

# **Islamic Banking Bulletin**

**March 2018**

**Islamic Banking Department  
State Bank of Pakistan**

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## Islamic Banking Industry - Progress & Market Share

### Overview

Assets of Islamic banking industry increased by 2.8 percent (Rs. 62 billion) during the quarter January to March, 2018 and stood at Rs. 2,334 billion by end March 31, 2018. Deposits of Islamic banking industry showed a quarterly growth of 1.7 percent (Rs. 31 billion) during the period under review to reach Rs. 1,916 billion. Market share of Islamic banking assets and deposits in the overall banking industry was recorded at 13.5 percent and 14.6 percent, respectively by end March, 2018 (see **Table 1**). Profit (before tax) of Islamic banking industry was registered at Rs. 7 billion by end March, 2018 compared to Rs. 5 billion in the same quarter last year.

Particulars	Industry Progress			YoY Growth (%)	Share in Overall Banking Industry (%)		
	Mar-17	Dec-17	Mar-18	Mar-18	Mar-17	Dec-17	Mar-18
<b>Total Assets</b> (Rupees in billion)	1,885	2,272	2,334	23.8	11.7	12.4	13.5
<b>Deposits</b> (Rupees in billion)	1,564	1,885	1,916	22.5	13.2	14.5	14.6
<b>Number of Islamic banking institutions</b>	21	21	21	-	-	-	-
<b>Number of Islamic banking branches*</b>	2,317	2,581	2,589	11.7	-	-	-

**Source:** Data submitted by banks under quarterly Reporting Chart of Account (RCOA)  
\*Including sub-branches

### Branch Network of Islamic Banking Industry

The network of Islamic banking industry consisted of 21 Islamic banking institutions; 5 full-fledged Islamic banks and 16 conventional banks having standalone Islamic banking branches by end March, 2018. Branch network of Islamic banking industry stood at 2,589 (spread across 111 districts) by end March, 2018. The number of Islamic banking windows operated by conventional banks having standalone Islamic banking branches was recorded at 1,283 (see **Annexure I** for details).

Province/Region	Total Number	Share (%)
Punjab	1,239	47.9
Sindh	750	29.0
Khyber Pakhtunkhwa	298	11.5
Baluchistan	106	4.1
Federal Capital	135	5.2
AJK	40	1.5
Gilgit Baltistan	12	0.5
FATA	9	0.3
<b>Total</b>	<b>2,589</b>	<b>100.0</b>

### Asset and Liability Structure

**Assets:** Assets of Islamic banking industry increased by 2.8 percent (Rs. 62 billion) during the quarter January to March, 2018 and were recorded at Rs. 2,334 billion, compared to Rs. 2,272 billion in the previous quarter. Analysis of assets composition shows that financing (net) recorded growth of 6.4 percent (Rs. 77 billion) during the period under review. Market share of Islamic banking industry's assets in overall banking industry's assets increased by 1.1 percent during the period under review and was recorded at 13.5 percent by end March, 2018 compared to 12.4 percent in the previous quarter. The share

of net financing and investments in total assets (net) of Islamic banking industry stood at 54.9 percent and 22.7 percent, respectively by end March, 2018 (see section below on **Investments** and **Financing** for details).

Bifurcation of assets among full-fledged Islamic banks and Islamic banking branches of conventional banks shows that assets of full-fledged Islamic banks recorded a quarterly growth of 0.5 percent (Rs. 7 billion) during the review quarter to reach Rs. 1,359 billion. On the other hand, assets of Islamic banking branches of conventional banks reflected relatively better quarterly growth of 6.1 percent (Rs. 55 billion) compared to full-fledged Islamic banks and their assets base was recorded at Rs. 975 billion by end March 31, 2018. In terms of share in overall assets of Islamic banking industry, full-fledged Islamic banks and Islamic banking branches of conventional banks accounted for 58.2 percent and 41.8 percent share, respectively by end March, 2018.

### Investments

Investments (net) of Islamic banking recorded a decline of 0.9 percent (Rs. 5 billion) during the period under review and stood at Rs. 529 billion by end March, 2018. The review of last three quarters shows that investments (net) of Islamic banking industry have not shown any significant change and almost remained at same level.

### Financing and Related Assets

Financing and related assets (net) of Islamic banking industry continued its growing trend and registered a quarterly growth of 6.4 percent (Rs. 77 billion) during the review quarter to reach Rs. 1,284 billion by end March, 2018 compared to Rs. 1,207 billion in the previous quarter. Breakup of financing and related assets (net) among full-fledged Islamic banks and Islamic banking branches of conventional banks shows that financing and related assets (net) of full-fledged Islamic banks witnessed a growth of 2.1 percent (Rs. 16 billion) during the review quarter and were recorded at Rs. 778 billion by end March, 2018. On the other hand, financing and related assets (net) of Islamic banking branches of conventional banks showed a quarterly growth of 13.7 percent (Rs. 61 billion) and were recorded at Rs. 506 billion by end March, 2018. Mode wise breakup of financing (gross) shows that the share of Diminishing Musharaka remained higher in overall financing of Islamic banking industry followed by Musharaka and Murabaha (see **Table 3**).

	Mar-17	Dec-17	Mar-18
Murabaha	16.4	13.2	13.1
Ijarah	6.4	6.4	6.4
Musharaka	16.3	22.0	21.2
Diminishing Musharaka	32.3	30.7	32.4
Salam	5.2	2.8	2.5
Istisna	8.9	8.2	7.7
Others	14.5	16.7	16.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

In terms of sector wise financing, production & transmission of energy and textile were major sectors and their combined share in overall financing of Islamic banking industry stood at 30.7 percent by end March, 2018 (see **Table 4**).

<b>Table 4: Financing Concentration (% Share)</b>				
	<b>Mar-17</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Industry</b>
Chemical and Pharmaceuticals	6.1	4.2	4.1	3.1
Agribusiness	5.2	9.3	7.6	8.3
Textile	13.2	13.0	12.2	13.6
Cement	1.6	1.9	2.5	1.7
Sugar	4.7	4.4	4.3	4.3
Shoes and leather garments	0.5	0.4	0.5	0.5
Automobile and transportation equipment	1.2	0.8	1.0	1.5
Financial	0.6	0.8	0.7	2.3
Electronics and electrical appliances	1.2	1.3	1.4	1.4
Production and transmission of energy	15.4	16.4	18.5	15.8
Individuals	11.7	11.0	11.2	8.9
Others	38.6	36.5	36.0	38.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Client wise financing of Islamic banking industry remained concentrated in corporate sector, having a share of 72.3 percent, followed by commodity financing with a share of 13.3 percent by end March, 2018. The share of small and medium enterprises (SMEs) financing and agriculture financing in overall financing of Islamic banking industry remained low (see **Table 5**).

<b>Table 5: Client Wise Financing Portfolio (% Share)</b>				
	<b>Mar-17</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Industry</b>
Corporate Sector	74.8	70.6	72.3	70.2
SMEs	2.9	3.3	2.9	5.8
Agriculture	0.6	0.5	0.3	4.3
Consumer Financing	10.3	9.9	10.1	6.5
Commodity Financing	9.4	13.9	13.3	10.0
Others	2.0	1.8	1.1	3.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Asset Quality

Asset quality indicators of Islamic banking industry including non-performing finances (NPFs) to financing (gross) and net NPFs to net-financing were recorded at 2.8 percent and 0.5 percent respectively by end March, 2018. It is pertinent to mention here that NPFs to financing (gross) ratio of Islamic banking industry has shown improvement over the last few quarters, mainly due to significant rise in financing portfolio of Islamic banking industry (see **Table 6**).

<b>Table 6: Assets Quality Ratios (%)</b>				
	<b>Mar-17</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Industry</b>
NPFs to Financing (gross)	3.9	3.0	2.8	8.3
Net NPFs to Net Financing	0.8	0.5	0.5	1.0
Provision to NPFs	80.5	82.5	82.7	89.2

### Liabilities

Deposits of Islamic banking industry grew by 1.7 percent (Rs. 31 billion) during the period under review and stood at Rs. 1,916 billion by end March, 2018 compared to Rs. 1,885 billion in the previous quarter. Market share of Islamic banking industry's deposits in overall banking industry's deposits was recorded at 14.6 percent by end March, 2018. During the period under review, both saving deposits and current (non-remunerative) deposits showed a quarterly growth of 4.1 percent; while, fixed deposits reflected a decline of 2.4 percent during the period under review. Similarly, financial institutions deposits showed a negative growth of 12.3 percent during the period under review (see **Table 7**). The share of full-fledged

Islamic banks and Islamic banking branches of conventional banks in overall deposits of Islamic banking industry stood at 59.4 percent and 40.6 percent, respectively by end March, 2018.

Table 7: Break up of Deposits					
	Rupees in billion			% Growth	
	Mar-17	Dec-17	Mar-18	YoY	QoQ
<b>Customers</b>					
Fixed Deposits	344	373	364	5.8	(2.4)
Saving Deposits	616	733	763	23.9	4.1
Current accounts – Remunerative	7	9	9	28.6	-
Current accounts - Non-remunerative	507	632	658	29.8	4.1
Others	9	16	15	66.7	(6.3)
<b>Sub-total</b>	<b>1,483</b>	<b>1,763</b>	<b>1,809</b>	<b>22.0</b>	<b>2.6</b>
<b>Financial Institutions</b>					
Remunerative Deposits	79	121	106	34.2	(12.4)
Non-remunerative Deposits	2	1	1	(50.0)	-
<b>Sub-total</b>	<b>81</b>	<b>122</b>	<b>107</b>	<b>32.1</b>	<b>(12.3)</b>
<b>Total</b>	<b>1,564</b>	<b>1,885</b>	<b>1,916</b>	<b>22.5</b>	<b>1.6</b>

## Liquidity

Liquid assets to total assets and liquid assets to total deposits ratios stood at 24.2 percent and 29.5 percent, respectively by end March, 2018. Financing to deposits ratio (net) of Islamic banking industry increased to 66.9 percent by end March, 2018 mainly due to increase in financing portfolio of Islamic banking industry (see **Table 8**).

Table 8: Liquidity Ratios (%)				
	Mar-17	Dec-17	Mar-18	Industry
Liquid Asset to Total Assets	29.3	27.0	24.2	49.7
Liquid Assets to Total Deposits	35.3	32.6	29.5	65.6
Financing to Deposits (net)	59.0	64.0	66.9	51.4

## Capital

Capital base of Islamic banking industry registered a quarterly growth of 3.5 percent and was recorded at Rs. 146 billion by end March, 2018 compared to Rs. 141 billion in the previous quarter.

Table 9: Capital Ratios (%)				
	Mar-17	Dec-17	Mar-18	Industry
Capital to Total Assets	6.7	6.2	6.2	8.0
(Capital-Net NPAs) to Total Assets	6.3	5.8	6.1	7.7

Capital to total assets and capital minus net non-performing assets to total assets ratios of Islamic banking industry stood at 6.2 percent and 6.1 percent, respectively (see **Table 9**).

## Profitability

Profit before tax of Islamic banking industry was recorded at Rs. 7 billion by end March, 2018 compared to Rs. 5 billion in the same quarter last year.

Profitability ratios like return on assets and return on equity (before tax) stood at 1.1 percent and 18.4 percent, respectively by end March, 2018. Operating expense to gross income ratio continued the declining trend; however, this ratio is still higher than that of overall banking industry's average (see **Table 10**).

	<b>Mar-17</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Industry</b>
Profit Before Tax (Rupees in billion)	5	23	7	65
Return on Assets (before tax)	1.1	1.1	1.1	1.4
Return on Equity (before tax)	16.3	17.1	18.4	18.5
Operating Expense to Gross Income	77.1	69.8	67.5	57.7

## **Country Model: Lebanon**

Lebanon's economy follows a laissez-faire model. Most of the economy is dollarized, and the country has no restrictions on the movement of capital across its borders. The Lebanese government's intervention in foreign trade is minimal. The country has been a victim of regional conflicts and a domestic political stalemate, which deeply impacted the republic's financial and economic well-being. While the country has seen brief respite in 2015, its Islamic banking sector is still struggling to find its footing.

### **Islamic Banking & Finance**

A prominent feature of the Lebanese banking system is the strong presence of foreign banks in the country, particularly Arab banks. While figures vary in the range of 60-90 institutions, the complete list of banks provided by the Central Bank of Lebanon (Banque du Liban) names 141 banks (including the now-defunct Bank Al-Madina). Out of the figure, five of them are full-fledged Islamic banks: (i) Iraq's Al-Bilad Islamic Bank for Investment & Finance; (ii) Bahrain's Al Baraka Bank Lebanon; (iii) Arab Finance House; (iv) BLOM Development Bank; and (v) Lebanese Islamic Bank. Lebanese Islamic was the country's first Shariah compliant bank that got established in 2005, following the official gazette of Law No. 575 on 11th February 2004 which allowed the creation of Islamic banks.

The banking sector is still highly liquid and profitable: as at the end of August 2017, the country's commercial banks' total assets stood at US\$213.56 billion compared with US\$197.62 billion a year before. Banking deposits continued to increase at an annual average rate of 4.5% and reached US\$192 billion by mid-2017. However, the country's Islamic banking industry is still below 0.2 % (US\$ 300 million) of the total deposits of the overall banking sector in 2017.

### **Regulatory Environment**

Overall banking activities are also subject to both the Code of Commerce (1942) and the Code of Money and Credit (1963). However, Shariah banking regulations were effective through official gazette of Law No. 575 since 2004. Regulations dictate that half of Islamic banks' assets are to be invested in Lebanon, and a three-member Shariah consultative body is required to approve and monitor Shariah compliance. However, after 14 years, the industry is still struggling to grow due to, among others, the legal status regarding foreign ownership and value-added tax rules.

Industry participants have long called for more comprehensive and enabling Islamic finance regulations including the removal of double taxation and stamp duty and the implementation of laws that are conducive for equity-type financing as current regulations are restrictive and do not accommodate a variety of transactions. However, Islamic banking products can only be offered through stand-alone entities as window operations are not allowed.

### **Takaful**

Lebanon's Takaful sector dates back to 2001 when Al Aman Takaful Insurance (previously known as Main Insurance Company) was established. Part of Al Baraka Group, it is the country's only full-fledged Takaful player. The insurance market is dominated by conventional insurance providers. However, there are several Lebanese insurance companies involved in the Islamic insurance business abroad including:



Libano-Suisse (through Libano-Suisse Takaful Egypt) and Lebanese Delta Insurance Holding Company, which acquired Solidarity Family Takaful's unit in Egypt in 2012.

### **Conclusion**

The outlook for Islamic banking is optimistic and Islamic banks operating in Lebanon will likely take the lead in financing service sectors and investment projects. Government support for Islamic banking is vital and will give more assurance to potential investors in this important emerging sector. Developing Shariah-compliant asset and wealth management services is considered as one among potential areas of overall industry's growth of the country.

### **Sources of Information**

- Central Bank of Lebanon website <http://www.bdl.gov.lb/>
- [www.islamicfinancenews.com](http://www.islamicfinancenews.com)
- <http://www.bccl.gov.lb/>
- <https://www.globalbankingandfinance.com/>
- <https://www.albawaba.com/business/lebanon-islamic-finance-545264>

## **IFSB-9: Guiding Principles on Conduct of Business for Institutions offering Islamic Financial Services**

### **Introduction**

The sound functioning of a financial system depends, inter alia, on the users of the system having confidence in the quality of the conduct of business by the participants offering financial products and services, and that there are adequate systems of control over the conduct of business. A framework of the principles and rules that govern effectively the conduct of business of Islamic financial services industry (IFSI) participants, whether mandatory or voluntary, can play a significant role in supporting the growth of the IFSI. Such a framework would not only promote a climate of confidence and a supportive environment that upholds transparency and fair dealing comparable to the conventional frameworks, but would also strengthen the relevant moral, social and religious dimensions in conducting business.

In consideration of the above, and in line with its mandate to promote the soundness and stability of the Islamic financial system, the Council of the Islamic Financial Services Board (IFSB) at its ninth meeting held on 29 November 2006 in Jeddah, Kingdom of Saudi Arabia, supported the formation of a Conduct of Business Working Group (CBWG). This was intended to complement existing and future IFSB standards and guidelines in the IFSI. To this end, this standard sets out a framework intended to complement and “add value” to other existing internationally recognized frameworks that set out sound principles and best practices pertaining to the conduct of business by participants and institutions in the conventional banking, insurance and capital market industry segments, by addressing the specificities of the IFSI.

### **The Scope of Application**

The Guiding Principles on Conduct of Business for Institutions offering Islamic Financial Services (“Guiding Principles”) are applicable to all institutions offering Islamic financial services (IIFS) in the banking, Takaful (Islamic insurance) or capital market segments, including “windows” of conventional firms. In accordance with the objectives of the IFSB, the Guiding Principles will not “reinvent the wheel” but will instead, wherever appropriate, reinforce the existing internationally recognized frameworks or standards for the conduct of business. Hence, institutions that fall within the scope of these Guiding Principles will be expected to operate not merely on a level playing field with their conventional counterparts, but in a manner that is consistent with business ethics reflecting Shariah principles. However, in order to remove/minimize any competitive disadvantage, due consideration shall be given to their specificities.

In addition to the various existing internationally recognised conduct of business frameworks as issued by other international organisations, as well as other standards issued by IFSB, it is acknowledged that many regulators may have established their own conduct of business regulations that are mandatorily imposed on entities licensed by them. Accordingly, these Guiding Principles seek to complement and strengthen those codes of business conduct that are already in place as part of the general regulation of financial services firms, by highlighting appropriate perspectives on certain conduct of business issues specific to Islamic finance.

IFSB takes the view that addressing the Guiding Principles through high-level principles on the conduct of business will allow the IIFS to develop the necessary structures for compliance and adapt them to local

circumstances. These Guiding Principles are also intended to provide guidance to supervisory authorities in their supervision of IIFS. The IFSB considers that since supervisory authorities have varying degrees of responsibility for regulating conduct of business in their respective countries, the Guiding Principles will provide sufficient room for supervisors to tailor the rules in a variety of ways – for example, by laws, regulations, internal rules within a company or institution, and unwritten principles and customs.

### **Understanding the Application of the Guiding Principles**

Principles of Business Conduct are defined as those principles that are intended to govern the activities of financial services firms with regard to (a) the protection of the interests of their customers, and (b) the integrity of the market. For IIFS, a code of ethical business conduct derives from principles of the Shariah as set out in the Holy Qur'an and the Sunnah of the prophet. Not only is it socially desirable for IIFS to observe principles of good business conduct, as their failure to do so may have unacceptable consequences, but it is also a Shariah obligation and in some cases a requirement in order for a contract to be valid or enforceable. It is worth noting that principles of ethical business conduct were enunciated in the Holy Qur'an and the Sunnah of the prophet many centuries ago, whereas the need for a code of business conduct in the conventional business context has generally been recognised only in recent decades. For all management and staff of IIFS, irrespective of their religious beliefs, observance of principles of good business conduct is certainly a crucial matter of professional ethics. This may be particularly relevant in the case of Islamic “windows”.

The implementation of a code of business conduct would benefit more from a principles-based approach, rather than a purely rules-based approach, which tends to result in a “box-ticking” attitude towards compliance. This is not to say that in such an approach rules are unimportant, but that their spirit is more important than the letter of the rules. A principles-based approach encourages voluntary efforts by IIFS to develop their own systems and internal controls for governance, risk management and regulatory compliance, and leaves room for IIFS to choose the structures and processes that best suit their business models without compromising on the objectives set out by these principles. This approach would also provide IIFS with a fluid range of options when there is a gap in the existing rules for newly introduced products, services and/or sales methods. Moreover, a principles-based approach is far more conducive to self-regulation, as discussed below. To this extent, the framework for good conduct of business would be considered and applied in conjunction with the framework for good corporate governance.

IIFS are expected to undertake continuous adoption of best practices as these evolve, including alternative practices, provided that they satisfy, in substance, the objectives set out by these Guiding Principles and are appropriately explained through relevant disclosures. IIFS will also be expected to make their best efforts, over time, to adopt and apply international best practices in order to promote standards of business conduct in the IFSI, which are at least equal to the highest standards prevailing among financial services firms.

The International Conduct of Business Principles were developed by the IOSCO with the key objective of focusing the conduct of financial intermediaries (brokers, banks, portfolio managers, financial analysts and investment advisers) and other market participants.

**Box 1: Advantages of Self-Regulation**

The IFSB shares the opinion of the Organisation for Economic Co-operation and Development (OECD) that there are two underlying reasons why institutions can be expected to comply with voluntary codes. First, companies that take voluntary action to redress a policy concern may stave off a more onerous regulation from the supervisory authority. In many developed jurisdictions, regulatory and supervisory authorities rely to a substantial extent on self-regulation by private-sector bodies such as industry and professional associations. A supervisory authority that can deploy a credible threat of possible future regulation may persuade an industry to deal with the issue itself by self-regulation, rather than taking the step of introducing mandatory regulation. Second, IIFS may enhance their reputation – and hence increase market penetration – by participating in self-regulatory associations. For the industry as a whole, arrangements that are undertaken and implemented by IIFS on a voluntary basis offer the advantages of speed, consensus and flexibility, as opposed to formal rule-making, which can be onerous, lengthy and adversarial. A self-regulatory approach can lower the costs of compliance, while providing incentives to comply that are more effective than the use of sanctions in a mandatory approach.

Any supervisory authority that wishes to monitor compliance with these principles may still supervise the IIFS based on (i) their business model, or (ii) the nature of the activity taken, although a combination of both would be desirable. In certain countries, breaches of rules of business conduct are not subject to sanctions in the strict sense of the word. They result simply in recommendations by the authorities to the parties concerned.

The focus is to protect customer<sup>1</sup> interests and enhance market integrity. However, for IIFS, the requirements for ethical business conduct have their basis in the Shariah, and these Guiding Principles can be shown to follow from the Shariah principles. It is a requirement that IIFS must uphold their integrity by complying with Shariah rules and principles at all times. With regard to Shariah governance issues, for pragmatic reasons and to avoid unnecessary duplication, IIFS are expected to refer to and adapt the recommendations from the IFSB Shariah governance standard. Following are the premises of these standards:

- They are intended to complement the other IFSB standards.
- They should take their place within the mainstream international conduct of business framework, and IIFS must demonstrate adherence to principles of business conduct that meet the highest expectations of the international financial community.

These principles have been adopted as one source for the seven Guiding Principles set out below:

**Principle 1: Truthfulness, Honesty and Fairness**

An IIFS shall aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and must treat its customers fairly.

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<sup>1</sup> The term “customers” should be understood as referring also to investors and policyholders. The term “clients” is used to refer to customers, Takaful participants (policyholders) and investors. The term “stakeholders” has a wider meaning that includes not only clients but also other parties that are stakeholders as defined in the IFSB Guiding Principles on Corporate Governance for Institutions offering Islamic Financial Services, such as employees and supervisory authorities.

**Principle 2: Due Care and Diligence**

An IIFS shall exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Shariah compliance, and to the thoroughness of research and risk management.

**Principle 3: Capabilities**

An IIFS shall ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to comply with these principles and other IFSB standards.

**Principle 4: Information about Clients**

An IIFS shall take steps to ensure that it understands the nature and circumstances of its clients, so that it offers those products most suitable for their needs, as well as offering financing only for Shariah-compliant projects.

**Principle 5: Information to Clients**

An IIFS shall provide clear and truthful information both in any public document issued and to its actual and prospective clients, both during the sales process and in subsequent communications and reports.

**Principle 6: Conflicts of Interest and of Duty**

An IIFS shall recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid them, or disclose and manage them, bearing in mind its fiduciary duties to investment account holders as well as shareholders.

**Principle 7: Shariah Compliance**

An IIFS must be able to demonstrate that its operations are governed by an effective system of Shariah governance and that it conducts its business in a socially responsible manner.

**Source:**

IIFS website <http://www.ifs.org/>

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

### Events

- **Awareness-cum-Capacity Building Program on Islamic Banking & Finance for Shariah Scholars**

Islamic Banking Department (IBD), SBP, in collaboration with Dar-ul-Iqtisad-il-Islami arranged six iterations of 3-days awareness-cum-capacity building programs at various centers of the country. In this regard, the second and third programs of the series were arranged during January 13-15, 2018 and March 19-21, 2018 at Jamia Rizvia Zia-ul-Uloom, Rawalpindi and Dar-ul-Uloom Naeemia, Karachi respectively. The program at Rawalpindi was facilitated by Mufti Syed Sabir Hussain, while the program at Karachi was facilitated by (i) Mufti Waseem Ahmed Madani, (ii) Mufti Muhammad Imran Shami, (iii) Mufti Syed Zahid Siraj, (iv) Mufti Abdul Rehman and (v) Mufti Syed Sabir Hussain. The program at Rawalpindi was attended by 38 Shariah scholars, while the number of participants in program at Karachi was 49.

- **Facilitating the Implementation of the IFSB Standards (FIS) Workshop**

IBD collaborated with Islamic Financial Services Board (IFSB) in holding a 4-days program titled “Facilitating the Implementation of the IFSB Standards (FIS) Workshop” during January 15-18, 2018 at PC Hotel, Karachi. In this regard, a 4-member IFSB delegation led by Assistant Secretary General, visited Karachi and conducted sessions on relevant IFSB Standards/Guidance Note/Technical Note on capital adequacy, liquidity risk management, Shariah compliant Lender of Last Resort (LOLR) facility, Shariah compliant Deposit Insurance Schemes (DIS) and stress testing for institutions offering Islamic financial services. The workshop was attended by 52 participants from SBP, SECP and Islamic banking institutions while extra participation from industry was also observed during selective sessions. Arranging such programs in collaboration with international institutions is in line with IBD’s objective of improving and enhancing capacity of both the regulators and the industry in Islamic finance.

- **Islamic Banking and Finance Conference**

IBD, in collaboration with SBP-BSC Lahore, held an ‘Islamic Banking and Finance Conference’ on February 16, 2018 at PC Hotel, Lahore. The conference, aimed at creating awareness about Islamic finance through debate in a stimulating environment. Syed Samar Hasnain, Executive Director, DFG, SBP was Chief Guest on the occasion, while Mr. Qasim Nawaz, Managing Director – SBP-BSC also attended the concluding session of the conference. The conference was attended by around 230 participants from Islamic banking institutions, Takaful companies and SBP-BSC, Lahore, along with Shariah scholars, auditors, Government officials and academia.

- **SBP – CIIT Capacity Building Workshop for Shariah Scholars, Bankers and Academia**

IBD, in collaboration with Centre of Islamic Finance (CIF)- COMSATS Institute of Information Technology (CIIT) agreed to arrange six capacity building workshops on Islamic banking & finance in various cities. In this regard, the last workshop was arranged during February 22-23, 2018 at Vehari. The program was attended by 81 participants which included local Shariah scholars, staff of Islamic banking institutions and academicians from CIIT. All the six programs received an overwhelming response as in

total, 558 participants attended these programs held at Abbottabad, Attock, Wah Cantt, Islamabad, Sahiwal and Vehari. It is expected that this series of programs will serve well in enhancing awareness of Islamic finance amongst practitioners, Shariah community and academia.

- **Training Programs on “Fundamentals of Islamic Banking Operations” (FIBO)**

IBD, in collaboration with NIBAF, arranged four training programs titled ‘Fundamentals of Islamic Banking Operations (FIBO)’. The training programs had a focus on enhancing skills and knowledge base of field staff of Islamic banking institutions, particularly Branch Managers, Operation Managers and Relationship Managers. The first two programs were organized during March 5-9, 2018 and March 12-16, 2018 at Bahawalpur and Sukkur respectively, while the last two programs were held at Muzaffarabad and Karachi during March 26-30, 2018. The training programs were also attended by Shariah scholars and academia of the respective regions, along with SBP/SBP-BSC officials.

## Islamic Banking News and Views

### A. Local Industry News

#### **SBP declared Best Central Bank for promoting Islamic finance**

The State Bank of Pakistan (SBP) has been voted as the Best Central Bank in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia. SBP has also won this award in 2015. It is also important mentioning that in 2016, Pakistan was awarded Global Islamic Finance Award (Advocacy Award) by Edbiz Consulting Limited, UK. This recognizes the dedication and commitment of SBP over the years for laying sound foundations for sustainable growth of Islamic finance industry in the country.

<https://dailytimes.com.pk/178489/sbp-declared-best-central-bank-promoting-islamic-finance/>

#### **SBP allows Islamic banks to offer long-term financing facility**

In order to provide Shariah compliant alternative of conventional Long Term Financing Facility (LTFF) to meet long awaited demand of exporters, State Bank of Pakistan has issued Islamic Long Term Financing Facility (ILTFF) on the basis of Mudarabah. The facility will be available for plants and machinery to improve the exporters' market share in the banking sector and give Shariah compliant alternatives to prospective customers.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

#### **Hascol Petroleum's ICP: Pakistan's foray into short term papers**

Just two months after its sovereign Sukuk success, Pakistan again made its name in the Islamic debt capital market landscape with the nation's first-ever Islamic commercial paper (ICP). The issuance, floated by Hascol Petroleum, was for an amount of Rs 1.5 billion (US\$13.53 million), including a green shoe option of Rs 500 million (US\$4.51 million). The ICP was structured along the principles of Bai Salam and Wakalah due to the nature of the issuer's operations. The proceeds from the privately placed paper will be used to cater to Hascol Petroleum's working capital requirement. The program has a tenor of one year, covering two tranches of six months each with a short-term rating of 'A-1' based on Hascol's entity rating of 'AA-' by JCR-VIS.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

#### **Meezan Bank to launch MBA in SME banking**

Meezan Bank and the Institute of Business Administration-University of the Punjab have recently signed an MoU to launch MBA in SME banking and entrepreneurship. According to a press release, the agreement aims to address the challenge of availability of qualified and trained human capital in these fields and also to bridge the gap among banks, academia and entrepreneurs.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

#### **SECP adopts AAOIFI standards**

The Securities and Exchange Commission of Pakistan (SECP) has adopted three AAOIFI Shariah standards: the Shariah Standard No. 17 on investment Sukuk, Shariah Standard No. 18 on possession (Qabd) and Shariah Standard No. 23 on agency and the act of un-commissioned agent (Fodooli), according to a media statement. The regulator previously adopted seven other AAOIFI standards.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)



### **Dubai Islamic Bank to begin branchless banking by June**

Dubai Islamic Bank Pakistan (DIBP), the wholly owned subsidiary of UAE-based first Shariah-compliant financial institution across the world, announced that it would kick-start branchless banking by June 2018. M-wallet services would help the bank accelerate its growth momentum and achieve the State Bank of Pakistan's target of increasing the market share of Islamic banks to 20% by 2020 from the current 14% in the country. Nine conventional banks and financial institutions are already offering branchless banking services in Pakistan in collaboration with mobile phone services firms and technology companies.

<https://tribune.com.pk/story/1629913/2-dubai-islamic-bank-begin-branchless-banking-june/>

### **Meezan Bank named 'Best Islamic Retail Bank' in the World by IFN, Malaysia**

Meezan Bank has been awarded the global winner of 'Best Islamic Retail Bank' for 2017 by Islamic Finance News of REDmoney Group, Malaysia. This is the second time that the Bank has received this recognition at the global level. The Bank has also been honoured with the coveted accolade of 'Best Islamic Bank in Pakistan', an award that has been conferred upon the bank for the 12<sup>th</sup> time owing to its strength in providing a wide range of Shariah-compliant banking solutions to both retail and corporate customers.

<https://dailytimes.com.pk/179102/meezan-bank-named-best-islamic-retail-bank-world-ifn-malaysia/>

## **B. International Industry News**

### **Malaysia: new exposure draft on Shariah governance framework**

The Malaysian regulator, Bank Negara Malaysia (BNM), recently issued a new exposure draft on the Shariah governance framework for Islamic financial institutions. The draft is intended to replace the current framework introduced in 2011, and the industry has one month to provide feedback to BNM. The new policy aims to reinforce a closer integration of Shariah considerations in the business and risk strategies of Islamic financial institutions.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Aceh to ban conventional banking**

The government of Indonesian province Aceh is preparing an Islamic bylaw to serve as the legal basis to ban conventional banking in the province, allowing only Shariah compliant financial institutions to operate. According to the Jakarta Post, the Indonesian financial services authority, Otoritas Jasa Keuangan, has been informed of the government's plan to close all conventional banks in the province.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **The IFSB issues working paper and banking data**

The IFSB has issued a working paper on recovery, resolution and insolvency issues for institutions offering Islamic financial services, according to an announcement. The paper, dubbed WP-07, is the third and final paper in the IFSB's working paper series on financial safety nets. The paper aims to analyze key recovery, resolution and bankruptcy principles in the context of Islamic finance industry practices and Shariah requirements, as well as examines the possibilities of adopting self-insured structures and mechanisms to help safeguard the institutions, among others.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Saudi issues Sukuk**

The Saudi finance ministry has re-opened the issuance of its October riyal Sukuk program for the second time, raising SAR4.76 billion (US\$1.27 billion), according to an announcement. The issue, receiving SAR10.33 billion (US\$2.75 billion) in subscriptions, was sold in three tranches: SAR2.4 billion

(US\$639.08 million) maturing in 2022, the second tranche at SAR1.8 billion (US\$479.31 million) maturing in 2024 and the third tranche at SAR475 million (US\$126.49 million) maturing in 2027. The latest re-sale closes the October program which raised a total of SAR21.46 billion (US\$5.71 billion).

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Shariah compliant investments blooming in Brazil**

Brazil, one of the most traditional business partners in the Islamic market, a leading Halal meat exporter with over two million tonnes per year and figuring as one of the most important Halal poultry exporters, has been targeted by several direct and indirect investments carried out by Shariah compliant funds. Specifically in Brazil, there is growing availability of Shariah compliant financial products offered by major Brazilian banks, with direct investment in traditional economic sectors such as agribusiness and cattle-fattening, real estate and also including modern investment products such as renewable energy and tailor-made Shariah compliant assets.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **IDB launches digital platform**

The Islamic Development Bank (IDB) has launched a digital platform with the aim of stimulating economic and social progress in developing countries by supporting innovation, science and technology that are pivotal for growth and the achievement of the UN Sustainable Development Goals, Called 'Engage', the digital platform is a link between projects and investors and is currently available in English, French and Arabic.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Algeria to set up Shariah board**

A religious body comprising experts in economy, financial transactions and Fiqh-Islamic jurisprudence will soon be set up to accompany banks in their practice of Islamic finance and guarantee that the transactions are Shariah compliant, Algerie Presse Service reported quoting Bouabdallah Ghlamallah, the chairman of the High Islamic Council.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **World Gold Council to support Islamic banks with standardized product documentation and research**

The World Gold Council (WGC) is working with the International Islamic Financial Market on a standardized product documentation to facilitate Islamic banks to transact and trade in gold, one of several initiatives the WGC is undertaking to boost the utilization of gold in the Islamic investment space.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Tunisia to allow Islamic banking windows as Shariah finance wave sweeps Maghreb**

The Central Bank of Tunisia is considering allowing conventional banks to offer Islamic products on a window basis, a decision by another Maghreb country toward unlocking Islamic finance capabilities in a bid to support the development of its economy. No further details were shared on the timeline and the kind of Islamic products the 20 conventional banks operating in Tunisia would be allowed to offer alongside their three full-fledged Islamic banking counterparts currently operating in the country, namely Zitouna Bank, Al Baraka Bank and Wifak Bank, a conventional leasing company that achieved its conversion in April last year.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Ugandan regulators open up to Islamic finance**

The Ugandan government has approved regulations regarding the provision of Islamic finance, while the country's central bank is expected to publish the rules in the coming months to improve financial inclusion. Once published, the central bank will be looking for application from financial institutions wanting to offer Shariah-compliant financial services. Uganda is the latest among a collection of African countries looking to offer interest-free banking products for their Muslim populations. In December, 2017 the central bank became a member of the Islamic Financial Services Board.

<https://ibsintelligence.com/ibs-journal/ibs-news/ugandan-regulators-open-islamic-finance/>

## **C. Articles & Views**

### **Sukuk market looks set to soar in 2018**

The global Sukuk market will continue to rebound from a sharp drop in volumes in 2015, supported by a range of factors, including rising sovereign issuance, product innovation, increasing demand from retail banks and a narrowing of spreads over conventional bonds. A new report from Moody's estimates next year sovereign issuance could reach around US\$148 billion, supported by high borrowing needs from GCC sovereigns, which drove market growth in 2017.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Standards and standardization: greater harmonization as Islamic finance expands**

AAOIFI, the IFSB and the International Islamic Financial Market (IIFM) are the most prominent international standard-setting bodies. While AAOIFI issues standards on a wide range of topics such as banking, insurance, investment banking and capital markets, to name a few, the IFSB and the IIFM focus on certain areas such as systems and procedures for the IFSB and capital/money markets, corporate finance and trade finance for the IIFM. With the industry expanding in Africa, Asia and Latin America, moving toward greater standardization is more than ever a top priority for many market players and regulators.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **The role of credit ratings in Islamic finance**

Increased attention from policymakers in key international financial centers and greater product standardization are playing a central role in driving Islamic finance's growing prominence. In the wake of a globally robust growth in the Islamic finance sector, rating agencies specializing in Islamic financial products and Shariah compliance of financial instruments are seeing fast-rising demand for their services.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Liquidity management in Islamic financial institutions**

The scarcity of liquidity management tools for Islamic banks is a recurrent theme for policymakers and regulators in many jurisdictions that are trying to promote Islamic banking. Given the inherent limitations on Islamic banks, coupled with the fact that Islamic banking is still in its early stages of development, most national banking systems have yet to create the mechanisms to enable Islamic banks to best manage short-term liquidity.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Shariah rulings on cryptocurrencies**

The concept of cryptographic currency is not new. Efforts to launch digital currencies began in the 1980s, with cryptocurrencies following closely behind in the 1990s. About eight years ago, a pseudonymous cryptographer known as Satoshi Nakamoto introduced bitcoin as a digital analog to gold: limited in

supply, but secured by modern cryptography, and made for the internet age. Bitcoin and alternative cryptocurrencies are starting to see widespread adoption.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **The need for a robust Shariah compliant corporate insolvency regime**

The recent global financial crisis and failures in individual Islamic financing projects such as the near default of the Nakheel Sukuk in 2009, the failure of Arcapita in 2012 and the 2017 default of the Dana Gas Sukuk have highlighted the need for robust and sophisticated guidelines on corporate insolvency for Islamic financial institutions. Although laws pertaining to defaults and insolvency do exist in Islamic law, they relate only to individual insolvency and not corporate insolvency. As such, the need for a robust and effective framework on corporate insolvency for Islamic financial institutions is still needed.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Financial safety nets**

The issue of financial safety nets, in the form of lender of last resort (LOLR) and deposit insurance system, is a significant one for Islamic banks. The need to develop such financial safety nets in many jurisdictions seems to have gained impetus post the global financial crisis. The significance of financial safety nets stems from the fact that Islamic banks would sometime have an urgent need to meet liquidity requirements, if they are solvent.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Innovations in Islamic banking and finance**

The next phase of growth in Islamic banking will be driven not just with the offerings that are compliant of Shariah and its positioning vis-à-vis conventional banking but will have to be on the basis of differentiation, driven by innovation. There has been a remarkable 11% growth in global Islamic banking assets over the last 5 years, compared with 7% growth for conventional banking assets. This is not to be brushed aside as a one-off phenomenon, for the simple reason that this growth is not just limited to the Middle East or Malaysia, but has been increasingly prominent in Africa, Central Asia and also the Far East.

<https://pakobserver.net/innovations-islamic-banking-finance/>

### **Islamic pensions- the final frontier**

The global pensions market is valued at over US\$40 trillion but there is no visibility as to how many pension funds are structured on a Shariah compliant basis. It can be assumed that the figure is quite small, and only Malaysia and Kuwait have any representation in the world's top 300 pension funds.

[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

### **Unlocking demand for takaful**

The lack of a proper understanding of takaful affects the buying decision of the target market. Investments in consumer education can help to create the much needed awareness that will encourage the use of takaful to strengthen risk management. Creating a better understanding of insurance will require several steps: identifying the priority needs of clients; identifying need gaps to create appropriate products; and raising awareness of insurance and its ability to adequately reduce the impact of an unforeseen event.

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## Annexure: I

***Islamic Banking Branch Network***

(As of March 31, 2018)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	180	-
	BankIslami Pakistan Limited	218	-
	Dubai Islamic Bank Pakistan Limited	200	-
	Meezan Bank Limited	601	-
	MCB Islamic Bank Limited	76	-
	<b>Sub-Total</b>	<b>1,275</b>	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	-
	Askari Bank Limited	91	-
	Bank Al Habib Limited	53	126
	Bank Alfalah Limited	152	121
	Faysal Bank Limited	199	-
	Habib Bank Limited	45	495
	Habib Metropolitan Bank Limited	29	214
	National Bank of Pakistan	170	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	18	-
	Standard Chartered Bank (Pakistan) Limited	9	84
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	68	-
	United Bank Limited	93	156
	<b>Sub-Total</b>	<b>1186</b>	<b>1,283</b>
	<b>Total Branches</b>	<b>2,461</b>	<b>-</b>
Sub Branches	AlBaraka Bank (Pakistan) Limited	8	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	112	-
	The Bank of Punjab	2	-
	Habib Bank Limited	2	-
	United Bank Limited	1	-
	<b>Total Sub-Branches</b>	<b>128</b>	<b>-</b>
	<b>Grand Total Branches/Sub-Branches</b>	<b>2,589</b>	<b>1,283</b>
<i>Source: Information/Data obtained from different banks</i>			

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

(As of March 31, 2018)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	6	-	7	1	16	100	47	180
	BankIslami Pakistan Limited	3	12	-	9	2	19	95	78	218
	Dubai Islamic Bank Pakistan Limited	7	5	-	11	-	8	85	84	200
	Meezan Bank Limited	6	23	-	31	2	36	306	197	601
	MCB Islamic Bank Limited	-	9	1	3	-	9	31	23	76
	<b>Islamic Banks</b>	<b>19</b>	<b>55</b>	<b>1</b>	<b>61</b>	<b>5</b>	<b>88</b>	<b>617</b>	<b>429</b>	<b>1,275</b>
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	2	4	-	6	1	12	69	23	117
	Askari Bank Limited	-	3	-	8	1	13	46	20	91
	Bank Al Habib Limited	-	4	-	2	-	3	17	27	53
	Bank Alfalah Limited	1	5	-	11	-	8	89	38	152
	Faysal Bank Limited	2	10	1	9	1	24	110	42	199
	Habib Bank Limited	2	1	1	4	-	4	23	10	45
	Habib Metropolitan Bank Limited	-	-	-	1	-	6	8	14	29
	National Bank of Pakistan	9	5	2	5	1	31	86	31	170
	Silk Bank Limited	1	1	-	3	-	5	11	9	30
	Sindh Bank Limited	1	1	-	-	-	2	7	3	14
	Soneri Bank Limited	-	1	-	2	1	2	8	4	18
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1	-	1	1	6	9
	Summit Bank Limited	-	1	-	2	2	1	2	6	14
	The Bank of Khyber	-	4	4	2	-	61	10	3	84
	The Bank of Punjab	1	-	-	5	-	11	51	-	68
United Bank Limited	1	4	-	4	-	19	39	26	93	
	<b>Islamic Banking Branches Total</b>	<b>20</b>	<b>44</b>	<b>8</b>	<b>65</b>	<b>7</b>	<b>203</b>	<b>577</b>	<b>262</b>	<b>1,186</b>
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	1	-	-	1	6	8
	Askari Bank Limited	-	1	-	-	-	1	1	-	3
	BankIslami Pakistan Limited	1	6	-	8	-	5	41	51	112
	Faysal Bank Limited	-	-	-	-	-	-	-	-	-
	Habib Bank Limited	-	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	-	2	-	2
United Bank Limited	-	-	-	-	-	1	-	-	1	
	<b>Sub Branches Total</b>	<b>1</b>	<b>7</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>7</b>	<b>45</b>	<b>59</b>	<b>128</b>
	<b>Grand Total</b>	<b>40</b>	<b>106</b>	<b>9</b>	<b>135</b>	<b>12</b>	<b>298</b>	<b>1,239</b>	<b>750</b>	<b>2,589</b>

