {<https://www.iifm.net/wp-content/uploads/2020/09/IIFM-Sukuk-Report-9th-Edition.pdf>}
- IMF e-Library {Kuwait in: Emerging Financial Centers Legal and institutional Framework (imf.org)}

AAOIFI Shariah Standard No. 28 on 'Banking Services in Islamic Banks'

State Bank of Pakistan, vide IBD Circular No. 01 of 2020, has adopted three AAOIFI Shariah Standards:

- (i) AAOIFI Shariah Standard No. 19 Loan (Qard)
- (ii) AAOIFI Shariah Standard No. 23 Agency and the Act of an Uncommissioned Agent (Fodooli) and
- (iii) AAOIFI Shariah Standard No. 28 - Banking Services in Islamic Banks

These standards are being discussed in detail, one by one, in the recent issues. In the current issue, AAOIFI Shariah Standard No. 28 'Banking Services in Islamic Banks' is being presented below.

1. Scope of the Standard

This standard covers the most important banking services that do not involve lending and borrowing, and which the Institutions render to their customers, directly or through other parties, with the aim of facilitating internal and external operations and activities performed by these customers.

It does not cover loan and investment services, or other banking services for which separate Shari'ah standards have already been issued, such as trading in currencies, debit and credit cards, investment accounts, and investment Sukuk.

2. Types of Banking Services and their Shari'ah Status

Institutions may provide banking services against fees payable in lump sum or as a percentage share of the value of the service in question, as indicated in the following cases:

✓ 2/1 Custodian services

Institutions may receive Shari'ah-accepted documents and financial papers from their customers as a custodian of such documents/ financial papers, and may charge fees for such services.

✓ 2/2 Contracting agency services

A customer may use the institution as an agent for concluding contracts such as sale, purchase, and lease contracts, against a fee payable to the institution.

✓ 2/3 Subscription arrangements services

➤ **2/3/1** The institution may act as an agent of the founding shareholders of a Shari'ah-accepted and technically licensed joint stock company, in performing the various steps of the public issue, or issuing new shares to increase the capital of the company, and may receive fees for such services. However, the fees thus earned by the Institution should not comprise any remuneration for extending credit, if it happens to be part of the service.

➤ **2/3/2** The institution may act as an agent of the founding shareholders of a Shari'ah-accepted and technically licensed joint stock company, in performing the various steps of the public issue, or issuing new shares to increase the capital of the company, and may receive fees for such services. However, the fees thus earned by

the Institution should not comprise any remuneration for extending credit, if it happens to be part of the service.

- ✓ **2/4 Services of conducting studies and consultancies**
 - **2/4/1** The institution may conduct, against a fee or free of charge, feasibility studies or other studies relating to issuance of shares.
 - **2/4/2** The institution may act as an agent of its customers, for a fee or free of charge, in performing services that relate to real estate properties (residential buildings, commercial blocks, offices, etc.) as well as movable assets.

- ✓ **2/5 Collection and payment services**
 - **2/5/1** The institution may accept requests of its customers to collect their dues with, or pay their commitments to other parties. For instance, it can perform collection of cheques, debt notes, and promissory notes from debtors, or vouchers of shares and Sukuk owned by the customers, and deposit the proceeds in their accounts. It can also make payments on behalf of its customers and charge their accounts. For all such services, the Institution may receive fees from the customers or their agents.
 - **2/5/2** The institution may pay wages and salaries on behalf of its customers.
 - **2/5/3** The institution may execute standing collection and payment orders.
 - **2/5/4** The institution should refrain from collection when it realizes that it involves an impermissible practice, or leads to discounting of a commercial paper [see Shari'ah Standard No. (16) on Commercial Paper, item 5].

- ✓ **2/6 Accounts' services**
 - **2/6/1** The institution may provide additional services to the owners of its investment or current accounts when they desire so, and charge fees for such services.
 - **2/6/2** The institution may provide free services to the owners of its investment or current accounts, provided that the services rendered to the owners of the current accounts are not set as a precondition or constitute a traditionally observed prerequisite for opening the account. [see Shari'ah Standard No. (19) on Loan (Qard), item 10/2].

- ✓ **2/7 Services of safe deposit vaults**
 - **2/7/1** The institution may provide the services of leasing safe deposit vaults to its customers. This is done through signing a contract according to which the Institution allocates a safe deposit vault within its premises for the customer to use against a specific fee. The deal here is based on Ijarah (hiring) contract that entitles the customer to the vault's usufruct.
 - **2/7/2** The institution is responsible for ensuring the safety of the vault. However, it does not guarantee the safety of items kept in vault except in case of misconduct or negligence in keeping the vault.

- ✓ **2/8 Services of cards and their related bodies**

See Shari'ah Standard No. (2) on Debit Card, Charge Card and Credit Card.

✓ **2/9 Zakah account services**

See Shari'ah Standard No. (35) on Zakah, item 2/2.

✓ **2/10 Suretyship services**

See Shari'ah Standard No. (5) on Guarantees, item 6.

✓ **2/11 Cheques services**

See Shari'ah Standard No. (16) on Commercial Papers, item 3/3 and item 7.

3. Date of Issuance of the Standard

This Standard was issued on 12 Jumada I, 1427 A.H., corresponding to 8 June 2006 A.D.

Adoption of the Standard in Pakistan

For adoption of the standard in the country, following amendments have been made.

Clause No.	Original clause	Clarifications/Amendments
1	<p>This standard covers the most important banking services that do not involve lending and borrowing, and which the Institutions render to their customers, directly or through other parties, with the aim of facilitating internal and external operations and activities performed by these customers.</p> <p>It does not cover loan and investment services, or other banking services for which separate Shari'ah standards have already been issued, such as trading in currencies, debit and credit cards, investment accounts, and investment Sukuk.</p>	<p>The following are added as footnotes to the clause:</p> <p>The term 'lending and borrowing' may be read as 'any debt based transactions'.</p> <p>The second sentence of the clause may be read as follows: "It does not cover loan and investment services, or other banking services for which separate Shari'ah standards have already been issued, such as trading in currencies, debit and credit cards, investment accounts, remunerative and nonremunerative accounts, profit distribution and investment Sukuk."</p>
2/1	<p>Institutions may receive Shari'ah-accepted documents and financial papers from their customers as a custodian of such documents/ financial papers, and may charge fees for such services.</p>	<p>The following is added as footnote to the clause:</p> <p>This clause may be read as follows: "Institutions may receive Shari'ah permissible documents and financial papers from their customers as a custodian of such documents and financial papers on trust basis, and will be liable to return them the same on their demand, and may charge fees for such custodial services."</p>
2/3/1	<p>The institution may act as an agent of the founding shareholders of a Shari'ah-</p>	<p>The following is added as footnote to the clause:</p>

	accepted and technically licensed joint stock company, in performing the various steps of the public issue, or issuing new shares to increase the capital of the company, and may receive fees for such services. However, the fees thus earned by the Institution should not comprise any remuneration for extending credit, if it happens to be part of the service.	The term 'Shariah accepted' may be read as 'Shariah compliant'.
2/6/2	Agency is, basically, a non-binding contract for both the parties thereto. However, it may sometimes become a binding contract. [See 3/4 below].	<p>The following are added as footnotes to the clause:</p> <p>This clause may be read with IBD Circular No. 1 of 2014 and any amendments therein as notified from time to time.</p> <p>The text 'owners of its investment or current accounts' may be read as 'investment or current account holders'.</p>
2/7	Services of safe deposit vaults	<p>The following is added as footnote to the clause:</p> <p>The heading 'Services of safe deposit vaults' may be read as 'Locker Services'.</p>
2/7/1	The institution may provide the services of leasing safe deposit vaults to its customers. This is done through signing a contract according to which the Institution allocates a safe deposit vault within its premises for the customer to use against a specific fee. The deal here is based on Ijarah (hiring) contract that entitles the customer to the vault's usufruct.	<p>The following is added as footnote to the clause:</p> <p>This clause may be read as follows: "The institution may provide locker services (based on Ijarah) to its customers. This is done through signing a contract according to which the Institution allocates a locker within its premises for the customer to use against a specific fee. The deal here is based on Ijarah contract that entitles the customer to the locker's usufruct."</p>

As per practice, these amendments are issued by SBP as footnotes of the standard.

Source:

1. AAOIFI website: <http://aaoifi.com/>
2. IBD Circular No. 01 2020, January 03, 2020 {<https://www.sbp.org.pk/ibd/2020/index.htm>}

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

A. Events

IBD organized Awareness Session for Sialkot Chamber of Commerce and Industry

IBD, SBP organized awareness session for Sialkot Chamber of Commerce and Industry on January 21, 2021, wherein the participants of the Chamber were enlightened on the conceptual understanding of Islamic banking besides promoting better awareness about Shariah compliant refinancing schemes notified by SBP. The speakers of the session included Director– IBD, eminent Shari’ah Scholar Mufti Irshad Ahmad Aijaz (Chairman SBP’s Shariah Advisory Committee), and Mr. Ahmed Ali Siddiqui (Head Shariah Compliance, Meezan Bank Limited).

SBP in collaboration with United Kingdom – International Finance Corporation (UK-IFC) conducted Executive Education Session on Principles for Responsible Banking (PRB)

SBP in collaboration with UK-IFC conducted an Executive Education Session on Principles for Responsible Banking (PRB) on February 18, 2021. The session was facilitated by renowned speakers on the subject, with participation from representatives of UK-IFC Working Group Pakistan Chapter and relevant SBP’s officials.

Moreover, SBP in collaboration with UK-IFC and Standard Chartered Bank conducted a follow-up session on PRB and Sustainable Banking on March 31, 2021. This session was attended by UK-IFC Working Group Pakistan Chapter and was facilitated by Mr. Simon Connell, Head, Sustainability Strategy at Standard Chartered Bank. In the interactive session, the speaker shared his insights and his bank’s experience in the field of PRB and Sustainable Banking.

Training Programs on “Fundamentals of Islamic Banking operations” (FIBO)

IBD in collaboration with National Institute of Banking and Finance (NIBAF) conducted three (03) iterations of ‘Fundamentals of Islamic Banking (FIBO)’ program in different cities across the country. These programs were aimed to enhance the capacity of the industry professionals, Shariah scholars, and academia, etc. The first session was organized during January 2021 in Sukkur and the other two sessions were held during February 2021 in Hyderabad and Bahawalpur.

Capacity Building Programs on “Islamic Banking Branch Operations” (IBBO)

Keeping in view the eagerness of the industry, short-duration capacity building program named ‘Islamic Banking Branch Operation (IBBO)’ was launched for second-tier cities across the country. During the quarter, IBD conducted four (04) iterations of IBBO program. These were conducted in Sahiwal during January 27–29, 2021, AJK during February 16-18, 2021, Shaheed Benazirabad (Nawabshah) during March 10-12, 2021 and in Dera Ismail Khan during March 17-19, 2021.

B. Developments

SBP issued Circular Letter Shari’ah Governance Framework (SGF) for Islamic Banking Institutions

During the first quarter of CY 2021, SBP issued IBD Circular Letter No. 1 of 2021 dated February 3, 2021 on Shari’ah Governance Framework (SGF) for Islamic Banking Institutions (IBIs). This circular letter was issued for revision of Para 3A (v) of IBD Circular No. 01 of 2018 dated June 07, 2018 on the

composition of the Shariah Board (SB) of IBIs. As per the amendment, the SB members, except RSBM, may serve on the SBs of up to three IBIs in Pakistan. However, the IBI must ensure that its SB has at least 2 members (other than RSBM), who are not on the SB of any other IBI. Hence, each IBI will have at least three unique members in SB including RSBM. The revision will be effective from 1st July, 2021.

Islamic Banking News and Views

I. Local Industry News

State of the Global Islamic Economy Report Pakistan launch held at IBA, Karachi along with HDC Pakistan, in partnership with Dinar Standard

IBA CEIF along with HDC (Halal Development Council) Pakistan, in partnership with Dinar Standard, hosted a Pakistan launch event of the State of the Global Islamic Economy Report (SGIE) 2020/21 at IBA with a theme of 'thriving in uncertainty'. Launched in 2013, the eighth edition of the report is supported by Dubai Islamic Economy Development Centre (DIEDC) and presents an annual update on the Islamic Economy – encompassing halal products, Islamic finance, and lifestyle sectors and services. The report estimates that Muslims world-wide spent US\$2.02 trillion in 2019 on halal lifestyle-related food, pharmaceuticals, cosmetics, modest fashion, travel, and media sectors. While this spending reflects 3.2 percent year-on-year growth, Muslim spending in 2020 is forecast to contract by 8 percent due to the impact of the pandemic. However, spending, excluding travel, is forecast to rebound by the end of 2021 and is slated to reach US\$2.3 trillion by 2024, at a cumulative annual growth rate (CAGR) of 3.1 percent. Pakistan's domestic Muslim consumer spend on halal relevant sectors was estimated at \$120 billion in 2019 which is the 6th highest globally.

<https://www.zawya.com/>

Islamic Banks Have Ample Capital, Liquidity Buffers: Moody's

Islamic banks in Pakistan (B3 stable) have ample capital and liquidity buffers to meet increased demand for financing in 2021 as economies bounce back from the coronavirus pandemic, says Moody's Investors Services (Moody's). Prospects for longer-term growth are also bright for the sector, thanks to young, growing populations and government efforts to develop Sharia-based financing. Liquidity has also eased or remained stable because of strong growth in low-cost deposits as consumers and businesses cut spending, and as central banks relaxed reserve requirements and carried out open market operations.

<https://www.brecorder.com/>

In a first, Rs3.1bn private fixed-rate Sukuk issued by PMRC

The Pakistan Mortgage Refinance Company (PMRC) issued Rs3.1bn Sukuk bonds for a period of three years at the rate of 8.25 per cent. The Sukuk was jointly led by Pak Kuwait Investment Company (PKIC) and the Bank of Punjab (BoP). The Sukuk is the first of its kind and is based on Shirkah-tul-Aqd, the PMRC said. The PMRC will utilise the proceeds of this Sukuk for further development of Sharia-compliant housing, residential mortgage financing as well as Housing Finance Portfolio (HFP) of eligible Islamic financial institutions.

<https://www.dawn.com/>

Market Maker on PSX: Gong Ceremony Held for Meezan Bank Onboarding

A gong ceremony was held at the Pakistan Stock Exchange (PSX) to welcome Meezan Bank Limited onboard as a market maker for the Shariah-compliant debt securities on PSX. An agreement was signed between the PSX and Meezan Bank at the PSX Trading Hall whereby Meezan Bank becomes the first Islamic bank to be recognized as a Market Maker for the Shariah-compliant debt instruments on PSX. Market makers perform the crucial role of providing liquidity and depth to the market by facilitating investors to buy and sell securities through continuously quoting two-way prices, i.e., bid and offer prices.

<https://www.brecorder.com/>

II. International Industry News**Islamic Finance Supports UN's SDG Initiatives, Says World Bank**

Islamic finance is well positioned to be an effective instrument to support global efforts to realise the United Nations' Sustainable Development Goals (SDG) initiatives targeted to be achieved by 2030. That is because it has a direct link to the physical assets and the use of profit and loss sharing arrangement, which encourages the provision of financial support to productive enterprises that could increase output and generally, jobs. Speaking at the 16th Kuala Lumpur Islamic Finance Forum held on March 06, 2021, the World Bank country manager said that Islamic financial instruments can be used to mobilise resources for the recovery and rebooting of economies. For example, he said, Sukuk can be mobilised as a resource to finance infrastructure development projects such as water and sanitation, sustainable transportation systems, or to promote investment in climate change solutions and funding health programmes in developing countries.

<https://www.theedgemarkets.com/>

Iran welcomes first-ever non-guaranteed Sukuk issuance

For the first time in the Iranian capital market, a Sukuk facility was issued by a corporate entity without a guarantor, backed instead by a positive credit rating from a credible agency. The landmark transaction is expected to pave the way for more companies to do the same, giving the market a boost in the process. In the event of a default on issued securities, Reza Eivazloo, CEO of Paya Credit Rating explained that a 'default committee' will be formed to convert the papers into securities backed by a guarantors or stock certificates. He pointed out that credit rating agencies can, however, expose the credit risk of issuers, making them more transparent.

<https://www.islamicfinancenews.com/>

Saudi entities form consortium to set up Islamic digital bank

A consortium of Saudi commercial entities will be setting up a fully-fledged digital Islamic bank, one of the first in the region, anchoring the GCC's largest economy as one of the most influential Shariah financial markets in the world as the Kingdom maintains its steely determination to achieve its 2030 Vision. Not much is known about this consortium except that technology company Al Moammar Information Systems Company (MIS) will be a founding shareholder. While the regulator has yet to grant any digital banking licenses, the rules however have attracted a number of applicants including two banking incumbents and a new player.

<https://www.islamicfinancenews.com/>

Evolving Market Dynamics Lead to Surprising Takaful Uptake

A UAE-based regional financial product comparison platform has seen a surge in Takaful takeup on its platform, signaling a demand for Islamic insurance which has been facilitated by digital means. Over a two-year period, Yallacompare's Takaful sales conducted via its platform has managed to grab the lion's share of its vehicle insurance sales segment, moving up from its minority position. "While we might expect customers from Muslim nations to favor Takaful and customers from Europe and the subcontinent to favor conventional insurance, this is not what the underlying data shows us: 70% of Indians favored Takaful over conventional products, compared to 56% of Emiratis and 57% of Saudi nationals," Yallacompare noted.

<https://www.islamicfinancenews.com/>

Auckland Firm secures Shariah Compliance Approval for Financing Products

An Auckland financial services firm, EFCO, has secured a Fatwa approving its compliance with Shariah, making it the first certified company to provide Islamic financing in New Zealand, where Muslims only make up about 1% of its 4.89 million population. EFCO claims to be the first to offer noninterest financing to the New Zealand market. Established almost five years ago in 2016, the firm advised by Mufti Irshad Ahmed Ijaz, has rolled out two non-interest products: vehicle finance and personal finance. "This is the right time to invest our leadership in catering to our customers' growing faith-based needs," explained Mahmood Raza, EFCO's managing director. "EFCO will continue to focus and build this area and deliver the best possible Shariah compliant offerings, one that resonates with the need of the local customer."

<https://www.islamicfinancenews.com/>

III. Articles & Views

Do we need a ratings regime for Islamic microfinance?

For the Islamic microfinance industry to thrive there needs to be an infrastructure that connects the demand for micro-financial services with the supply of money. In the initial phase, development donors such as the IsDB, bi and multilaterals and a range of private development donors have been funding the start-up of Islamic microfinance and have provided seed capital. However, similarly to the conventional sector, the growth required for scaling up the industry to a level where it can seriously play a role in financial inclusion will require significant private sector capital. Ratings play an important role in providing independent assurances to investors by assessing the relative risks of specific financial institutions. Currently no microfinance specialized ratings incorporate the specificities of Islamic microfinance institutions who because of the Shariah prohibition on interest do not engage in on-lending and have essentially different business models and practices compared to the well-established conventional microfinance industry. At the same time, ratings agencies that do offer services to Islamic financial institutions do not cater for microfinance. An Islamic microfinance ratings regime would need to be developed that incorporates some of the standards and practices of conventional micro-finance institutional and social performance ratings by looking at these through the lens of Islamic financial inclusion.

<https://www.islamicfinancenews.com/>

New Deals, New Opportunities and New Initiatives in the UK for 2021

The UK's excellence in Shariah advisory looks likely to continue through the activities of the Islamic Finance Council UK and CityUK as well as the professional advisory firms. The Financial Conduct Authority (FCA) regulation is the perceived gold standard for regulation and those FCA regulated advisory firms will be able to win business in the wider Islamic market because of their admirable regulatory standards. Venture capital platforms are another type of platform to enter the crowdfunding and venture capital space which provide investors access in a Shariah compliant manner to the possible returns which early-stage and growth company investing offers. SMEs are the lifeblood of the economy and initiatives to source retail equity capital and democratize Sukuk issuance for the capital markets will be a strong growth area for the UK in 2021. What is missing? Taking advantage of the local educational opportunities for Islamic finance training (from Cambridge, Durham, Birmingham and many others) and a concerted effort by the industry to look at not only product development for the domestic retail market (pensions, savings and insurance) but also taking advantage of the conventional capital markets' expertise to offer a broader range of solutions in the UK and internationally.

<https://www.islamicfinancenews.com>

Islamic Microfinance Online Education — a Core Ingredient for Market Growth

For the development of the Islamic microfinance market, staff in key stakeholders such as financial service providers and also investors and regulators will have to possess skills ranging from Shariah compliance to micro-banking operations. The AlHuda Centre of Islamic Banking & Economics in Pakistan has been offering the Certified Islamic Microfinance Manager program that comprises two modules, each having a two-month duration. The Frankfurt School of Finance and Management (FS) has also been offering a six-month online certification course for Islamic microfinance. The latest entry to the Islamic microfinance learning market is UAE based TAIF Digital Institute for Islamic Finance (TAIF stands for 'Training & Awareness of Islamic Finance') which has just launched its Certified Islamic Microfinance Practitioner program. All three courses are an important contribution to market development, especially for the myriad of smaller players in Islamic microfinance.

<https://www.islamicfinancenews.com>

Annexure I: Islamic Banking Branch Network

Islamic Banking Branch Network			
(As of March 31, 2021)			
Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	174	-
	BankIslami Pakistan Limited	231	-
	Dubai Islamic Bank Pakistan	210	-
	Meezan Bank Limited	825	-
	MCB Islamic Bank Limited	183	-
	Sub-Total	1,623	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	85
	Askari Bank Limited	92	-
	Bank Al Habib Limited	117	143
	Bank Alfalah Limited	188	-
	Faysal Bank Limited	499	16
	Habib Bank Limited	101	812
	Habib Metropolitan Bank Limited	33	218
	National Bank of Pakistan	191	-
	Silk Bank Limited	27	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	30	-
	Standard Chartered Bank (Pakistan) Limited	3	46
	Summit Bank Limited	14	35
	The Bank of Khyber	92	39
	The Bank of Punjab	102	1
	United Bank Limited	100	187
	Zarai Taraqati Bank Limited	5	-
	Sub-Total	1,725	1,595
	Total Full-Fledged Branches	3,348	-
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	113	-
	The Bank of Khyber	2	-
	Dubai Islamic Bank Pakistan Limited	25	-
	The Bank of Punjab	2	-
	Faysal Bank Limited	1	-
	Habib Bank Limited	2	-
	United Bank Limited	2	-
	Total Sub-Branches	156	-
	Grand Total	3,504	1,595

Source: Data reported by banks

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

(As of March 31, 2021)									
Type	Bank Name	Azad Kashmir	Baluchistan	Federal Capital	Gilgit- Baltistan	Khyber Pakhtunkhwa*	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	5	6	3	15	97	46	174
	BankIslami Pakistan Limited	4	14	9	4	22	100	78	231
	Dubai Islamic Bank Pakistan	7	5	15	3	10	86	84	210
	Meezan Bank Limited	6	27	39	3	57	441	252	825
	MCB Islamic Bank Limited	2	13	9	1	15	84	59	183
	IBs – Total	21	64	78	14	119	808	519	1,623
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	2	4	6	1	12	69	23	117
	Askari Bank Limited	-	3	9	1	13	46	20	92
	Bank Al- Habib Limited	-	4	8	1	19	36	49	117
	Bank Alfalah Limited	1	5	14	-	17	109	42	188
	Faysal Bank Limited	7	22	23	7	45	270	125	499
	Habib Bank Limited	5	1	4	1	17	57	16	101
	Habib Metropolitan Bank Limited	-	-	1	-	9	9	14	33
	National Bank of Pakistan	9	6	6	1	40	95	34	191
	Silk Bank Limited	-	1	3	-	4	11	8	27
	Sindh Bank Limited	1	1	-	-	2	7	3	14
	Soneri Bank Limited	-	1	2	1	8	13	5	30
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	2	3
	Summit Bank Limited	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	4	2	-	73	10	3	92
	The Bank of Punjab	1	6	6	-	14	75	-	102
United Bank Limited	1	4	5	-	19	39	32	100	
Zarai Taraqiati Bank Limited	-	-	1	-	1	2	1	5	
	IBBs Total	27	63	92	15	294	851	383	1,725
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-	-	6	6
	Askari Bank Limited	-	1	-	-	1	1	-	3
	BankIslami Pakistan Limited	1	6	9	-	5	41	51	113
	The Bank of Khyber	-	-	-	-	2	-	-	2
	Dubai Islamic Bank Pakistan	-	-	-	-	-	9	16	25
	Faysal Bank Limited	-	-	-	-	-	1	-	1
	Habib Bank Limited	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	2	-	2
United Bank Limited	-	-	1	-	1	-	-	2	
	Sub-Branches Total	1	7	10	0	9	54	75	156
	Grand Total	49	134	180	29	422	1,713	977	3,504

* Inclusive of erstwhile FATA region

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

District wise Break-up of Islamic Banking Branch Network								
(As of March 31, 2021)								
S. No.	Province	District	No. of Branches*	S. No.	Province	District	No. of Branches*	
1	Sindh	Badin	4	67	Khyber Pakhtunkhwa	Abbottabad	29	
2		Dadu	7	68		Bannu	12	
3		Ghotki	5	69		Batagram	3	
4		Hyderabad	65	70		Buner	7	
5		Jacobabad	5	71		Charsadda	11	
6		Jamshoro	4	72		Chitral	7	
7		Karachi City	780	73		Dera Ismail Khan	18	
8		Kashmore	2	74		Hangu	9	
9		Khairpur	4	75		Haripur	12	
10		Larkana	8	76		Karak	2	
11		Matiari	4	77		Kohat	13	
12		Mirpurkhas	14	78		Lakki Marwat	1	
13		Naushahro Feroze	5	79		Lower Dir	18	
14		Shaheed Benazir Abad	18	80		Malakand	18	
15		Sanghar	16	81		Mansehra	19	
16		Shikarpur	1	82		Mardan	22	
17		Sukkur	19	83		Nowshera	24	
18		Shahdadkot	2	84		Peshawar	109	
19		Tando Allahyar	4	85		Shangla	5	
20		Tando Mohammad Khan	3	86		Swabi	11	
21		Thatta	3	87		Swat	38	
22		Umer Kot	4	88		Tank	2	
Sindh Total			977	89		Torghar	1	
				90		Upper Dir	9	
23	Punjab	Attock	23	91	KPK Total	Kohistan	2	
24		Bahawalnagar	25	92		Bajaur Agency	3	
25		Bahawalpur	30	93		Khyber Agency	10	
26		Bhakkar	5	94		Mohmand Agency	1	
27		Chakwal	20	95		Orakzai Agency	2	
28		Chiniot	7	96		Kurram Agency	3	
29		Dera Ghazi Khan	21	97		North Waziristan Agency	1	
30		Faisalabad	130					
31		Gujranwala	86	98		ICT	Islamabad	180
32		Gujrat	62			Islamabad Total		180
33	Hafizabad	8	99	Gilgit-Baltistan	Astore	1		
34	Jhang	17	100		Baltistan	1		
35	Jhelum	20	101		Ghizer	1		
36	Kasur	21	102		Hunza	1		
37	Khanewal	33	103		Skardu	4		
38	Khushab	8	104		Diamir	7		

39		Lahore City	543	105		Gilgit	14
40		Layyah	8		Gilgit-Baltistan Total		29
41		Lodhran	5	106	Baluchistan	Chaghi	2
42		Mandi Bahauddin	16	107		Gawadar	8
43		Mianwali	10	108		Harnai	1
44		Multan	99	109		Jaffarabad	1
45		Muzaffargarh	14	110		Kech	2
46		Nankana Sahib	9	111		Khuzdar	3
47		Narowal	10	112		Lasbela	5
48		Okara	31	113		Loralai	6
49		Pakpattan	15	114		Noshki	1
50		Rahim Yar Khan	48	115		Nasirabad	1
51		Rajapur	7	116		Panjour	2
52		Rawalpindi	170	117		Pishin	8
53		Sahiwal	36	118		Qilla Abdullah	6
54		Sargodha	40	119		Qilla Saifullah	7
55		Sheikhupura	30	120		Quetta	68
56		Sialkot	55	121		Sibi	2
57		Toba Tek Singh	26	122		Turbat	2
58		Vehari	24	123		Zhob	6
Punjab Total			1,713	124		Ziarat	3
59	Azad Kashmir	Bagh	3		Baluchistan Total		134
60		Bhimber	1				
61		Dadyal	4				
62		Hattian Bala	1				
63		Kotli	6				
64		Mirpur	19				
65		Muzaffarabad	11				
66	Poonch	4					
Azad Kashmir Total			49	Grand Total			3,504
*including sub-branches							