October-December
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Quarterly Islamic Banking Bulletin

Islamic Finance Policy Department
State Bank of Pakistan

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PROGRESS & MARKET SHARE OF ISLAMIC BANKING INDUSTRY

OVERVIEW

Assets of Islamic Banking Industry (IBI) witnessed a rise of PKR 577 billion during October-December, 2023 and reached at PKR 8,994 billion by the end of quarter. Similarly, deposits of IBI also showed a promising growth, increasing by PKR 589 billion during the period to reach at PKR 6,749 billion. The year on year (YoY) growth of assets and deposits of IBIs was registered at 24.4 percent and 30.8 percent, respectively. Financing (net) posted a yearly growth of 7.1 percent and reached at PKR 3,335 billion, whereas Investments (net) increased by 38.8 percent to PKR 4,235 billion. In terms of market share, assets and deposits of IBI in the overall banking industry hovered around 19.4 percent and 23.2 percent, respectively. The market share of financing (net) and investment (net) of IBI in the overall banking industry stood at 27.4 percent and 16.3 percent, respectively by the end of December, 2023. The number of Islamic Branches increased to 4,955, showing YoY growth of 12.7 percent. While, Islamic Banking Windows stood at 1,922, portraying YoY growth of 26.8 percent.

Table 1: Industry Progress and market share **(Amount in PKR Billion)**

Particulars	Period			Yearly Growth (YoY)			Share in Overall Banking Industry (%)		
	Dec-22	Sep-23	Dec-23	Dec-22	Sep-23	Dec-23	Dec-22	Sep-23	Dec-23
Assets	7,229	8,417	8,994	29.6	21.9	24.4	20.2	19.6	19.4
Deposits	5,161	6,160	6,749	22.6	22.7	30.8	22.0	22.5	23.2
Investments (net)	3,051	3,928	4,235	64.8	39.2	38.8	16.6	16.9	16.3
Financing (net)	3,113	3,026	3,335	19.9	1.4	7.1	26.3	26.1	27.4
Number of Islamic Banking Institutions	22	22	22	_	_	_	_	_	_
Number of Branches	4,396	4,666	4,955	11.1	11.3	12.7	_	_	_
Number of Islamic Banking Windows	1,516	1,834	1,922	5.1	29.0	26.8	_	_	_

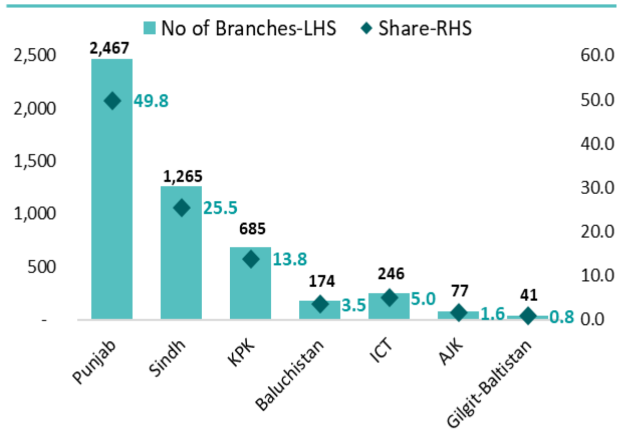
**number includes sub-branches*

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

BRANCH NETWORK OF ISLAMIC BANKING INDUSTRY

Islamic Banking Institutions included 22 banks, comprising of 6 full-fledged Islamic banks and 16 conventional banks having standalone Islamic banking branches. Islamic Banking branch network has shown a quarterly growth of 6.2 percent with the addition of 289 branches. With the inclusion of these branches, IBI branch network proliferated to 4,955. **Figure 1** depicts the geographical distribution of branches. Islamic banking industry has marked its presence in 131 districts across Pakistan. In addition to that Islamic banking windows (IBWs) reached 1,922 by the end of December, 2023 showing a quarterly growth of 4.8 percent.

Figure 1: Region Wise Branch Network



Source: SBP

ASSETS AND LIABILITIES STRUCTURE

ASSETS

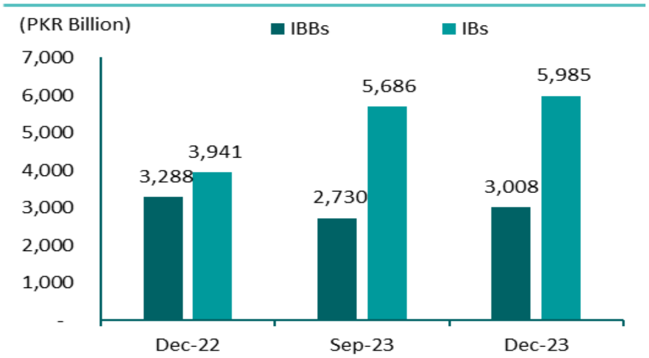
During the period under review, assets of IBI increased by PKR 577 billion and were registered at PKR 8,994 billion in comparison to PKR 8,417 billion in the previous quarter. This growth in assets was mainly driven by Financing (net), which observed a quarterly hike of PKR 309 billion (10.2 percent) and increased to PKR 3,335 billion. Investments (net) were recorded at PKR 4,235 billon in the same quarter, recording an increase of PKR 307 Billion (7.8 percent).

Market share of IBI's assets in overall banking industry's assets was recorded at 19.4 percent. The breakdown of Islamic banking assets reveals that the share of financing (net) stood at 37.1 percent, whereas investments (net) was recorded at 47.1 percent (see section below on Investments and Financing for details).

BREAK UP OF ASSETS OF IBs AND IBBs

Asset size for both Islamic Banks (IBs) and Islamic Banking Branches (IBBs) continued its upward trajectory during the quarter. Assets of IBs increased by PKR 299 billion and reached PKR 5,985 billion. Similarly, the assets of IBBs increased by PKR 278 billion and reached at PKR 3,008 billion. The share of IBs and IBBs in the overall IBI asset stood at 66.5 percent and 33.5 percent, respectively by end December, 2023 **(Figure 2)**.

Figure 2: Breakup of Assets

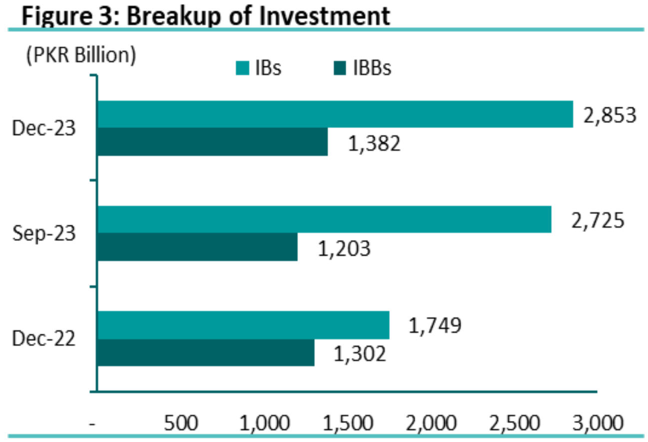


Source: SBP

INVESTMENTS

Investments (net) of IBI displayed a robust growth of PKR 307 billion (7.8 percent) during the quarter under review. This increase in investments (net) was mainly due to the funds invested by IBIs in multiple domestic Ijarah Sukuk (GIS) issued by Government of Pakistan. The breakdown of investments (net) portfolio shows that the major growth was generated by IBBs, which increased by PKR 179 billion and stood at PKR 1,382 billion. Similarly, investment (net) portfolio of IBs increased by PKR 128 billion to a total of 2,853 billion by the end of December, 2023. In terms of share, IBs and IBBs investments (net) as percentage of total investments (net) stood at 67.4 percent and 32.6 percent respectively. **(Figure 3)**.

Figure 3: Breakup of Investment

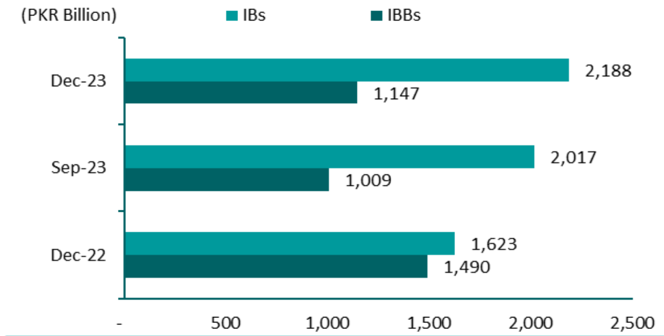


Source: SBP

FINANCING & RELATED ASSETS

Financing & related assets stood at PKR 3,335 billion, showing an increase of 10.2 percent as compared to 9.0 percent decline in the previous quarter. The dissection of financing highlights that a major share of financing is contributed by IBs which stood at PKR 2,188 billion, whereas IBBs contributed PKR 1,147 billion towards the total amount. On an overall basis, financing observed an increase of PKR 309 billion **(Figure 4)**.

Figure 4: Breakup of Financing



Source: SBP

In terms of mode wise financing, Diminishing Musharakah had a leading share with 32.1 percent of the total financing, followed by Musharakah with 25.3 percent and Murabaha financing with 13.1 percent share **(Table 2)**.

Sector Wise Financing of IBI depicted a trend similar to the previous quarter, with textile sector holding a major share of 16.3 percent, followed by agribusiness with a share of 10.7 percent **(Table 3)**.

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

Mode	Dec-22	Sep-23	Dec-23
Murabaha	12.0	14.8	13.1
Ijarah	4.2	4.1	3.8
Musharaka	25.2	22.7	25.3
Diminishing Musharakah	34.8	34.4	32.1
Salam	1.6	1.1	2.1
Istisna	9.3	8.6	10.6
Others	12.9	14.3	13.0
Total	**100**	**100**	**100**

Table 3: Sector Wise Financing (Share in %)

Sector	Dec-22	Sep-23	Dec-23	Overall Banking Industry
Chemical and Pharmaceuticals	5.1	5.0	5.4	3.3
Agribusiness	13.7	11.7	10.7	7.9
Textile	16.7	17.6	16.3	15.6
Cement	2.5	2.8	2.4	2.0
Sugar	2.6	2.0	2.9	2.3
Shoes and leather garments	0.4	0.4	0.4	0.4
Automobile and transportation equipment	1.5	1.3	1.4	1.5
Financial	1.6	1.5	1.6	3.1
Electronics and electrical appliances	1.0	0.7	1.1	1.2
Production and transmission of energy	10.1	11.3	10.4	13.5
Individuals	11.9	11.2	10.5	8.7
Others	32.9	34.5	36.9	40.5
Total	**100**	**100**	**100**	**100**

The breakdown of client wise financing portrays that the share of corporate sector financing in total client wise financing increased to 73.7 percent in comparison to 72.1 percent in the previous quarter. Similarly, commodity financing declined to 12.9 percent in comparison to 13.4 percent in the previous quarter, with second largest share, which was followed by consumer financing with a share of 8.5 percent. The share of SME and agriculture financing were reported as 1.8 percent and 1.1 percent, respectively **(Table 4)**.

Table 4: Client Wise Financing Portfolio (Share in %)

	Dec-22	Sep-23	Dec-23	Industry
Corporate	69.6	72.1	73.7	68.3
SMEs	2.0	1.6	1.8	4.3
Agriculture	0.8	1.0	1.1	4.0
Consumer	10.4	9.9	8.5	6.5
Commodity	15.5	13.4	12.9	11.4
Others	1.7	2.0	2.0	5.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

ASSET QUALITY

During the quarter under review, the asset quality ratios of IBIs remained stable. Gross Non-Performing Financing (NPF) to Financing (gross) stood at 3.8 percent, whereas Net NPFs to Net Financing was recorded at 0.3 percent **(Table 5)**.

Table-5: Assets Quality Ratio (%)

Ratio	Dec-22	Sep-23	Dec-23	Overall Banking Industry
NPFs to Financing (gross)	2.6	3.6	3.8	7.6
NPFs to Financing (Net)	0.1	(0.1)	0.3	0.6
Provisions to NPFs	96.1	103.7	91.5	92.7

LIABILITIES

Deposits of IBIs carried on the momentum gained in the previous quarter with an increase of PKR 589 billion (9.6 percent), reaching at PKR 6,749 billion. The market share of deposits in the overall banking industry increased to 23.2 percent as compared to 22.5 percent in the previous quarter. Analysis of the deposits side shows that current deposits and saving deposits are the major constituents, having a sum of PKR 2,528 billion and PKR 2,372 billion, respectively. During the quarter under review, saving deposits increased by PKR 205 billion (9.5 percent), whereas current deposits and fixed deposits displayed a rise of PKR 211 billon (9.1 percent) and PKR 102 billion (10.2 percent) each **(Table 6)**.

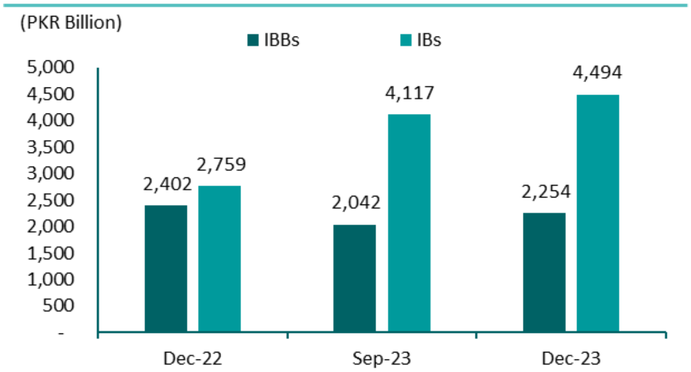
Table-6: Break up of Deposits (Amount in PKR Billion, Growth in %)

Category	Dec-22	Sep-23	Dec-23	Yearly Growth (%)	Quarterly Growth (%)
1. Customers					
Fixed Deposits	881	999	1,101	25.0	10.2
Saving Deposits	1,839	2,167	2,372	29.0	9.5
Current Deposits	1,925	2,317	2,528	31.3	9.1
Others	127	114	120	-5.5	5.3
Sub-total	**4,772**	**5,597**	**6,121**	**28.3**	**9.4**
2. Financial Institutions					
Remunerative Deposits	370	532	606	63.8	13.9

Non-remunerative Deposits	19	31	22	15.8	-29.0
Sub-total	**389**	**563**	**628**	**61.4**	**11.5**
Total (1+2)	**5,161**	**6,160**	**6,749**	**30.8**	**9.6**

The bifurcation of deposits among IBs and IBBs shows that the deposits of IBs increased by PKR 377 billion (9.2 percent) and reached to PKR 4,494 billion by end December, 2023. Similarly, IBB's deposits improved by PKR 212 billion (10.4 percent) to reach at PKR 2,254 billion by the end of quarter. The share of IBs and IBBs in the overall deposits of IBI was registered at 66.6 percent and 33.4 percent respectively, by end December 2023 **(Figure-5)**

Figure 5: Breakup of Deposits



Source: SBP

LIQUIDITY

During the period under review, Liquid Assets to Total Assets Ratio increase to 49.1 percent, whereas Liquid Assets to Total Deposits Ratio remained steady at 65.4 percent. While, Financing to Deposits (Net) Ratio increased to 49.4 percent by end December, 2023 **(Table 7)**.

Table-7: Liquidity Ratios (%)

Ratios	Dec-22	Sep-23	Dec-23	Overall Banking Industry
Liquid Assets to Total Assets	41.6	48.0	49.1	63.5
Liquid Assets to Total Deposits	58.2	65.5	65.4	101.1
Financing to Deposits (Net)	60.3	49.1	49.4	41.8

CAPITAL

Capital ratios of IBIs showed upward trajectory during the quarter under review. Capital to Total Assets Ratio and (Capital - Net NPAs) to Total Assets Ratio improved to 7.3 percent and 7.1 percent, respectively which were previously recorded at 6.7 percent each **(Table 8)**.

Table-8: Capital Ratios (%)

Ratios	Dec-22	Sep-23	Dec-23	Overall Banking Industry
Capital to Total Assets	5.9	6.7	7.3	5.9
(Capital - Net NPAs) to Total Assets	5.9	6.7	7.1	5.8

PROFITABILITY

Profit before tax of IBI was registered at PKR 393.4 billion at the quarter end. Meanwhile, earnings ratios i.e. 'Return on Assets (ROA)' and 'Return on Equity (ROE)' (before tax) were 4.9 percent and 75.5 percent, respectively. During the period under review, 'operating expense to gross income' of IBI was recorded at 34.7 percent **(Table 9).**

Table-9: Profitability Ratios (%)

Particulars	Dec-22	Sep-23	Dec-23	Overall Banking Industry
Profit before tax (PKR billion)	191.0	266.7	393.4	1,287
ROA before tax	2.9	4.5	4.9	3.1
ROE before tax	51.4	72.9	75.5	54.4
Operating Expense to Gross Income	41.9	34.8	34.7	41.2

COUNTRY MODEL – FEDERAL REPUBLIC OF NIGERIA

i. Introduction

Nigeria is the most populous country in Africa (over 200 million people) with market size and depth, a diverse economy, and a dynamic banking system. Muslim population consists of around 53 percent of the country's population, which shows the potential for Islamic finance in the country. It has a diversified economy that mainly revolves around construction, agriculture and transport. According to the World Bank, growth rate of Nigeria decreased during 2015-2022, whereas GDP per capita flattened in the same period, driven by monetary and exchange rate policy distortions, increasing fiscal deficits. However, the economy is expected to grow at an average of 3.4 percent between in the following years, benefitting from the reforms undertaken in the agriculture and services sectors, and over time, increased scope for government development spending.

ii. Islamic Banking and Finance

In Nigeria, three (3) full-fledged Islamic Banks have received operational license from the Central Bank of Nigeria (CBN). The full-fledged Islamic banks include Jaiz Bank; TAJBank and Lotus Bank, whereas Stanbic Bank and Sterling Bank have been allowed to operate under Islamic banking window license. Moreover, four (4) Shariah compliant microfinance institutions — Al-Barakah Microfinance Bank, Tijarah Microfinance Bank, I-Care Microfinance Bank and Giginya Microfinance Bank have been allowed to operate as Islamic Microfinance Bank. Nigeria has strong backing from the Islamic Development Bank (IsDB), which has supported the National Hajj Commission as well as the country's agricultural and manufacturing sectors, among others. IsDB has also rallied support to mobilize funding for the country's digital industry, which includes 10 Islamic fintech companies currently operating in Nigeria.

iii. Regulatory Framework

The CBN established a Committee to review the possibility of introducing Islamic banking and finance in the country in the year 2011. As a result of the Committee's recommendation, the CBN issued the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in the country. The CBN has created specialist Shariah Councils to address the unique management and regulatory needs of non-interest banks, both at the CBN and individual bank levels. These councils ensure that the products and services of the banks comply with Islamic commercial jurisprudence. In 2022, the apex bank released a framework for Islamic instruments and securities.

iv. Capital Markets and Sukuk

The CBN has developed Shariah-compliant instruments, such as the Intra-day facility (IDF), Funding for Liquidity Facility (FLF), and CBN Safe Custody account (CSCA) to improve liquidity and deepen the financial market for Islamic banks in Nigeria. The issuance of Sukuk by the Federal Government has also increased awareness of Islamic Banking among the public. The federal government's debut Sukuk facility was issued in 2017, a NGN100 billion (US$216.88 million) facility that was used to finance the budget deficit and road infrastructure. Since then, Nigeria's Debt Management Office has issued five more sovereign Sukuks. The recent Sukuk offering, in 2023, was met with a strong response from both retail and corporate investors, recording an oversubscription of 435 percent of the original issue size of NGN150 billion (US$194.59 million).

v. Takaful

The Takaful sector is regulated by the National Insurance Commission (NIC), which introduced a framework in 2013 allowing operators to offer Mudarabah, Wakalah and hybrid products, in addition to enabling conventional insurers to run Islamic windows. In 2020, the regulator announced plans to introduce MicroTakaful services in the country, and in 2023, it released new policies for the effective regulation and supervision of Takaful undertakings. African Alliance Insurance was the first to offer Takaful products in 2003. The other fully-fledged Takaful operators in the country are Lagos-based Noor Takaful, Jaiz Bank's Takaful subsidiary; Salam Takaful Insurance Company, and Cornerstone Takaful Insurance Company.

vi. Outlook

The Nigerian government has tapped the Islamic capital market often to support some of its infrastructure projects, which has encouraged some corporates to follow suit. This rise in Islamic finance bodes well for the rest of the industry, which has also seen much action in the Islamic fintech arena. With strong government backing, there will be more Shariah finance products to come out of Nigeria in the near future, which the SEC confirmed this year in its revised Capital Market Masterplan (2021–2025).

Sources of Information

World Bank {https://www.worldbank.org/}

Islamic Financial Services Board {https://www.ifsb.org/}

Islamic Finance News {https://www.islamicfinancenews.com/}

ADOPTION OF AAOIFI SHARIAH STANDARD NO. (39): MORTGAGE AND ITS CONTEMPORARY APPLICATIONS

With a view to further strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, the AAOIFI Shariah Standards No. 15 (Ju'alah), No. 39 (Mortgage and its Contemporary Applications) and No. 46 (Al-Wakalah Bi Al-Istithmar (Investment Agency)) have been adopted by State Bank of Pakistan (SBP). For the current issue, Standard No. (39): Mortgage and its Contemporary Applications is discussed below along with the amendments advised by the Shari'ah Advisory Committee of SBP.

1. Scope of the Standard

This standard covers mortgages requested by the Institution with the aim of documenting the debts and commitments owed to it by other individuals and Institutions. It is also covers the mortgages presented by the Institution to other parties in order to document the debts and commitments it owes to them. Furthermore, the standard covers the mortgages which the Institution, in its capacity as a notary or agent, keeps for the benefit of other parties.

2. Definition of Mortgage

To mortgage means to make a financial asset or so tied to a debt so that the asset or its value is used for repayment of the debt in case of default.

3. Shariah Rulings on Mortgage

3/1 Mortgage is permissible in Qur`an, Sunnah (Prophetic tradition) and Ijma' (consensus of Fuqaha).

3/1/1 The mortgage contract is binding for the mortgagor once it is concluded, and the mortgagor does not have the right to revoke it from his own side, whereas the mortgagee has the right to do so.

3/1/2 Possession of the mortgaged asset takes place on the basis of the same requirements for possession of a sold property. It could be same requirements for possession of a sold property. It could be actual possession by putting a hand on the property, which is known as seizure mortgage; or possession could be legal through known as seizure mortgage; or possession could be legal through registration and documentation, which is known as security or formal mortgage. Both types of mortgages are subject to the same rulings.

3/1/3 The mortgagee has the right to appoint an agent to possess the mortgage on his behalf. The mortgage can also be put in the hands of the mortgagee or in the hands of a third party known as the notary, to be agreed upon between the two parties. When the mortgage is kept by a notary neither of the two parties has the right to transfer it to any other location.

3/1/4 The mortgagee has the right to stipulate a condition that the mortgagor should appoint him or his representative as who can sell the mortgaged asset and repay the debt out agent who can sell the mortgaged asset and repay the debt out of its value in case of default, without resorting to judiciary. The mortgagor does not have the right to retreat from such agency once agreed upon.

3/1/5 The death of the mortgagor or the mortgagee has no effect on the validity of the mortgage contract. The respective inheritors shall substitute the dead party.

3/1/6 The mortgage contract is no longer valid when the mortgaged asset perishes unless a compensation for it is obtained (through solidarity insurance, for instance). The mortgage contract can also cease to be valid for other reasons such as termination of the contract by the mortgagee, settlement of or relief from the debt, or relinquishment of the mortgage right. Furthermore, the validity of the mortgage contract can also expire as a result of transfer of the ownership of the mortgaged asset (through sale, gift or will) on permission of the mortgagee; unless the new owner accepts to keep the mortgage contract [see item 3/2/6]

3/1/7 The mortgagee has the right to keep the whole mortgaged asset for any part of the debt, unless he accepts partial releasing of the mortgage. On repayment of the debt the mortgagee has no right to keep the mortgaged asset as a collateral for a new debt for which the asset is not mortgaged, except when the two parties agree to keep the mortgaged asset as a collateral for any debt between them within a specific period.

4. Mortgage of Financial Papers and Sukuk

4/1 It is permissible to mortgage the financial papers and Sukuk which can be issued and transacted according to Shari'ah, such as Islamic Sukuk and shares of Islamic financial Institutions. The shares of the companies whose original activities are permissible can also be added to this category. [see Shari'ah Standard No. (21) on Financial Paper: Shares and Bonds, item 3/4]

4/2 It is permissible to mortgage usufruct-based Sukuk which represent common shares in the usufructs of specific assets, or assets in the form of a specific indebtedness. This should be taken with due consideration to Shari'ah Standard No. (17) on Investment Sukuk, item 5/1/5/2.

4/3 It is impermissible to mortgage the financial papers and Sukuk that should not be issued or transacted according to Shari'ah, such as interest-based bonds, preference shares and enjoyment shares [see Shari'ah Standard No. (21) on Financial Paper: Shares and Bonds, items 2/6 and 2/7]. Such financial papers include also traditional investment certificates, certificates of traditional investment deposits and shares of the companies that pursue impermissible activities like manufacturing of alcohols, swine trade and dealing in Riba [see Shari'ah Standard No. (21) on Financial Paper: Shares and Bonds, item 2/1 and Shari'ah Standard No. (14) on Documentary Credit, item 2/1 and Shari'ah Standard No. (14) on Documentary Credit, items 3/4/1 and 3/4/2]. Among these financial papers also are shares of traditional financial Institutions, shares of traditional financial companies, shares of traditional insurance companies and shares of companies which originally pursue permissible activities, yet Riba-based and other prohibited dealings constitute a predominant part of their activities.

5. Mortgage of Current Accounts and Cash Securities

When a current account is mortgaged for the benefit of the same institution with which it is opened, the institution should not use the account unless an agreement is reached between the two parties to transfer the account to an investment account, and thus, make it subject to the rulings on Mudarabah instead of the rulings on loan. This is so because the institution, as a mortgagee, has to avoid making free of charge benefit from the mortgaged account. On transference of the account to an investment the mortgaged account. On transference of the account to an investment account, the account holder becomes entitled to his profit share as the owner of the capital (Rab al-Mal), while the institution becomes entitled to its profit share as the worker (Mudarib).

6. Mortgage of Investment Units and Investment Account

6/1 The Institution can accept mortgage in the form of investment units in Islamic investment funds. In this case the Institution as a mortgagee can suspend the right of the client to get back or draw from the account, absolutely or in proportion to the amount of the debt, whichever is more suitable.

6/2 The income and growth earned by the units or the account are considered to be mortgaged along with the principal. This should hold true whether the contractual relationship between the client and the Institution or the fund is Mudarabah or investment agency, unless the two parties agree on other arrangement.

7. Mortgage of What Will Be Owned

It is permissible to mortgage an income which is still to be owned if the principal (income earning asset) is specified. The contract in this case is valid whether such income is to be mortgaged along with the principal or independently.

8. Insurance of the Mortgaged Asset

The mortgagee has the right at the time of signing the contract to request from the mortgagor to arrange Islamic insurance for the mortgaged asset whenever it is possible. When the mortgagor accepts to do so the compensation to be received on the damage of the mortgaged asset shall replace it. If the compensation is received in the form of a cash amount such amount shall be mortgaged along with its returns by depositing it in a frozen investment account owned by the mortgagor. [see Shari'ah Standard No. (5) on Guarantees, item 4/8]

9. Zakah on the Mortgaged Asset

9/1 The owner of the mortgaged asset should pay Zakah if it is payable on the asset and its income or on its income only. The fact that the owner cannot dispose of the mortgaged asset does not relief him from payment of Zakah.

9/2 Zakah is payable on all cash mortgages such as current accounts, cash securities, units of investment funds, frozen investment accounts, Sukuk, Salam debts, and Istisna'a debts, subject to stipulations of Shari'ah Standard No. (35) on Zakah, items 5/1, 5/2 and 5/3.

10. Date of Issuance of the Standard

This Standard was issued on 17 Rabi' I, 1430 A.H., corresponding to 15 March 2009 A.D.

Adoption of the Standard in Pakistan:

For adoption of the Standard in Pakistan, following amendments have been made on the advice of the Shari'ah Advisory Committee, State Bank of Pakistan:

Clause No.	Clarifications/Amendments
The word 'Mortgage' may be read as 'Rahn' as defined in Clause 2 under the title, definition section and throughout the text of AAOIFI Shariah Standard No. 39.	
Clause 1:	The following is added as a footnote to the clause: This clause may be read as follows:

“Scope of the Standard This standard covers mortgages required by the Institution for securing the debts and commitments owed or to be owed to it by other individuals/Institutions. It also covers the mortgages presented by the Institution to other parties in order to secure the debts and commitments it owes to them. Furthermore, the standard covers the mortgages, which the Institution, in its capacity as a trustworthy person or agent, keeps for the benefit of other parties.”
Clause 2: The following are added as footnotes to the clause: This clause may be read as follows: “Definition of Mortgage To mortgage means to make a valuable asset or so, security against a debt so that the asset or its value is used to receive the debt in case of default.” Following is added for clarity: ‘‘Valuable asset or so’ includes Shari’ah compliant tangible and intangible assets.”
Clause 3/1/1: The following is added as a footnote to the clause: This clause may be read as follows: “The mortgage contract is binding for the mortgager once it is concluded, and the mortgager does not have the right to revoke it from his own side, whereas, the creditor mortgagee has the right to do so.”
Clause 3/1/2: The following is added as a footnote to the clause: This clause may be read as follows: “Possession of the mortgaged asset takes place on the basis of the same requirements as that of possession of a sold asset. It could be actual possession by taking the asset in hand also known as physical mortgage; or possession could be constructive such as through registration and documentation also known as security or customary mortgage. Both types of mortgages are governed by the same rulings.”
Clause 3/1/3: The following is added as a footnote to the clause: This clause may be read as follows: “The mortgagee has the right to appoint an agent to possess the mortgage on his behalf. The agent, thus appointed, shall have the same rights of disposition, which the principal has. The mortgage can also be put in the hands of the mortgagee or in the hands of a third party known as the trustworthy person, to be agreed upon between the two parties. When the mortgage is kept by a trustworthy person neither of the two parties has the right to transfer it to any other party.”
Clause 3/1/4: The following is added as a footnote to the clause: This clause may be read as follows: “The mortgagee has the right to stipulate a condition that the mortgagor should appoint him or his representative or any other mutually agreed person as an agent to sell the mortgaged asset and pay the debt out of its value in case of non-payment of due amount, without resorting to court of law. The mortgagor does not have the right to revoke such agency once agreed upon.”
Clause 3/1/5: The following are added as footnotes to the clause: This clause may be read as follows: “The death of the mortgagor or the mortgagee has no effect on the validity of the mortgage contract. The respective inheritors shall substitute the deceased persons.” Following is added for clarity: “The same rulings are applicable mutatis mutandis in case of dissolution of a legal entity.”
Clause 3/1/6: The following are added as footnotes to the clause: This clause may be read as follows: “The mortgage contract is no longer valid when the mortgaged asset perishes unless a compensation is obtained, for example through takaful which will substitute it. The mortgage contract can also cease to be valid for other reasons such as termination of the contract by the mortgagee, settlement of or relief from the debt, or relinquishment of the mortgage right. Furthermore, the validity of the mortgage contract can also expire as a result of transfer of the ownership of the mortgaged asset (through sale, gift or will) on permission of the mortgagee; unless the new owner accepts to keep the mortgage contract. [see item 3/2/6].” Following is added for clarity:

"Partial Sale /purchase of an asset, which is under Rahn: In case there is cushion available under the asset (which has been kept under Rahn) i.e. i) beyond the amount of the debt and ii) beyond the regulatory requirements of Security and margin etc. issued by SBP from time to time, following conditions shall be applicable: i. From Shari'ah perspective partial sale of the asset (that has been kept under the Rahn) is allowed, without permission (i.e. seeking/obtaining NOC) of the party (Murtahin- that has kept the asset under Rahn) provided the rights of the party (i.e. Creditor(s)/ Murtahin) are not violated/compromised. ii. If obtaining NOC is a legal or regulatory requirement or due to contractual agreement(s), in that case: a. NOC from counterparty must be obtained by IBI within 120 days or the specified time, whichever is earlier. b. If obtaining NOC requires more than 120 days then the IBI shall obtain permission, with genuine reasons/proper justification, from its own Shari'ah Board and document the permission granted along with genuine reasons/proper justification."
Clause 3/1/7: The following is added as a footnote to the clause: This clause may be read as follows: "The mortgagee has the right to keep the whole mortgaged asset for any part of the debt, unless he accepts partial releasing of the mortgage. On repayment of the debt the mortgagee has no right to keep the mortgaged asset as a collateral for any other debt for which the asset is not mortgaged, except when the two parties agree to keep the mortgaged asset as a collateral for any debt between them within a specific period."
Clause 3/2/1: The following is added as a footnote to the clause: This clause may be read as follows: "The mortgaged asset should be a Shari'ah-permissible asset. It should also be well specified (through pointing, naming or description) and be deliverable."
Clause 3/2/2: The following are added as footnotes to the clause: This clause may be read as follows: "In principle, the mortgaged object should be a tangible asset, yet it can be a debt, a cash amount, a fungible asset or a consumable commodity. Perishable objects can also be mortgaged in a way as they should be sold and replaced by their value. Moreover, a mortgaged object can be a known share of an undivided asset (Musha) which can be sold separately." Following is added for clarity: "In case mortgaged object is undivided share of asset, which cannot be sold separately, an NOC shall be required from other partner(s) in order to create Rahn."
Clause 3/2/4: The following is added as a footnote to the clause: This clause may be read as follows: "The mortgaged asset is a trust in the hands of the mortgagee, the trustworthy person or the agent and is still owned by the mortgagor as long as it is mortgaged. Therefore, when the mortgaged asset perishes in the hands of the mortgagee, or the trustworthy person, for a reason other than transgression or negligence, no responsibility shall rest with him, and the debt shall still remain valid. If the perishment of the mortgaged asset is due to transgression or negligence of the mortgagee, or the trustworthy person, he shall be held responsible for compensation at the value of the asset on the date of its perish, whereas the debt shall remain valid. In this case, the two parties have the right to perform set off arrangements between the debt amount and the value of the perished mortgage asset. If the mortgaged asset perishes in the custody of mortgagor, he shall be liable to substitute another asset except when the mortgagee relinquishes his right to obtain mortgage."
Clause 3/2/5: The following are added as footnotes to the clause: This clause may be read as follows: "The mortgagor can mortgage the asset that is owed to him by the mortgagee, whether the asset is kept by the mortgagee as a trust (such as an asset kept under the arrangement of 'Wadi'ah (trust keeping)' or 'Aariyah' and investment accounts); or as a guaranteed liability (such as current accounts and assets retained in invalid contracts). In the latter case, the status of the mortgagee will consequently change from keeping the asset on guarantee basis to keeping it on the basis of trust." Following is added for clarity:

"This clause may be read with clause 5 of this Shari'ah Standard."

Clause 3/2/6: The following are added as footnotes to the clause:

This clause may be read as follows: "The mortgagor can also mortgage an Aariya asset (Musta'ar mortgage), or a rented asset (rented mortgage), on permission of the owner in both cases. If a borrowed or rented mortgage is used for repayment of the defaulted debt, the owner of the asset should have the right of recourse on the mortgagor for compensation (subject to no adverse stipulation); in kind if the mortgaged asset is a fungible asset, or in value if otherwise. When a borrowed or rented mortgage asset perishes in the hands of the mortgagor, the mortgagor has to compensate the owner of the borrowed asset, whereas for the rented asset compensation is deserved only if the perish of the mortgaged asset is due to transgression or negligence of the mortgagor."

Following is added for clarity:

"The 'Borrowed asset' means 'Aariyah' which refers to transfer of mere usufruct (i.e. without transfer of ownership) without any consideration/compensation."

Clause 3/2/8: The following is added as a footnote to the clause:

This clause may be read as follows: "Any increase (attached and detached accession/ improvement) in the mortgaged asset as well as its income is considered to be mortgaged along with the principal, unless the two parties agree otherwise."

Clause 3/2/9: The following are added as footnotes to the clause:

This clause may be read as follows: "The mortgagor can benefit from the mortgaged asset on permission of the mortgagee, whereas the mortgagee has no right at all to take benefit free of charge from the mortgaged asset with or without the permission of the mortgagor. However, on permission of the mortgagor the mortgagee can utilize the mortgaged asset against the market consideration/Ujrat al-Mithl (اجر ة المثل) for similar assets. [see items 3/3/ and 4/3]"

Following is added for clarity:

"Refer to AAOIFI Shari'ah Standard No. (9): Ijarah."

Clause 3/2/12: The following is added as a footnote to the clause:

This clause may be read as follows: "The possession of receivables to be mortgaged actually takes place when document of the debt is deposited with the mortgagee or this particular mortgage is duly witnessed. When a debt is mortgaged, the mortgagee becomes entitled to it more than anyone else."

Clause 3/3/1: The following is added as a footnote to the clause:

This clause may be read as follows: "The debt for which the mortgage is signed should be a permissible debt such as sale price, indemnity against damage, Salam commodity, Istisna'a commodity or an owed usufruct. Concluding a valid mortgage contract need not necessarily be preceded by an already established debt. The mortgage contract can be signed before or at the same time of signing the debt contract. The debt for which the mortgage is signed should not be an impermissible debt (such as a usurious loan); or a non-debt deal (such as an identified asset as price, the usufruct of a specific asset, and a spot sale identified subject matter that is still in the hands of the seller)."

Clause 3/3/2: The following is added as a footnote to the clause:

This clause may be read as follows: "It is impermissible to stipulate mortgage as a condition in trust-based contracts such as agency, Wadi'ah (trust keeping), Musharakah, Mudarabah and leased asset with the lessee. If mortgage in such contracts is to be confined to indemnity in case of transgression, negligence or breach of the contract, then it is permissible. [see Shari'ah Standard No. (5) on Guarantees, item 2/2/1]."

Clause 3/4: The following is added as a footnote to the clause:

The heading may be read as follows: "Exercise of the rights in case of default."

Clause 3/4/1: The following is added as a footnote to the clause:

This clause may be read as follows: "With due consideration to item 3/1/4, the mortgagee has the right to sell the mortgaged asset in case of default. After repayment of the mortgagee's debt the remaining price of the mortgaged asset should be given to the mortgagor by virtue of the mortgage contract. If the sale price

of the mortgaged asset happened to be less than the due debt, the difference shall be subject to Shari'ah rulings on normal debt, and the mortgagee should have the right of recourse to the mortgagor for settlement of such difference."
Clause 3/4/3: The following is added as a footnote to the clause: This clause may be read as follows: "When the mortgagor is bankrupt, the mortgagee should have the priority over other creditors, for getting his debt repaid from the sale value of the mortgaged asset. If the sale value of the mortgaged asset is less than the mortgagee's debt, he becomes in the same standing with other creditors with regard to the residual indebtedness."
Clause 4/3: The following is added for clarity as a footnote to the clause: "Exception to this clause may be given by the Shari'ah Boards of the IBIs provided that debt instruments (Shari'ah non-compliant) may be accepted up to the issued price (Ras al-Mal) or face value, whichever is less."
Clause 5: The following is added as a footnote to the clause: This clause may be read as follows: "If the customer is willing to convert his current account into Mudarabah account, this clause should be applicable, otherwise clause 6/5/2 of Shari'ah Standard No. (5): Guarantees will be applicable. (Note: In case, where the customer has freely, willingly and absolutely agreed that his current account is to be frozen (e.g. lien is marked on the current account), this would not be considered as Rahn)."
Clause 6/1: The following is added as a footnote to the clause: This clause may be read as follows: "The Institution can accept mortgage in the form of investment units in Islamic investment funds. In this case the Institution as a mortgagee can suspend the right of the client to get back or draw from the account, absolutely, or in proportion to the amount of the debt and this is preferable."
Clause 8: The following are added as footnotes to the clause: This clause may be read as follows: "The mortgagee has the right at the time of signing the contract to require from the mortgagor to arrange Islamic insurance for the mortgaged asset whenever it is possible. When the mortgagor accepts to do so the compensation to be received on the damage of the mortgaged asset shall replace it. If the compensation is received in the form of a cash amount such amount shall be mortgaged along with its returns by depositing it in a frozen investment account owned by the mortgagor. [see Shari'ah Standard No. (5) on Guarantees, item 4/8]." Following is added for clarity: "It is also permissible that mortgagee on behalf of the mortgager may arrange Islamic insurance."

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

Source:

1. AAOIFI website
2. IFPD Circular No. 01 of 2023

EVENTS AND DEVELOPMENTS AT ISLAMIC FINANCE GROUP (IFG) – STATE BANK OF PAKISTAN (SBP)

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

Islamic Finance Group (IFG) State Bank of Pakistan (SBP), in collaboration with National Institute of Banking and Finance (NIBAF) conducted seven (07) iterations of 'Fundamentals of Islamic Banking Operations (FIBO)' program in different cities across the country during Q2 of FY 2023 – 24. These programs were aimed to enhance the capacity of the industry professionals, Shariah scholars, academia, etc. The sessions were organized for participants in Abbottabad, Faisalabad, Peshawar, Gujranwala, Karachi, Islamabad and Mirpur – AJK during October – December, 2023 attended by 255 participants.

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

IFG-SBP in collaboration with NIBAF is holding a short duration capacity building program titled 'Islamic Banking Branch Operations (IBBO)' which aims to upscale capacity levels of Islamic banking branch level staff as well as local Shariah scholars, academia, etc. During the quarter from September – December, 2023, three (03) such iterations were held in Hyderabad, Chakwal and D.I. Khan attended by 101 participants.

Capacity Building Program for Government Officials

To upgrade the capacity levels of government officials, IFG-SBP in collaboration with NIBAF arranged two capacity building programs at NIBAF, Islamabad on October 30 – 31, 2023 and December 4 – 5, 2023. The participants were from several government bodies, including; (i) Ministry of Finance, (ii) Council of Islamic Ideology, (iii) Higher Education Commission, (iv) Ministry of Commerce, (v) Central Directorate of National Savings, (vi) Financial Monitoring Unit, (vii) Directorate General of Religious Education, and (viii) Utility Stores Corporation, along with SBP subsidiaries i.e. SBP BSC and DPC. The sessions were aimed to enable the participants in identifying different forms of Riba and sensitized them on their prohibition. The session also shed light on the Shari'ah-compliant product structures and how they cater to the need of the market without violating any principles of Shari'ah.

Awareness Sessions for University Students

In order to increase awareness and clarify doubts about Islamic banking & finance in the young minds, IFG-SBP conducted two (02) awareness sessions for university students. The first session was conducted at FAST University, Chiniot on October 19, 2023, while the second session was conducted at Quaid e Azam University, Islamabad on November 30, 2023. The sessions were attended by 340 participants.

Awareness Sessions for "Young Islamic Banking Professionals (Y-IBP)"

In order to bolster efforts to spread awareness of Islamic banking and finance, IFG-SBP collaborated with SBP BSC for holding specialized awareness sessions for university students which provided the top qualifiers an opportunity to enroll into FIBO and IBBO programs to further develop their skills and capacity. During Q2 of FY 2023 – 24, seventeen (17) such sessions were conducted across the country which were attended by more than 2,100 participants from different parts of the country.

Awareness Sessions for "Shariah Experts in Islamic Banking Professionals (SE-IBP)"

IFG-SBP in collaboration with SBP BSC for launching a specialized program titled "Shariah Experts in Islamic Banking Professionals (SE-IBP)" for Shariah scholars and students associated with Madaris with an aim to spread awareness of Islamic banking and finance among the Shariah fraternity. Moreover, it also provided an opportunity for the top qualifiers to enroll into FIBO and IBBO programs to further develop their knowledge base in this field. In this connection, seventeen (17) such sessions were conducted across the country during Q2 of FY 2023 – 24 which were attended by more than 1,400 participants.

Customized Capacity Building Programs for Shariah Scholars of the Industry

To upgrade the capacity levels of Shariah scholars serving the industry, two (2) such capacity building programs were arranged by IFG-SBP on November 7 – 8, 2023 and December 13 – 14, 2023 at Karachi and Islamabad respectively. The theme of the first program was 'Islamic Agriculture Finance', while the second program focused on 'Developing Islamic Financial Products'. The said programs were also attended by officials of IBIs serving in respective areas.

One-day Workshop on Islamic Banking & Finance for Government Officials

In a bid to sensitize government officials, this department has made arrangements with the National School of Public Policy (NSPP) for introduction of Islamic Banking and Finance concepts in various trainings offered by NSPP. In this regard, three iterations of one-day workshops on Islamic Banking & Finance were conducted during the quarter in consideration at National Institute of Management (NIM), Lahore, Islamabad and Peshawar. The workshops were part of the 34th Senior Management Course, conducted by the NSPP through its regional NIMs. During the said iterations, more than 120 government officers from various federal and provincial occupational groups who are eligible for promotion from BPS 19 to BPS 20 participated.

ISLAMIC BANKING NEWS AND VIEWS

I. Local Industry News

Shariah-compliant counter at PSX

The potential of attracting Shariah-compliant investors to the Pakistan Stock Exchange (PSX) was witnessed once again with massive participation in Pakistan's first listed government Ijarah Sukuk issuance. Against the auction target of PKR 30 billion set by the Ministry of Finance, the bids received from retail and institutional investors were over PKR 396.2 billion and the maiden auction was 13 times oversubscribed. It is interesting to note that the government was able to attract one-year investors at 2.5 percent below the policy rate of 22 percent and even 1 percent below the minimum deposit rate prescribed by the SBP for conventional banks on saving accounts. This massive participation even at lower rates reflects the preference of the market for Shariah-compliant instruments combined with the assurance of halal returns. Moreover, it will further help the government to benefit from Sukuk issuance at lower rates as compared to conventional options.
https://tribune.com.pk/

MTBs and Ijara Sukuk Rules: Cabinet approves summary regarding amendment: MoF

The Finance Ministry has said the caretaker federal cabinet has granted its approval to the summary presented by the Ministry of Finance regarding amendment to the existing Government of Pakistan Market Treasury Bills 1998 and Government of Pakistan Ijara Sukuk Rules 2008. In a statement issued by the Finance Ministry on Monday (October 31, 2023), after the meeting of the caretaker federal cabinet, stated that in response to the increasing demands of financial market in general and Islamic financial institutions in particular for introducing new instruments, the Finance Division moved a summary for the Cabinet for amendment in the existing Government of Pakistan Market Treasury Bills 1998 and Government of Pakistan Ijara Sukuk Rules 2008. In a landmark decision, the Federal Cabinet has granted its approval to the summary presented by the Ministry of Finance, leading to substantial amendments to the subject legal instruments. The Implementation of these rules will not only make the participation in Government securities auctions/issuance simpler but will also expand the investor base. It is also expected that these amendments will help in reducing the cost of borrowing as the greater diversification will significantly enhance the subscription in government securities.
https://www.brecorder.com/

Pakistan Sports Complex to be used as underlying asset for Rs150 billion sukuk issuance

The government has planned to raise PKR 150 billion through the sale of Islamic bonds, or sukuk, in the next three months, as it seeks to finance its widening fiscal deficit with cheaper and Shariah-compliant sources of funding. According to a central bank auction calendar, the government aims to generate PKR 80 billion from the sale of three different tenors of floating-rate sukuk and PKR 70 billion from fixed-rate sukuk in November-January. The government will generate PKR 80 billion through the sale of the variable rental rate one, three, and five-year government's Ijara Sukuk between November 2023 and January 2024. During the same time frame, the government also intends to auction Ijara sukuk with fixed rental rates for three and five years to raise PKR 70 billion. The Islamic bonds will be backed by the assets of the Pakistan Sports Board, which owns and operates various sports facilities across the country, the SBP said in a separate document outlining the structure of the sukuk.
https://www.thenews.com.pk/

SECP, AAOIFI to set up JRDC

The Securities and Exchange Commission of Pakistan (SECP) and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) have joined hands to establish a Joint Research and Development Centre (JRDC) to foster growth in Islamic finance. JDRC, hosted by SECP, signifies a pivotal step towards advancing capacity building, advocacy, and policy formulation to foster growth in the Islamic financial services industry in Pakistan. Under the MOU, AAOIFI will also extend technical support to SECP for capacity-building, research and advocacy activities. The SECP anticipates that partnering with global entities such as AAOIFI will ease the execution of the Federal Shariat Court's decision and support the government's commitment to eradicate Riba from the economy.

https://www.brecorder.com/

II. International Industry News

Abu Dhabi Islamic Bank raises $500m from green Sukuk issuance

Abu Dhabi Islamic Bank has raised $500 million through a green sukuk offering, making it the world's first such US dollar-denominated Islamic bond issued by a financial institution. According to a statement, ADIB priced the five-year senior sukuk at a profit rate of 5.69 percent per annum, payable twice a year. The new sukuk will be listed and traded on the London Stock Exchange's International Securities Market and the Sustainable Bond Market. This move comes amid high demand from the Middle East and Africa, which was allocated 78 percent, followed by 13 percent to Europe and 9 percent to Asia and the US. In terms of investor type, private banks stood at 26 percent of the allocation, followed by asset and fund managers at 17 percent, commercial banks at 42 percent and others at 16 percent. ADIB's vision is to be a leading universal bank that is fully Shariah compliant, focusing on service excellence and product and solution innovation.

https://www.arabnews.pk/

The Philippines Enters Islamic Financing Sukuk Bond Market

In a groundbreaking move, the Philippines has officially declared its entrance into the Islamic finance market. The Philippines Bureau of Treasury (BTr) disclosed plans for a benchmark-sized Sukuk offering denominated in US dollars with a 5.5-year tenure. Manila's historic foray into the Islamic finance market has generated excitement throughout the Middle East and Southeast Asia as the government prepares to issue its inaugural Sukuk bonds. To orchestrate this significant financial endeavour, BTr has appointed major players, including Citigroup, Deutsche Bank, Dubai Islamic Bank, HSBC, MUFG, and Standard Chartered Bank, to conduct fixed-income investor calls across Asia, Europe, the Middle East, and the United States. Finance Secretary Benjamin Diokno, who earlier expressed the government's target of raising US$1 billion through Sukuk bonds, emphasised the move's role in diversifying financing sources and broadening the investor base.

https://www.middleeastbriefing.com/

AEON Bank emerges as Malaysia's first Islamic digital bank

AEON Bank has obtained approval from Bank Negara Malaysia (BNM) and the Minister of Finance to launch digital banking operations in Malaysia, making AEON Bank the country's inaugural Islamic digital bank. The approval, granted following BNM's thorough validation of the bank's operational readiness, positions AEON Bank at the forefront of the nation's digital banking landscape. "This momentous occasion marks a significant leap forward in redefining financial services provided by the AEON Group and reaffirms our commitment in continuing our support for financial inclusivity," added AEON Credit MD, Daisuke Maeda. With AEON Bank in

its portfolio, the AEON Group aims to further expand and enhance its services, reaching diverse segments such as auto dealers, merchants, suppliers, tenants, and more.
https://themalaysianreserve.com/

EDB Unveils $500 Million Sukuk Issuance Plan to Boost Islamic Finance in Central Asia

The Eurasian Development Bank (EDB), a multilateral institution in Central Asia, has unveiled its plan to issue $500 million worth of sukuk in international markets. This was announced in a statement by the EDB on the sidelines of the International Monetary Fund and World Bank Annual Meetings in Morocco on Oct. 11. The EDB has compiled a list of potential projects to direct this financing. Their calculations indicate that the size of Islamic financial assets in Central Asia could soar to $10 billion by 2030-35. In light of this, the bank has established its Islamic division and is expanding collaboration with financial institutions within the Gulf Cooperation Council. Their primary goal is to foster the development of Islamic finance in Central Asia, mainly through affiliations with organizations within the Islamic Development Bank Group.
https://astanatimes.com/

III. Articles and Views

CORPORATE WINDOW: Conversion towards Islamic finance

The Federal Shariat Court ruling in April 2022 to eliminate interest from the economy by December 2027 marked a pivotal moment in Pakistan's financial landscape. This historic decision necessitates amendments to align all laws and regulations with the essence of this judgment. The Federal Shariat Court (FSC) has further ruled that upcoming financial dealings involving Pakistan, be it financing or contracts with international financial bodies, should also adhere to Shariah-compliant financial methods, such as the issuance of Sukuk. This signifies a significant shift towards embracing Islamic finance principles in the country's financial engagements. The FSC judgment effectively underscores various Sukuk types that the government can utilise in international capital markets to convert existing foreign currency debt and secure new international financing.

The central bank has provided detailed guidelines and regulatory standards to facilitate conventional banks' desire to convert their operations as per Shariah principles. The SBP has also played a pivotal role in not only guiding but also facilitating the smooth transition of financial institutions into the Islamic finance realm. An exemplary case in point is the remarkable conversion of Faysal Bank Limited to a complete Islamic bank by Dec 2022. Recently, Summit Bank has announced a conversion to an Islamic bank, and according to news sources, a few other banks, including The Bank of Punjab, ZTBL, and a foreign bank operating in Pakistan, are also considering a complete shift towards becoming Islamic banks. In conclusion, Pakistan's embrace of Islamic finance and its journey towards an interest-free economy, driven by the FSC's historic ruling, is not only reshaping the nation's financial landscape but also holds great promise for the future.
https://www.dawn.com/

Sukuk issuance on PSX floor: Foot in the door

In the first ever 1-year Ijara Sukuk, there was an overwhelming participation of Rs479 billion as against the target of Rs30 billion, and the government fetched Rs36 billion at the cut-off yield of 19.52 percent. Now the government is planning to issue Sukuk every month. Seeing the appetite, the government should consider larger issuances, going forward. The idea is to build 3-month, 6-month and 12-month sukuk market through auctions on the PSX whereas the larger tenor issues, for the present, be retained to be managed by State Bank of Pakistan. The ideal condition would be to have conventional issuances of T-bills through PSX as well. However, that would be an extremely ambitious move as there might not be enough demand for T-bills. Furthermore, the general appetite of retail consumers is in Shariah-compliant products and that too in smaller maturity papers. Thus, 3-month to 12-month Sukuks are likely to be in demand. It's a matter of how much supply the government can have to slowly replace its T-bills.

The Sukuk issuance is at about 2 percentage points discount to same tenor T-bills. That will reduce the government's cost of borrowing. And that will lower the options for commercial banks to deploy; lately, the banks are raising deposits and investing in government papers. Lowering the offering of government papers to banks would compel them to provide credit to the private sector liberally, which is commercial banks' supposed role. Although the much-awaited transition to a fully developed secondary market for government debt for trading on the bourse will take some time, the first raindrop has fallen from a cloud.
https://www.brecorder.com/

The Game-Changing Revolution: How AI is transforming Islamic banking

AI is undoubtedly disrupting conventional banking regimes. With the advent of AI, Islamic banks are becoming more efficient and more receptive to customer demands. For instance, First Abu Dhabi Bank has implemented a portal for merchants equipped with AI and Machine Learning capabilities, enabling advanced data analytics. Additionally, Emirates NBD has entered into a partnership with Copilot X to enhance coding efficiency and streamline the software development process. Other ways AI is making Islamic banking more efficient are: **Personalised banking** - Through behaviour analysis, AI can provide more intuitive suggestions for products and services. **Customer service** - While chatbots have been around for a while, the current chat functionalities exceed the previous versions as the answers have become more humanoid than android. **Automating processes** - With the capabilities of machine learning, AI can predict your risk adversity to investments along with screening investments to see if they comply with Sharia. **Risk management** - Through big data analysis, Islamic banks are able to identify, assess and mitigate potential risks. **Fraud detection** - Through pattern analysis, fraudulent transactions can be minimised as AI can catch unusual activities in the banking system. While AI offers enhanced efficiency and transparency in delivering products and services, it brings forth certain challenges. If Islamic banking aims to genuinely cater to a wider audience, it is imperative to address these challenges. This necessitates the implementation of innovative strategies for seamlessly integrating AI into the Islamic banking framework, thereby establishing a more dynamic and practical banking solution. By wholeheartedly embracing AI Technology, Islamic banks can elevate their operational efficiency, elevate the quality of customer service, and provide a broader range of competitive products and services.
https://www.khaleejtimes.com/

ANNEXURE I: ISLAMIC BANKING BRANCH NETWORK

Annexure: I

Islamic Banking Branch Network
(As of December 31, 2023)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	164	-
	BankIslami Pakistan Limited	336	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Faysal Bank Limited	720	-
	Meezan Bank Limited	1000	-
	MCB Islamic Bank Limited	223	-
	Sub-Total	**2,653**	
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	126	162
	Askari Bank Limited	137	-
	Bank Al Habib Limited	199	138
	Bank Alfalah Limited	349	-
	Habib Bank Limited	408	552
	Habib Metropolitan Bank Limited	117	233
	National Bank of Pakistan	188	150
	Silk Bank Limited	23	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	45	15
	Standard Chartered Bank (Pakistan) Limited	2	38
	Bank Makramah Ltd	14	37
	The Bank of Khyber	126	-
	The Bank of Punjab	158	73
	United Bank Limited	210	501
	Zarai Taraqiati Bank Limited	28	10
	Sub-Total	2,144	1922
	Total Full-Fledged Branches and windows	**4,797**	**1,922**
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Allied Bank Limited	1	
	Askari Bank Limited	3	-
	Bank Alfalah Limited	5	
	BankIslami Pakistan Limited	100	-
	MCB Islamic Bank Limited	2	
	The Bank of Khyber	10	
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	2	
	United Bank Limited	2	-
	Total Sub-Branches	**158**	**-**
	Grand Total Branches/Sub-Branches/Windows	**4,955**	**1,922**

Source: Information/Data obtained from different banks

ANNEXURE II: PROVINCE/REGION WISE BREAK-UP OF ISLAMIC BANKING BRANCH NETWORK

Annexure: II

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

(As of December 31, 2023)

Type	Name of Bank	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	4	7	3	14	92	42	164
	BankIslami Pakistan Limited	5	17	16	5	32	161	100	336
	Dubai Islamic Bank Pakistan Limited	7	5	15	3	10	86	84	210
	Faysal Bank Limited	11	25	31	7	55	409	182	720
	Meezan Bank Limited	12	39	42	5	76	537	289	1,000
	MCB Islamic Bank Limited	2	10	14	1	27	113	56	223
	Sub-Total	**39**	**100**	**125**	**24**	**214**	**1,398**	**753**	**2,653**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	3	4	9	1	14	79	16	126
	Askari Bank Limited	-	3	11	3	22	69	29	137
	Bank Al Habib Limited	1	9	10	1	38	69	71	199
	Bank Alfalah Limited	1	9	25	-	39	213	62	349
	Habib Bank Limited	12	12	16	2	60	206	100	408
	Habib Metropolitan Bank	2	3	4	1	20	45	42	117
	National Bank of Pakistan	9	4	6	1	40	95	33	188
	Silk Bank Limited	-	1	3	-	3	9	7	23
	Sindh Bank Limited	1	1		-	2	7	3	14
	Soneri Bank Limited	-	1	3	1	11	21	8	45
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	1	2
	Bank Makramah Ltd	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	5	6	-	101	11	3	126
	The Bank of Punjab	5	7	7	2	21	108	8	158
	United Bank Limited	3	7	7	-	69	75	49	210
	Zarai Taraqiati Bank Limited		-	1	3	14	9	1	28
	Sub-Total	**37**	**67**	**110**	**17**	**455**	**1,019**	**439**	**2,144**
	Total Full-Fledged Branches	**76**	**167**	**235**	**41**	**669**	**2,417**	**1,192**	**4,797**
Sub Branches	Allied Bank Limited	-	-	1	-	-	-	-	1
	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-	-	6	6
	Askari Bank Limited	-	1	-	-	1	1	-	3
	Bank Alfalah Limited			1			2	2	5
	BankIslami Pakistan Limited	1	6	8	-	4	33	48	100
	Dubai Islamic Bank Pakistan Limited	-	-	-	-	-	9	16	25
	MCB Islamic Bank Limited						1	1	2
	Faysal Bank Limited		-	-	-	-	2	-	2
	The Bank of Khyber	-	-	-	-	10	-	-	10
	The Bank of Punjab	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	1	-	1	-	-	2
	Total Sub-Branches	**1**	**7**	**11**	**0**	**16**	**50**	**73**	**158**
	Grand Total	**77**	**174**	**246**	**41**	**685**	**2,467**	**1,265**	**4,955**

ANNEXURE III. DISTRICT WISE BREAK-UP OF ISLAMIC BANKING BRANCH NETWORK

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of December 31, 2023)

S. No.	Province	District	No. of Branches*
1	Sindh	Badin	4
2		Dadu	9
3		Ghotki	6
4		Hyderabad	74
5		Jacobabad	6
6		Jamshoro	6
7		Karachi City	1017
8		Kashmore	3
9		Khairpur	8
10		Larkana	9
11		Matiari	4
12		Mirpurkhas	18
13		Naushahro Feroze	8
14		Shaheed Benazir Abad	20
15		Sanghar	20
16		Shikarpur	3
17		Sukkur	23
18		Shahdadkot	4
19		Tando Allahyar	5
20		Tando Mohammad Khan	5
21		Thatta	5
22		Umer Kot	8
Sindh Total			**1,265**
23	Punjab	Attock	33
24		Bahawalnagar	37
25		Bahawalpur	54
26		Bhakkar	8
27		Chakwal	27
28		Chiniot	11
29		Dera Ghazi Khan	32
30		Faisalabad	197
31		Gujranwala	123
32		Gujrat	109
33		Hafizabad	13
34		Jhang	20
35		Jhelum	27
36		Kasur	32
37		Khanewal	41
38		Khushab	16
39		Lahore City	703
40		Layyah	15
41		Lodhran	7
42		Mandi Bahauddin	25
43		Mianwali	13
44		Multan	144
45		Muzaffargarh	29
46		Nankana Sahib	16
47		Narowal	14
48		Okara	45
49		Pakpattan	20
50		Rahim Yar Khan	69
51		Rajanpur	13
52		Rawalpindi	238
53		Sahiwal	53
54		Sargodha	64
55		Sheikhupura	38
56		Sialkot	112
57		Toba Tek Singh	35
58		Vehari	34
Punjab Total			**2,467**
59	Azad Kashmir	Bagh	6
60		Bhimber	5
61		Dadyal	4
62		Hattian Bala	1
63		Kotli	10
64		Mirpur	27
65		Muzaffarabad	15
66		Poonch	9
Azad Kashmir Total			**77**
67	Khyber Pakhtunkhwa	Abbottabad	36
68		Bannu	17
69		Batagram	8
70		Buner	20
71		Charsadda	18
72		Chitral	11
73		Dera Ismail Khan	20

S. No.	Province	District	No. of Branches*
74	Khyber Pakhtunkhwa	Hangu	12
75		Haripur	20
76		Karak	7
77		Kohat	22
78		Lakki Marwat	4
79		Lower Dir	42
80		Malakand	27
81		Mansehra	28
82		Mardan	36
83		Nowshera	32
84		Peshawar	144
85		Shangla	9
86		Swabi	16
87		Swat	89
88		Tank	2
89		Torghar	1
90		Upper Dir	26
91		Kohistan	4
92		Bajaur Agency	10
93		Khyber Agency	15
94		Mohmand Agnecy	1
95		Orakzai Agency	2
96		Kurram Agency	5
97		North Waziristan Agency	1
KPK Total			**685**
98	ICT	Islamabad	246
Islamabad Total			**246**
99	Gilgit-Baltistan	Astore	2
100		Baltistan	1
101		Ghizer	2
102		Ghanche	1
103		Hunza	1
104		Skardu	7
105		Diamir	8
106		Shigar	1
107		Gilgit	18
Gilgit-Baltistan Total			**41**
108	Balochistan	Chaghi	4
109		Duki	1
110		Gawadar	8
111		Harnai	0
112		Jaffarabad	3
113		Kalat	1
114		Kech	2
115		Khuzdar	4
116		Kharan	1
117		Lasbela	7
118		Loralai	9
119		Mastung	1
120		Noshki	2
121		Nasirabad	2
122		Panjgur	4
123		Pishin	9
124		Qilla Abdullah	9
125		Qilla Saifullah	8
126		Quetta	85
127		Sibi	2
128		Sohbatpur	1
129		Turbat	3
130		Zhob	4
131		Ziarat	4
Baluchistan Total			**174**
Grand Total			**4,955**

*including sub-branches