October-December 2024

Quarterly Islamic Banking Bulletin

Islamic Finance Policy Department

State Bank of Pakistan

CONTENTS

PROGRESS & MARKET SHARE OF ISLAMIC BANKING INDUSTRY

OVERVIEW

The Islamic Banking Industry in Pakistan demonstrated substantial growth in the last quarter of 2024, reinforcing its expanding role in the country's financial sector. Total assets surged by PKR 1,189 billion, reaching PKR 11,070 billion by December 2024, exceeding the PKR 10 trillion mark for the first time. Deposits followed a similar upward trend, increasing by PKR 309 billion to PKR 7,905 billion. Year-on-year (YoY) growth remained robust, with assets rising by 23.1 percent and deposits by 17.1 percent. The financing portfolio exhibited a notable YoY growth of 21.0 percent, reaching PKR 4,037 billion, while net investments expanded by 17.7 percent to PKR 4,987 billion. This growth indicates increased participation in Shariah-compliant financing and investment activities, strengthening the Islamic banking industry's financial depth.

In terms of market share, Islamic banking assets accounted for 20.6 percent of the total banking sector, with deposits capturing an even larger share at 24.9 percent. The industry's growing footprint was further highlighted by its 25.5 percent contribution to total banking sector financing and a 16.7 percent share in total investments. These figures are indicative of the continued expansion in Islamic banking's role within the broader financial system. Additionally, the sector's physical outreach expanded significantly, with the number of Islamic Banking Branches (IBBs) rising to 6,017, a YoY increase of 21.4 percent. Islamic Banking Windows (IBWs) also shown a considerable rise, reaching to 2,253, growing by 17.2 percent YoY. This expansion underpins the increasing accessibility and demand for Islamic banking services across the country.

These trends indicate that Islamic banking is not only growing in absolute terms but also strengthening its presence within the overall banking landscape. The steady rise in assets, deposits, financing, and investment highlights the sector's resilience, while the expansion in branch networks suggests deeper market penetration.

Table 1: Industry Progress and Market Share **(Amount in PKR Billion)**

Particulars	Islamic Banking Industry Progress			Growth (YoY)			Share in Overall Banking Industry (%)		
	Dec-23	Sep-24	Dec-24	Dec-23	Sep-24	Dec-24	Dec-23	Sep-24	Dec-24
Assets	8,994	9,881	11,070	24.4	17.4	23.1	19.4	19.0	20.6
Deposits	6,749	7,596	7,905	30.8	23.3	17.1	23.2	23.2	24.9
Investments (net)	4,235	4,803	4,987	38.8	22.3	17.7	16.3	15.2	16.7
Financing (net)	3,335	3,252	4,037	7.1	7.5	21.0	27.4	27.3	25.5
Number of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
Number of Branches	4,955	5,333	6,017	12.7	14.3	21.4	-	-	-
Number of Islamic Banking Windows	1,922	2,170	2,253	26.8	14.6	17.2	-	-	-

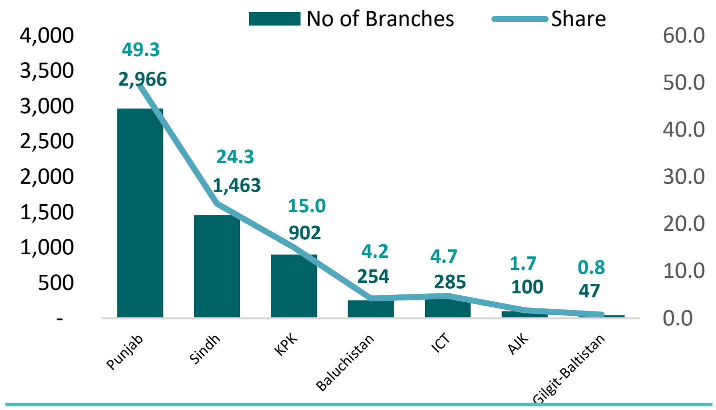
**number includes sub-branches*

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

BRANCH NETWORK OF ISLAMIC BANKING INDUSTRY

Islamic Banking Institutions (IBIs) include 6 dedicated Islamic banks and 16 conventional banks that offer Islamic banking services through standalone IBBs. The industry's outreach shown a significant quarterly expansion of 12.8 percent, with the addition of 684 new branches, bringing the total branch network to 6,017 by December 2024. It is important to note that a leading bank transformed all its conventional branches in Khyber Pakhtunkhwa and Baluchistan into Islamic branches, contributing to a rapid increase in IBBs.

Figure 1: Region Wise Branch Network



Source: SBP

The widespread presence of IBBs, operating in 132 districts, reflects the sector's deepening market penetration and efforts to enhance financial inclusion. Alongside physical branches, IBWs also continued to expand, reaching 2,253 by the end of 2024 **(Figure 1)**.

ASSETS AND LIABILITIES STRUCTURE

ASSETS

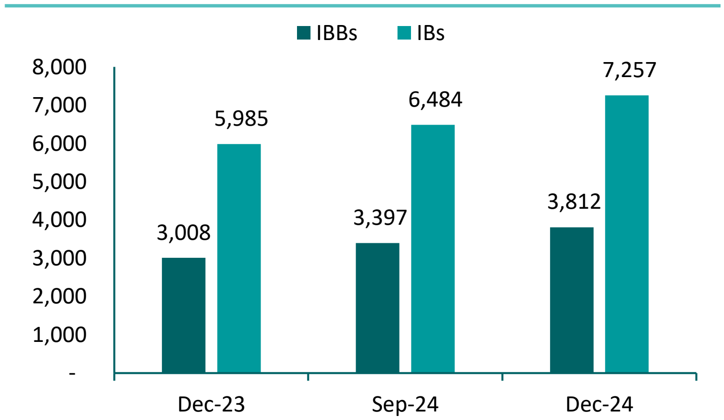
The total assets of IBIs expanded by PKR 1,189 billion in the quarter ended December 2024, reaching to PKR 11,070 billion, up from PKR 9,881 billion in the previous quarter. Islamic banking assets now command a 20.6 percent share of the overall banking industry, reflecting its rising market significance.

A closer look at asset composition reveals that financing (net) accounts for 36.5 percent, while investments (net) contribute 45.1 percent of total Islamic banking assets.

BREAK UP OF ASSETS OF IBs AND IBBs

Both full-fledged Islamic Banks (IBs) and IBBs of conventional banks maintained a positive growth trend. The assets of IBs grew by PKR 773 billion, reaching PKR 7,257 billion, whereas IBBs recorded an increase of PKR 415 billion, bringing total assets to PKR 3,812 billion. By the end of December 2024, IBs held a dominant share of 65.6 percent in total Islamic banking assets, while IBBs contributed 34.4 percent **(Figure 2)**.

Figure 2: Breakup of Assets

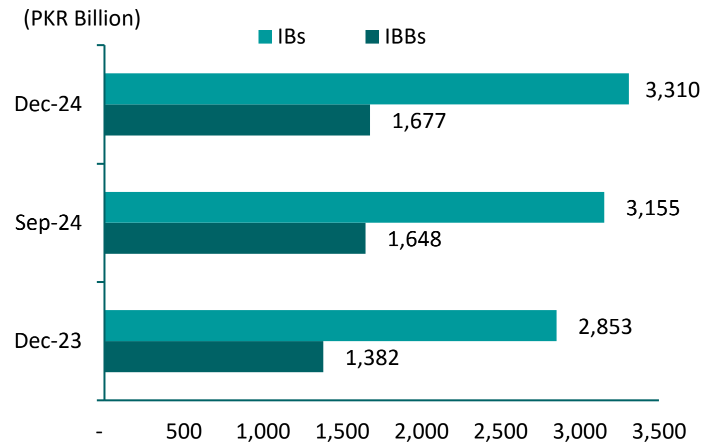


Source: SBP

INVESTMENTS

The IBIs continued to strengthen their investment portfolio, with Investments (net) rising by PKR 184 billion (3.8 percent) in the quarter, reaching to PKR 4,987 billion by the end of December 2024. This steady growth in Investments (net) was mainly due to funds invested by IBIs in multiple Government of Pakistan (GoP) Ijarah Sukuk (GIS), an increase of 166.5 billion during the quarter under review.

Figure 3: Breakup of Investment



Source: SBP

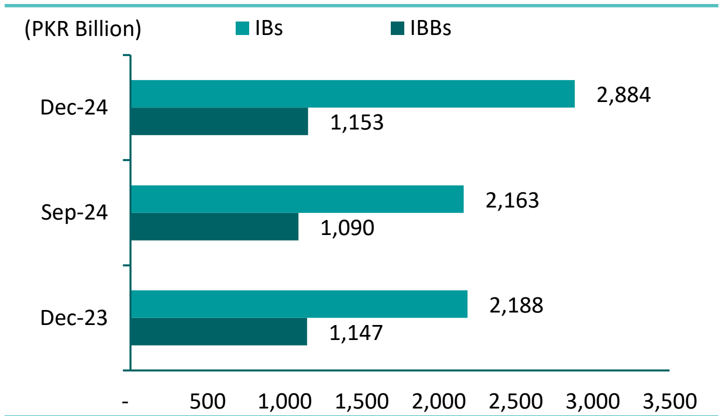
A deeper analysis of the investment distribution reveals that full-fledged IBs led the expansion, increasing their Investments (net) by PKR 155 billion to PKR 3,310 billion. Meanwhile, IBBs also witnessed growth, adding PKR 29 billion to their investment portfolio, bringing the total to PKR 1,677 billion.

In terms of overall contribution, IBs continued to dominate, accounting for 66.4 percent of total Investments (net), while IBBs maintained a strong presence with a 33.6 percent share **(Figure 3)**.

FINANCING & RELATED ASSETS

The financial landscape witnessed a significant surge, with financing and related assets climbing to PKR 4,037 billion by the end of December 2024—an impressive quarterly increase of PKR 785 billion. This growth was largely driven by IBs, which dominated the financing sector with PKR 2,884 billion, while IBBs contributed PKR 1,153 billion **(Figure 4)**.

Figure 4: Breakup of Financing



Source: SBP

An analysis of financing modes reveals that Diminishing Musharakah emerged as the most preferred structure, commanding a 44.8 percent share of the total financing portfolio. Istisna followed with a 15.5 percent share, while Musharaka financing secured a 12.8 percent share. Collectively, all other financing modes accounted for 26.9 percent of the total financing undertaken by (IBIs) **(Table 2)**.

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

Mode	Dec-23	Sep-24	Dec-24
Murabaha	13.1	11.8	13.6
Ijarah	3.8	4.7	5.2
Musharaka	25.3	21.2	12.8
Diminishing Musharakah	32.1	37.8	44.8
Salam	2.1	1.7	2.3
Istisna	10.6	10.8	15.5
Others	13.0	12.0	5.8
Total	**100**	**100**	**100**

A detailed analysis of sector-wise financing reveals that the textile industry remained the dominant recipient, absorbing 19.2 percent of the total financing. Individuals followed with an 9.1 percent share, while the production and transmission of energy sector secured 8.5 percent, highlighting its vital role in the financing mix **(Table 3)**.

Table 3: Sector Wise Financing (Share in %)

Sector	Dec-23	Sep-24	Dec-24	Overall Banking Industry
Chemical and Pharmaceuticals	5.4	6.3	7.6	3.6
Agribusiness	10.7	14.3	6.2	10.6
Textile	16.3	16.6	19.2	15.8
Cement	2.4	2.1	2.5	2.2
Sugar	2.9	3.0	3.3	2.9
Shoes and leather garments	0.4	0.3	0.3	0.2
Automobile and transportation equipment	1.4	1.1	1.3	1.0
Financial	1.6	1.0	2.2	9.2
Electronics and electrical appliances	1.1	1.1	1.4	1.1
Production and transmission of energy	10.4	7.7	8.5	10.6
Individuals	10.5	10.2	9.1	7.6
Others	36.9	36.3	38.4	35.3
Total	**100**	**100**	**100**	**100**

The client-wise financing landscape in December 2024 reflected a dominant corporate sector, which expanded its share to an overwhelming 81.7 percent, reinforcing its central role in the financing ecosystem. Consumer finance emerged as the second-largest category, albeit at a significantly lower 6.8 percent, indicating sustained demand for retail credit. Meanwhile, commodity financing secured a 5.8 percent share. SME and agriculture financing, though still marginal, accounted for 1.8 percent and 1.6 percent, respectively **(Table 4)**.

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

	Dec-23	Sep-24	Dec-24	Overall Banking Industry
Corporate Sector	73.7	69.0	81.7	73.9
SMEs	1.8	2.0	1.8	3.8
Agriculture	1.1	1.2	1.6	3.6
Consumer Finance	8.5	8.4	6.8	5.3
Commodity Financing	12.9	14.0	5.8	8.8
Others	2.0	5.4	2.3	4.6
Total	**100**	**100**	**100**	**100**

ASSET QUALITY

In the quarter under review, the asset quality indicators of IBIs reflected resilience, with Non-Performing Financing (NPF) to Financing (Gross) maintaining a moderate level of 3.5 percent. Net NPFs to Financing (net) remained in the negative territory at -0.30 percent, signaling a strong provisioning buffer. However, IBIs' provisions against NPFs saw a decline, dropping from 120.3 percent in the previous quarter to 108.1 percent by December 2024 **(Table 5)**.

Table-5: Assets Quality Ratio (%)

Ratio	Dec-23	Sep-24	Dec-24	Overall Banking Industry
NPFs to Financing (gross)	3.8	4.1	3.5	6.3
Net NPFs to Financing (net)	0.30	(0.90)	(0.30)	(0.10)
Provisions to NPFs	91.5	120.3	108.1	101.2

LIABILITIES

Deposits of IBIs carried on the previous quarter's momentum with an increase of PKR 309 billion (4.1 percent), pushing total deposits to an impressive PKR 7,905 billion. This expansion further solidifies IBIs' presence in the banking sector, with their market share reaching 24.9 percent.

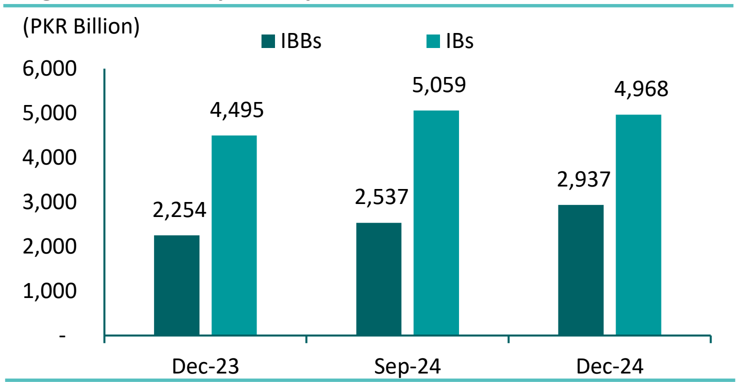
Analysis of deposit composition reveals that current and saving deposits were the key drivers, standing at PKR 3,064 billion and PKR 3,178 billion, respectively. Notably, saving deposits grew by PKR 194 billion (6.5 percent), while current deposits surged by PKR 272 billion (9.7 percent). However, fixed deposits experienced a sharp contraction, declining by PKR 246 billion (-21.4 percent), suggesting a shift in depositor preference towards more liquid instruments **(Table 6)**.

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

Category	Dec-23	Sep-24	Dec-24	Yearly Growth (%)	Quarterly Growth (%)
1. Customers					
Fixed Deposits	1,101	1,148	902	(18.1)	(21.4)
Saving Deposits	2,372	2,984	3,178	34.0	6.5
Current Deposits	2,528	2,792	3,065	21.2	9.8
Others	120	78	75	(37.5)	(3.8)
Sub-total	**6,121**	**7,002**	**7,220**	**18.0**	**3.1**
2. Financial Institutions					
Remunerative Deposits	606	506	471	(22.3)	(6.9)
Non-remunerative Deposits	22	89	214	872.7	140.4
Sub-total	**628**	**595**	**685**	**9.1**	**15.1**
Total (1+2)	**6,749**	**7,597**	**7,905**	**17.1**	**4.1**

IBs saw a decline in deposits by PKR 91 billion, bringing their total to PKR 4,968 billion by December 2024. In contrast, IBBs recorded a significant surge, with deposits increasing by PKR 400 billion to reach PKR 2,937 billion. This spike is mainly due to increase in deposit base of IBBs of two larger conventional banks contributed to increase IBIs deposit by sharp conversion conventional deposit into Islamic. By the end of December 2024, IBs accounted for 62.8 percent of total IBI deposits, while IBBs held a growing 37.2 percent share **(Figure 5)**.

Figure 5: Breakup of Deposits



Source: SBP

LIQUIDITY

The liquidity ratios of IBIs experienced a mixed shift during the review period. Liquid Assets to Total Assets declined to 48.1 percent. Meanwhile, Liquid Assets to Total Deposits inched up to 67.4 percent, reflecting a stable liquidity position.

Table-7: Liquidity Ratios (%)

Ratios	Dec-23	Sep-24	Dec-24	Overall Banking Industry
Liquid Assets to Total Assets	49.1	51.5	48.1	60.9
Liquid Assets to Total Deposits	65.4	67.0	67.4	102.8
Financing to Deposits (net)	49.4	42.8	51.1	49.7
Liquidity Coverage Ratio (LCR)*	248.1	248.4	204.0	206.0
Net Stable Funding Ratio (NSFR)*	170.7	206.6	179.5	161.0

**The ratios represent full-fledged Islamic banks only*

Notably, the Financing to Deposits (net) Ratio climbed to 51.1 percent by the end of December 2024, signaling a more aggressive financing approach by IBIs. Moreover, LCR of Islamic banks declined to 204.0 percent by end of December 2024. Similarly, NSFR also declined to 179.5 percent in quarter end December 2024, which was 206.6 percent in the previous quarter.

CAPITAL

During the review quarter, IBIs experienced a downward trend in capital ratios. The Capital to Total Assets ratio declined to 7.9 percent, signaling a relative expansion in assets outpacing capital growth. Meanwhile, the (Capital - Net NPAs) to Total Assets Ratio dropped to 8.0 percent from its previous level of 8.8 percent, indicating a slight erosion in the capital buffer after accounting for non-performing assets **(Table 8)**.

Table-8: Capital Ratios (%)

Ratios	Dec-23	Sep-24	Dec-24	Overall Banking Industry
Capital to Total Assets	7.3	8.5	7.9	6.1
(Capital - Net NPAs) to Total Assets	7.1	8.8	8.0	6.1

PROFITABILITY

IBIs continued their strong financial performance, with profit before tax reaching an impressive PKR 496.9 billion by the end of December 2024. This profitability translated into robust earnings ratios, as Return on Assets (ROA) stood at 5.1 percent, reflecting efficient asset utilization, while Return on Equity (ROE) surged to an impressive 65.6 percent, earmarking high returns for shareholders.

Table-9: Profitability Ratios (%)

Particulars	Dec-23	Sep-24	Dec-24	Overall Banking Industry
Profit before tax (PKR billion)	393.4	381.0	496.9	1,368.1
ROA before tax	4.9	5.4	5.1	6.5
ROE before tax	75.5	69.7	65.6	105.8
Operating Expense to Gross Income	34.7	34.1	35.1	43.3

Despite this strong performance, cost management remained a crucial factor, with the ‘Operating Expense to Gross Income’ ratio recorded at 35.1 percent. This suggests that while IBIs maintained profitability, managing operational efficiency remains key to sustaining long-term growth and competitiveness **(Table 9)**.

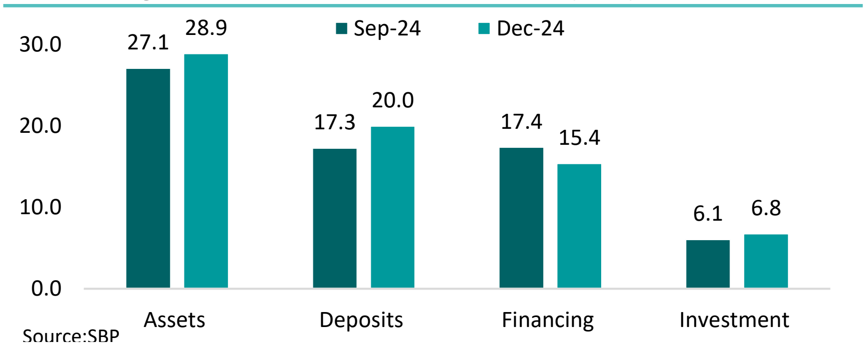
SBP REGULATED ISLAMIC FINANCIAL INSTITUTIONS (OTHER THAN COMMERCIAL BANKS)

At present, two Microfinance Banks, NRSP Microfinance Bank Limited and U Microfinance Bank Limited are offering Islamic Microfinance services and operate a combined total of 117 branches. Additionally, two Development Finance Institutions, Pakistan Kuwait Investment Company Limited (PKIC) and Pakistan Mortgage and Refinance Company Limited (PMRC) are also offering Islamic products and services.

ISLAMIC MICROFINANCE BUSINESS

The Islamic microfinance sector continued its steady expansion, with two key players—NRSP Microfinance Bank Limited and U Microfinance Bank Limited—spearheading the microfinance operations. By the end of December 2024, the Islamic microfinance banking network has grown to 117 branches, reinforcing its outreach to underserved communities.

Figure 6: Islamic Microfinance Banks (IMB) Indicators



Source:SBP

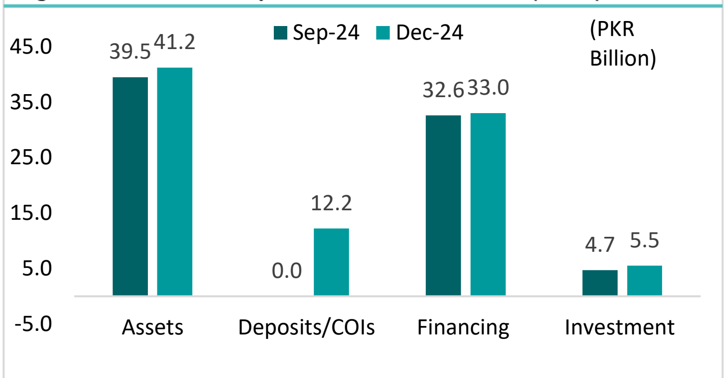
The industry's asset base shown a healthy increase, reaching to PKR 28.9 billion, with a quarterly rise of PKR 1.8 billion (6.6 percent). The YoY Growth in Assets and Deposits stood at 40.3 percent and 65.3 percent respectively. Deposits exhibited even stronger growth, surging by PKR 2.7 billion (15.6 percent) to stand at PKR 20.0 billion. Investments also edged up, increasing from PKR 6.1 billion to PKR 6.8 billion, during the quarter suggesting a cautious yet consistent capital deployment strategy.

However, financing activity experienced a notable contraction, declining by 11.4 percent to PKR 15.4 billion during the quarter. This drop is indicative of shifting market dynamics, evolving risk assessments, and a strategic recalibration in lending approaches within the sector **(Figure 6)**.

DEVELOPMENT FINANCE INSTITUTIONS HAVING ISLAMIC OPERATIONS

Islamic Development Finance in Pakistan is shaped by key institutions such as Pakistan Mortgage Refinance Company Limited (PMRC) and Pakistan Kuwait Investment Company Limited (PKIC), both playing a vital role in the propagation of Shariah-compliant financial solutions. By the end of December 2024, the combined Islamic asset base of these institutions reached PKR 41.2 billion, highlighting their growing footprint in the sector.

Figure 7: Islamic Development Finance Institutions (I-DFIs) Indicators



Source:SBP

Financing activities remained substantial, standing at PKR 33.0 billion, reflecting the institutions' continued commitment to facilitating long-term, development-oriented financing. Their role in supporting housing finance, infrastructure, and investment initiatives is critical to the expanding influence of Islamic finance in Pakistan’s economic development.

COUNTRY MODEL – TURKIYE

Regulatory Landscape

The country's Islamic banking sector falls under the purview of the Banking Regulation and Supervision Agency (BRSA), which employs the Banking Law, and which published regulations for the operations of Islamic banks in 2018. The Capital Markets Board (CMB) meanwhile first introduced Sukuk regulations in 2010. A legal infrastructure on Islamic banking which also outlines the formation of a central Shariah advisory board was jointly completed in 2020 by the regulators and the Participation Banks Association of Türkiye. The Participation Finance Strategy Document is a roadmap launched in 2022 to build a legal, administrative and corporate infrastructure for Islamic finance in the country between 2022 and 2025. In early 2021, two dedicated Islamic finance units were launched: a participation banking division within the Central Bank of the Republic of Türkiye, and a participation finance department within the Finance Office of the Turkish Presidency

Banking and Finance

There are six full-fledged Islamic banks listed with the BRSA, three of which are state-owned. At the end of 2023, Islamic banking assets held a share of 8.7% of the Turkish banking sector (compared with 8.3% in 2022), according to Fitch Ratings which in March 2024 predicted the sector to maintain above sector-average growth by the end of the year. In the Islamic insurance sector, Turk Eximbank last year partnered with the UAE's Etihad Credit Insurance to enhance Halal trade between the two countries, by leveraging Takaful and other Islamic finance solutions.

Sukuk and Capital Markets

The first Sukuk facility issued was in 2010 by Kuveyt Turk Katilim Bankasi, which raised US$100 million in lease certificates. The Turkish government made its sovereign Sukuk debut in 2012, raising US$1.5 billion. It regularly auctions gold-based Sukuk and issues Islamic lease certificates as well. In late 2023, the Ministry of Treasury and Finance issued a five-year Sukuk facility worth US$2.5 billion. The government in 2021 released guidelines for green and sustainable Sukuk and bonds, and offered discounts on fees for capital market instruments. The capital market also witnessed a spate of green and sustainable Islamic issuances from corporate issuers, including alternative energy company Biotrend, recycling company Ekovar and beet growers cooperative Kayseri Seker.

Takaful

There are three full-fledged Islamic asset managers in Türkiye, but conventional asset managers are permitted to offer Islamic products on a window basis with no need to apply for separate Shariah approvals, making it difficult to ascertain the total number of Islamic funds in the country. Popular in the country are Sukuk participation funds and participation pension funds, which are established and managed by portfolio management companies licensed by the CMB, and which together constitute around 20% of the total pension mutual fund sector. There are currently 10 private pension companies offering Islamic pension funds, with two of them exclusively offering Islamic products.

Outlook

With a Muslim population of 99.8%, along with the government's plan for participation banks to hold 15% of the country's total banking sector assets by 2025, Türkiye's participation finance industry has very strong growth prospects. Islamic finance entities abroad have also shown interest in Türkiye. In the past year, some notable deals include Dubai Islamic Bank's investment in the Turkish digital banking and fintech sector, an agreement between banking associations in Türkiye and Uzbekistan to develop Islamic finance in both jurisdictions, Sharjah Islamic Bank's provision of a US$100 million financing facility to the Türkiye Wealth Fund, and funding from the IsDB worth US$6.3 billion over the next two years to support the country's economic development.

Sources of Information

Islamic Finance News - https://www.islamicfinancenews.com/

ADOPTION OF AAOIFI SHARIAH STANDARD NO. (16): COMMERCIAL PAPERS

With a view to further strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, the AAOIFI Shariah Standards No. 16 Commercial Papers has been adopted by SBP, which is discussed below along with the amendments advised by the Shariah Advisory Committee (SAC) of SBP.

1. Scope of the Standard

This standard covers commercial papers to which the Geneva Uniform Convention on the Law of Commercial Papers, confined itself. These are bill of exchange, promissory note and cheque. This standard covers dealings in such commercial papers insofar as they conform to the rules and principles of the Shariʹah. The standard does not cover anything that may possess the attributes of commercial paper other than the three types named above.

2. Definition and Shari'ah Characterisation of Commercial Papers

2/1 Bill of exchange: A written, signed, and unconditional order from a person to another person to pay a certain sum of money at sight or at a particular or determinable date to a third person or to the order of that third person or to the bearer of that order.

2/2 Promissory note: A certificate whereby by the issuer (a debtor) promises to pay a certain amount of money at sight or at a particular or determinable date to another person (a beneficiary/creditor). In Shariʹah characterisation, it is considered a certificate of debt.

2/3 Cheque: A certificate that is issued to a particular person, containing an order issued by a person (the drawer) to another person (the drawee) to pay a certain sum of money to a third person (the beneficiary) at sight. In Shariʹah characterisation, it is considered a restricted Hawalah if the drawer is a debtor to the drawee. Otherwise, it is considered an unrestricted Hawalah with respect to the drawer.

3. Rules for Dealing in Commercial Papers

3/1 It is permissible to undertake transactions in commercial paper of the three types (bill of exchange, promissory note and cheque) on the condition that it does not amount to the contravention of the Shariah, like Riba or delay that is legally prohibited in accordance with the details provided in the following paragraphs.

3/2 It is not permissible to use a bill of exchange or promissory note in transactions that require possession (of the counter-values), like deeming the two types of commercial paper as counter-values in the contract of *Sarf* (currency exchange) or as the counter-value for the capital (*Ras al-Mal*) in the contract of Salam.

3/3 It is permitted to use a cheque in the following types of transactions and situations:

a) A cheque, where the owner has a balance, when drawn by the client against the bank or by the bank against another bank or against itself or against one of its branches.

b) A cheque, where the owner has no balance, when drawn by the client against a bank or is drawn by the bank against another bank or against itself or against one of its branches (the so-called overdraft). From Shariʹah perspective, it is a loan (Qard) which is permissible if it is void of Riba.

c) A crossed cheque that binds the payee bank to fulfil its conditions.

d) An account payee cheque that binds payee bank to fulfil its conditions by crediting the amount of the cheque to the beneficiaryʹs account.

e) Travellersʹ cheques. It is permissible for the institution issuing it to take commission in lieu of intermediation in such issuance or at the time of its payment provided this does not include Riba.

4. Endorsement

All forms of endorsements are binding with respect to their legal effects provided that the endorsements fulfil the legal conditions and regulations determined for them.

5. Collection of the Amount of Commercial Papers

The collection of the amount of commercial papers is considered an agency with the client appointing the institution as an agent to collect the value of the paper on his behalf. The institution is entitled to commission that is agreed upon between the client and the institution. In the absence of an agreement between them, the practice prevalent among institutions is to be acted upon.

6. Discounting of Commercial Papers

6/1 It is not permissible to discount commercial papers, but it is permitted to pay an amount that is less than the value of the paper to the first beneficiary prior to the date of maturity.

6/2 It is not permissible to sell commercial paper that has not become due for an amount similar to its value (*Riba al-Nasi`ah*) nor for an amount that is more than its value (*Riba al-Nasi`ah* plus *Riba al-Fadl*).

6/3 It is permissible to the beneficiary to treat commercial paper that is not yet due as price for ascertained goods or usufruct, but not those that are sold by description as a liability with the condition of actual or legal delivery of goods or usufructuary asset (commodity-based discounting of debts).

6/4 The holder of commercial paper is permitted to purchase goods to be delivered later (on the date of maturity of the paper), and after the debt is established as a liability. The holder of the paper transfers the claim of his creditor to his debtor through this paper. In such a case, the transaction amounts to Hawalah.

7. Date of Issuance of the Standard

This Shariʹah Standard was issued on 7 Rabiʹ I, 1424 A.H., corresponding to 8 May 2003 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 Shariah Advisory Committee, SBP:

Clause No. Clarifications/Amendments
The word “Commercial papers” may be read as “Negotiable Instruments (Commercial Papers)” under the title and throughout the text of AAOIFI Shariah Standard No. 16.
Clause 2/1: The following are added as footnotes to the clause: This clause may be read as follows: “Bill of exchange: A written, signed, and unconditional order from a person to another person to pay a certain sum of money at sight or at a particular or determinable date to a third person or to the order of that third person or to the bearer of that instrument.” Following is added for clarity: “Wherever the terms ‘cheque’, ‘bill of exchange’ and ‘promissory note’ appear in the standard, they will subject to the definition as per Negotiable Instruments Act 1881.”
Clause 2/3: The following is added as a footnote to the clause: This clause may be read as follows: “Cheque: A certificate that is issued to a particular person, containing an order issued by a person (the drawer) to another person (bank-the drawee) to pay a certain sum of money to a third person (the beneficiary) at sight. In Shari’ah characterisation, it is considered a restricted Hawalah if the drawer is a creditor to the drawee. Otherwise, it is considered an unrestricted Hawalah with respect to the drawer.”
Clause 3/1: The following is added as a footnote to the clause: This clause may be read as follows: “It is permissible to undertake transactions in commercial papers of the three types (bill of exchange, promissory note and cheque) on the condition that it does not amount to the contravention of the Shari’ah, like Riba or delay that is prohibited by Shariah in accordance with the details provided in the following paragraphs.”
Clause 3/3: The following is added as a footnote to the clause: This clause may be read as follows: “It is permitted to use a cheque in the following types of transactions and situations: 3/3/1) A cheque, where the owner has a balance, when drawn by the client against the bank or by the bank against another bank or against itself or against one of its branches.

3/3/2) A cheque, where the owner has no balance, when drawn by the client against a bank or is drawn by the bank against another bank or against itself or against one of its branches (the so-called overdraft). From Shari'ah perspective, it is a loan (Qard) which is permissible if it is void of Riba. 3/3/3) A crossed cheque that binds the payee bank to fulfil its conditions. 3/3/4) An account payee cheque that binds payee bank to fulfil its conditions by crediting the amount of the cheque to the beneficiary's account. 3/3/5) Travellers' cheques. It is permissible for the institution issuing it to take commission in lieu of intermediation in such issuance or at the time of its payment provided this does not include Riba."
Clause 5: The following is added as a footnote to the clause: This clause may be read as follows: **"Collection of the Amount of Commercial Papers** The collection of the amount of commercial papers is considered an agency with the beneficiary appointing the institution as an agent to collect the value of the paper on his behalf. The institution is entitled to commission that is agreed upon between the beneficiary and the institution. In the absence of an agreement between them, the practice prevalent among institutions is to be acted upon."
Clause 6/1: The following is added as a footnote to the clause: This clause may be read as follows: "It is not permissible to discount commercial papers, but it is permitted to pay an amount that is less than the value of the paper to the first beneficiary (creditor) prior to the date of maturity."
Clause 8/2: The following is added as a footnote to the clause: This clause may be read as follows: "All parties whose signatures appear on the commercial paper including the drawer, the endorser and the guarantor are jointly responsible to pay to the holder the value of the paper in accordance with rules of liability, thus, the holder is entitled to have recourse to them severally or jointly after the refusal of the drawee (or the issuer in case of a promissory note) to pay."

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

Source:

1. AAOIFI website

2. IFPD Circular No. 01 of 2024

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

Capacity Building Program for Government Officials

To enhance the capacity of government officials, IFG-SBP in collaboration with National Institute of Banking and Finance (NIBAF) Pakistan organized a capacity-building program in Islamabad on 18-19 December 2024. The program was attended by a diverse group of 22 participants, including officials from the Ministry of Finance, Ministry of Law and Justice, Council of Islamic Ideology, Higher Education Commission, and other institutions. The session aimed to sensitize participants on the prohibition of Riba by identifying its different forms and understanding its implications. Additionally, the program provided insights and shed light on Shariah-compliant product structures and how they cater to the needs of the market without violating any principles of Shariah.

Focused Capacity Building Programs for Shariah Scholars

To strengghen the understanding of Islamic banking principles among Shariah scholars, three capacity-building programs were conducted in different cities during the quarter Oct-Dec 2024. These programs aimed to bridge the gap between traditional Islamic scholarship and modern financial practices.

The first program, held in Karachi, brought together scholars from institutions like Majma ul Uloom al-Islamia, Jamia Binoria, and Jamia Al-Madina. Subsequently, a second program in Islamabad gathered a wider range of scholars, including representatives from Wifaq ul Madaris al-Arabiya and other prominent educational bodies. Finally, a third session in Lahore included scholars from a diverse array of institutions, including Tanzeem ul Madaris and Jamia Ashrafia, reflecting the broad spectrum of Islamic scholarship in Pakistan. These initiatives focused on enhancing the scholars' knowledge of contemporary Islamic banking practices and fostering a closer alignment between Shariah principles and the evolving needs of the Islamic finance sector.

Young Islamic Banking Professionals (Y – IBP), (Awareness Activity for Faculty) AAF-IBP and other Awareness Programs

To raise awareness of Islamic finance among university students, IFG-SBP, in collaboration with the Financial Inclusion Support Department (FISD), SBP BSC, launched the Young Islamic Banking Professionals (Y – IBP) Program. These half-day sessions introduced students to the fundamentals of Islamic banking. Each session concluded with a quiz to shortlist participants for complimentary Islamic banking training and internship opportunities with Islamic banking institutions. In addition to the student sessions, the program also included the Awareness Activity for Faculty (AAF-IBP), which was a session conducted for faculty members. During the review period, 32 sessions were conducted across Islamabad, Quetta, Multan, Sialkot, Hyderabad, Dera Ismail Khan, Gujranwala, Faisalabad, Chakwal and other cities, and were attended by 2,150 participants."

Shariah Experts in Islamic Banking Professionals (SE-IBP)

In collaboration with SBP BSC, IFG-SBP conducts the Shariah Experts in Islamic Banking Professionals (SE-IBP) program to promote Islamic banking and finance awareness among Shariah scholars and students associated with Madaris. Each session concludes with a quiz to shortlist participants for complimentary Islamic banking training and internship opportunities with Islamic banking institutions. During Q2 of FY 2024-25, 16 sessions were conducted across the country, attended by more than 1,100 participants. These programs play a pivotal role in equipping students with the knowledge and skills required to pursue careers in Islamic banking and finance.

ISLAMIC BANKING NEWS AND VIEWS

A. Local Industry News

Non-bank financial sectors: SECP approves strategic action plan for Islamic finance development

The SECP has approved a Strategic Action Plan 2024-2026 to facilitate the growth and development of Islamic finance in non-bank financial sectors. This Strategic Action Plan aims to enable Islamic finance across all regulated sectors under the purview of SECP by December 2026. Subsequent to enablement, a conversion plan and strategy will be formulated to facilitate the transition of conventional financial institutions to Islamic financial institutions, ensuring a seamless transition and minimizing disruptions to the financial sector. The plan focuses on four key verticals: (i) Growth Acceleration, increasing Islamic finance's share in regulated sectors; (ii) Achieving Standardization, promoting consistency and harmony in Islamic financial practices; (iii) Improved Quality, enhancing the overall performance and efficiency of Islamic financial institutions; and (iv) Strengthening Legal Framework, providing a robust foundation for Islamic finance to flourish.
https://www.brecorder.com/

Senate passes bill to strengthen framework for Islamic banking

The Senate passed banking companies amendment bill aimed at strengthening legal framework for Islamic banking in the country. Sharing the main features of the bill, the finance minister said it will help strengthen legal framework to provide support for Islamic banking business. He said the regulatory role of the State Bank of Pakistan has also been strengthened to promote financial inclusion. He said the procedure of lodging complaints with Banking Mohtasib has also been simplified. The finance minister said that in 2008 many companies sank due to the global financial crisis, adding that Pakistan is set to bring reforms to overcome such a financial crisis under the bill.
https://www.dawn.com

Conventional to Islamic mode: SBP sets new bank branch conversion criteria

With a view to further facilitate banks in conversion of their branches, the State Bank of Pakistan (SBP) has revised the criteria for conversion of conventional banking branches into Islamic banking branches keeping in view the industry’s needs and issues. According to the SBP, the revised criteria will help to streamline the process for conversion of their conventional branches. Previously, SBP in 2010 issued the criteria for conversion of conventional banking branches into Islamic banking branches. In order to further facilitate and accelerate the conversion of branches, banks may establish a virtual conventional cost center (s) on a temporary basis to park unconvertible deposits and asset portfolio of converted branches with the approval of bank’s Shariah Board.
https://www.brecorder.com/

B. International Industry News

Abu Dhabi Islamic Bank becomes the first UAE bank to safely test fractional Sukuk offering to retail investors

Abu Dhabi Islamic Bank (ADIB), a leading Islamic financial institution, announced today that it has successfully tested the fractional Sukuk technology in a safe environment to make Sukuk investing more accessible to retail customers after receiving the initial approval from the Regulations Lab within the UAE government under the supervision of the Securities and Commodities Authority (SCA). This supports the UAE leading position as a global hub for technological innovation and financial services. Currently, accessing the Sukuk market requires a minimum investment of USD 200,000. However, with fractional sukuks and as per the initial approval given

to ADIB, retail investors will be able to invest as little as USD 1,000, giving them access to the benefits of fixed-income financial products.
https://www.zawya.com/

Hejaz launches Australia's first halal investment app

Islamic financial services provider Hejaz has launched Australia's first halal financial app to offer Australia's growing Muslim community convenient and straightforward access to a broad range of Shariah-compliant financial products and services. The Halal Money App has rapidly gained over 15,000 downloads in the first weeks of its beta launch, and Hejaz expects it to be embraced by Muslims nationwide. Currently, 2 billion Muslims across the globe hold $4.5 trillion in assets yet lack choice when it comes to investing with financial institutions that provide services compliant with Shariah law.
https://ibsintelligence.com/

Saudi's Al Rajhi Bank secures $1.92bln Sharia-compliant credit facility

Al Rajhi Bank, the largest Islamic lender in the world, has raised a $1.92 billion sustainability-linked Islamic syndicated loan, Bloomberg reported, citing sources familiar with the matter. The three-year Sharia-compliant facility attracted nearly 20 investors, including Emirates NBD Bank, HSBC Holdings and Maybank Investment Bank Bhd., the report said. The financing, which is split into a $1.2 billion tranche and a $705 million portion, will be used for general corporate purposes, the report said. The deal is considered to be the largest financing from a Middle Eastern bank so far this year, the news agency said. Bloomberg Intelligence estimates local lenders may need to raise $10 to $15 billion annually in new debt through 2028 to support the country's growing investments.
https://www.zawya.com/

C. Issue Based Articles

Is an interest-free economy possible?

The 26th Amendment took a landmark step in reshaping the process of the country's economic structure. This amendment seeks to withdraw Riba (interest rates) from the economy by January 1, 2028. Clause (f) of Article 38, which emphasizes the "Promotion of social and economic well-being of people," aims toward creating an economy aligned with Islamic principles. Pakistan faces a serious challenge in this regard: to transform from interest-based systems into a completely Sharia-compliant and interest-free economy. Islamic banking has already started integrating into Pakistan's financial structure, but a complete transformation into an interest-free model requires major changes in the country's economic sectors.

However, is an interest-free economy desirable for Pakistan? The benefits that are passed on from an Islamic bank are, indeed, noteworthy. It encourages ethical investments and promotes risk-sharing and investment stability. According to these principles, speculative transactions are avoided, and social responsibility takes center stage so that financial activities complement the overall good of society. In addition, an Islamic model of banking tends to employ a cautious approach in matters of cost-benefit analysis, which serves as an antidote to financial instability. These features make Islamic banking an attractive option, especially for an emerging nation like Pakistan, which experiences economic instability and vulnerability. Hence, from the normative view, an interest-free economy could strengthen the economy, social well-being, and financial stability.
https://tribune.com.pk/

Empowering SMEs via Islamic finance

For a country like Pakistan, small and medium enterprises (SMEs) are crucial to driving economic growth, creating jobs, and fostering innovation. In Pakistan, SMEs contribute significantly to the country's GDP and employment, but their development is often hindered by limited access to financing. In this backdrop, Islamic finance, with its ethical, interest-free, and profit-sharing principles, offers a viable alternative for promoting SME financing. In Pakistan, SMEs form the backbone of our economy. According to a report by the Small and Medium Enterprises Development Authority, over five million SMEs account for approximately 90 per cent of all businesses, contributing nearly 40pc to Pakistan's GDP and generating around 80pc of non-agricultural employment. These businesses operate across various sectors, including manufacturing, services, and agriculture, and are essential for income generation and economic stability, particularly in rural areas.

In Pakistan, several Islamic microfinance institutions are also providing Shariah-compliant micro-credits to small businesses, encouraging entrepreneurship at the grassroots level. Similarly, large-scale Islamic banks are now actively working with several microfinance players to increase their capacity to offer Islamic financing to small business owners. By providing financing options, Islamic finance institutions can help nurture new businesses, particularly those in high-growth sectors like technology and services. Beyond that, Islamic finance can enhance financial stability and economic resilience for the overall system due to its asset-backed transaction nature that contributes directly to the real economy and adds financial stability to the system. Unlike conventional banks, Islamic financial institutions avoid speculative investments, thus reducing the likelihood of financial crises driven by unsound lending practices.
https://www.dawn.com/

Elimination of riba — tangible goal or pipe dream?

The recently passed 26th Amendment to the Constitution has sparked heated debates, especially concerning its potential to curb judicial powers. However, amid the fervour over the changes, there is one provision that has largely flown under the radar: the provision to eliminate Riba (interest) by 2028. While the government has left room for flexibility by not making the elimination of riba legally binding, examining the economic and financial realities is essential to assess whether such a move is feasible. Following the decision of the FSC issued in 2022, the State Bank intensified its efforts to transform the country's banking system to align with Islamic principles. Leading financial institutions, including major banks like HBL, began establishing Islamic branches, with a view toward full conversion to Shariah-compliant operations by 2027.

After the ruling by the FSC in 2022, the government has focused on issuing Sukuk (Islamic financial certificates) as an alternative to conventional interest-bearing debt. This shift has already raised Sukuk-based borrowing to Rs6.5 trillion by 2023, signalling a substantial realignment toward Shariah-compliant financing. In addition, considerable anticipation surrounds the State Bank of Pakistan's efforts to convert its Pakistan Investment Bonds to Sukuk. Once the debt is converted to asset-backed lending by the government and the State Bank, the prospects of a completely riba-free system will increase significantly. However, the achievement of the goal remains an uphill battle that the government needs to fight with all intent and seriousness.
https://www.dawn.com/

ANNEXURE I: ISLAMIC BANKING BRANCH NETWORK

Annexure: I

Islamic Banking Branch Network

(As of Dec 31, 2024)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	177	-
	BankIslami Pakistan Limited	396	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Faysal Bank Limited	853	-
	Meezan Bank Limited	1047	-
	MCB Islamic Bank Limited	300	-
	Sub-Total	**2,983**	
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	159	308
	Askari Bank Limited	194	-
	Bank Al Habib Limited	274	10
	Bank Alfalah Limited	424	-
	Habib Bank Limited	405	580
	Habib Metropolitan Bank Limited	223	190
	National Bank of Pakistan	207	251
	Silk Bank Limited	23	-
	Sindh Bank Limited	14	14
	Soneri Bank Limited	68	15
	Standard Chartered Bank (Pakistan) Limited	2	38
	Bank Makramah Ltd	12	31
	The Bank of Khyber	134	-
	The Bank of Punjab	208	258
	United Bank Limited	496	558
	Zarai Taraqiati Bank Limited	28	0
	Sub-Total	2,871	2253
	Total Full-Fledged Branches and windows	**5,854**	**2,253**
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Allied Bank Limited	1	
	Askari Bank Limited	4	-
	Bank Alfalah Limited	3	
	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	8	-
	Total Sub-Branches	**163**	**-**
	Grand Total Branches/Sub-Branches/Windows	**6,017**	**2,253**

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 Dec 31, 2024)

Type	Name of Bank	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan)	2	4	7	3	17	98	46	177
	BankIslami Pakistan Limited	6	18	19	5	33	196	119	396
	Dubai Islamic Bank Pakistan Limited	7	5	15	3	10	86	84	210
	Faysal Bank Limited	15	28	32	7	68	482	221	853
	Meezan Bank Limited	15	40	42	6	79	568	297	1,047
	MCB Islamic Bank Limited	3	10	16	3	32	158	78	300
	Sub-Total	**48**	**105**	**131**	**27**	**239**	**1,588**	**845**	**2,983**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	3	4	10	1	23	99	19	159
	Askari Bank Limited	3	10	13	4	30	94	40	194
	Bank Al Habib Limited	3	12	12	1	50	116	80	274
	Bank Alfalah Limited	1	9	37	-	42	269	66	424
	Habib Bank Limited	12	12	16	2	59	206	98	405
	Habib Metropolitan Bank	3	12	8	1	38	99	62	223
	National Bank of Pakistan	11	6	7	3	48	98	34	207
	Silk Bank Limited	-	1	3	-	3	9	7	23
	Sindh Bank Limited	1	1		-	2	7	3	14
	Soneri Bank Limited	-	1	5	1	17	32	12	68
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	1	2
	Bank Makramah Ltd	-	0	2	2	1	2	5	12
	The Bank of Khyber	-	5	7	-	105	11	6	134
	The Bank of Punjab	5	11	7	2	23	141	19	208
	United Bank Limited	9	57	15	-	187	136	92	496
	Zarai Taraqiati Bank Limited		-	1	3	14	9	1	28
	Sub-Total	**51**	**141**	**143**	**20**	**642**	**1,329**	**545**	**2,871**
	Total Full-Fledged Branches	**99**	**246**	**274**	**47**	**881**	**2,917**	**1,390**	**5,854**
Sub Branches	Allied Bank Limited	-	-	1	-	-	-	-	1
	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-	-	6	6
	Askari Bank Limited	-	1	-	-	1	2	-	4
	Bank Alfalah Limited			1			0	2	3
	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	-	6	-	-	8
	Total Sub-Branches	**1**	**8**	**11**	**0**	**21**	**49**	**73**	**163**
	Grand Total	**100**	**254**	**285**	**47**	**902**	**2,966**	**1,463**	**6,017**

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

S. No.		District	No. of Branches*
1	Sindh	Badin	9
2		Dadu	12
3		Ghotki	7
4		Hyderabad	85
5		Jacobabad	7
6		Jamshoro	7
7		Karachi City	1153
8		Kashmore	3
9		Khairpur	12
10		Larkana	12
11		Matiari	5
12		Mirpurkhas	23
13		Naushahro Feroze	14
14		Shaheed BenazirAba	23
15		Sanghar	24
16		Shikarpur	5
17		Sukkur	29
18		Shahdadkot	5
19		Tando Allahyar	5
20		Tando Mohammad K	6
21		Thatta	8
22		Umer Kot	9
Sindh Total			**1,463**
23	Punjab	Attock	42
24		Bahawalnagar	50
25		Bahawalpur	78
26		Bhakkar	17
27		Chakwal	32
28		Chiniot	13
29		Dera Ghazi Khan	38
30		Faisalabad	230
31		Gujranwala	147
32		Gujrat	137
33		Hafizabad	16
34		Jhang	27
35		Jhelum	34
36		Kasur	36
37		Khanewal	46
38		Khushab	18
39		Lahore City	792
40		Layyah	20
41		Lodhran	12
42		Mandi Bahauddin	36
43		Mianwali	18
44		Multan	174
45		Muzaffargarh	32
46		Nankana Sahib	20
47		Narowal	18
48		Okara	48
49		Pakpattan	25
50		Rahim Yar Khan	83
51		Rajanpur	16
52		Rawalpindi	278
53		Sahiwal	58
54		Sargodha	80
55		Sheikhupura	52
56		Sialkot	150
57		Toba Tek Singh	45
58		Vehari	48
Punjab Total			**2,966**
59	Azad Kashmir	Bagh	9
60		Bhimber	10
61		Dadyal	4
62		Hattian Bala	1
63		Kotli	13
64		Mirpur	34
65		Muzaffarabad	17
66		Poonch	12
Azad Kashmir Total			**100**
67	Khyber Pakhtunkhwa	Abbottabad	46
68		Bannu	23
69		Batagram	9
70		Buner	22
71		Charsadda	26
72		Chitral	12
73		Dera Ismail Khan	28

S. No.		District	No. of Branches*
74	Khyber Pakhtunkhwa	Hangu	18
75		Haripur	37
76		Karak	14
77		Kohat	31
78		Lakki Marwat	6
79		Lower Dir	50
80		Malakand	32
81		Mansehra	43
82		Mardan	60
83		Nowshera	39
84		Peshawar	180
85		Shangla	13
86		Swabi	30
87		Swat	101
88		Tank	3
89		Torghar	1
90		Upper Dir	27
91		Kohistan	6
92		Bajaur Agency	10
93		Khyber Agency	18
94		Mohmand Agnecy	3
95		Orakzai Agency	3
96		Kurram Agency	7
97		Waziristan	4
KPK Total			**902**
98		Islamabad	285
Islamabad Total			**285**
99	Gilgit-Baltistan	Astore	2
100		Baltistan	1
101		Ghizer	3
102		Ghanche	1
103		Hunza	3
104		Skardu	8
105		Diamir	9
106		Shigar	1
107		Gilgit	19
Gilgit-Baltistan Total			**47**
108	Balochistan	Awaran	1
109		Chaghi	5
110		Duki	1
111		Gawadar	15
112		Chaman	1
113		Jaffarabad	4
114		Kalat	3
115		Kech	3
116		Khuzdar	10
117		Kharan	1
118		Lasbela	8
119		Loralai	12
120		Mastung	3
121		Noshki	4
122		Nasirabad	6
123		Panjgur	5
124		Pishin	9
125		Qilla Abdullah	13
126		Qilla Saifullah	10
127		Quetta	111
128		Sibi	5
129		Sohbatpur	2
130		Turbat	10
131		Zhob	7
132		Ziarat	5
Baluchistan Total			**254**
Grand Total			**6,017**

*including sub-branches