

Islamic Banking Bulletin

March 2019

**Islamic Banking Department
State Bank of Pakistan**

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Islamic Banking Industry - Progress & Market Share

Overview

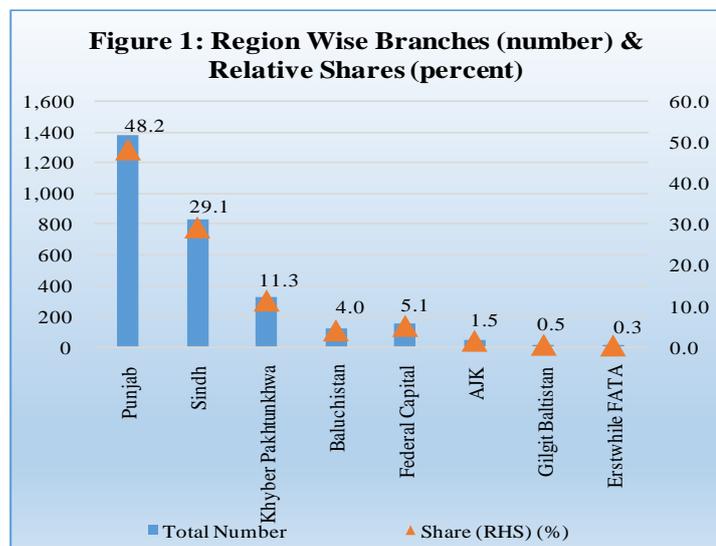
Assets of Islamic banking industry, while recording a quarterly growth of 4.9 percent, increased by around Rs. 132 billion to reach Rs. 2,790 billion during the quarter January to March, 2019. Deposits of Islamic banking industry stood at Rs. 2,199 billion during the period under review. In terms of market share, Islamic banking industry constituted 15 percent share in assets and 15.6 percent share in deposits of overall banking industry by end March, 2019 (see **Table 1**).

Particulars	Industry Progress			YoY Growth (%)	Share in Overall Banking Industry (%)		
	Mar-18	Dec-18	Mar-19	Mar-19	Mar-18	Dec-18	Mar-19
Assets (net) (Rupees in billion)	2,334	2,658	2,790	19.5	13.5	13.5	15.0
Deposits (Rupees in billion)	1,916	2,203	2,199	14.8	14.6	15.5	15.6
Number of Islamic banking institutions	21	22	22	-	-	-	-
Number of Islamic banking branches*	2,589	2,851	2,869	10.8	-	-	-

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

Branch Network of Islamic Banking Industry

The network of Islamic banking industry consisted of 22 Islamic banking institutions; 5 full-fledged Islamic banks (IBs) and 17 conventional banks having standalone Islamic banking branches (IBBs) by end March, 2019. Branch network of Islamic banking industry was recorded at 2,869 (spread across 113 districts) by end March, 2019; Punjab and Sindh together constituted more than 77 percent share in overall branch network of the industry (see **Figure 1**). The number of Islamic banking windows operated by IBBs stood at 1,284 (see **Annexure I** for details).

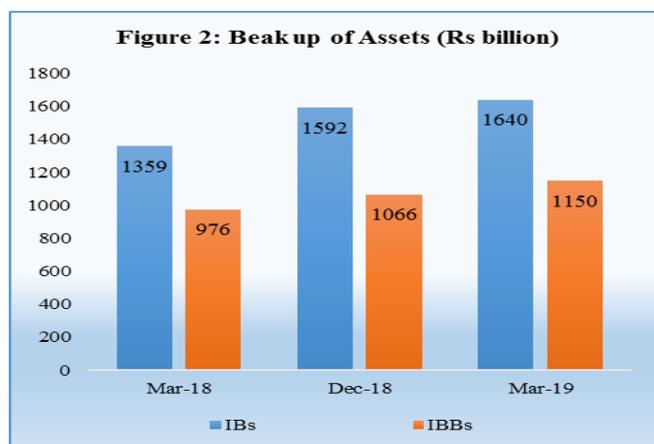


Asset and Liability Structure

Assets: Assets of Islamic banking industry registered a quarterly growth of 4.9 percent during the quarter January to March, 2019 and were recorded at Rs. 2,790 billion, compared to Rs. 2,658 billion in the previous quarter. This growth in assets was mainly contributed by investments (net) that recorded quarterly growth of 19.9 percent (Rs. 102 billion). On the other hand, financing (net) of Islamic banking industry, increased by Rs. 14 billion during the period under review. Market share of

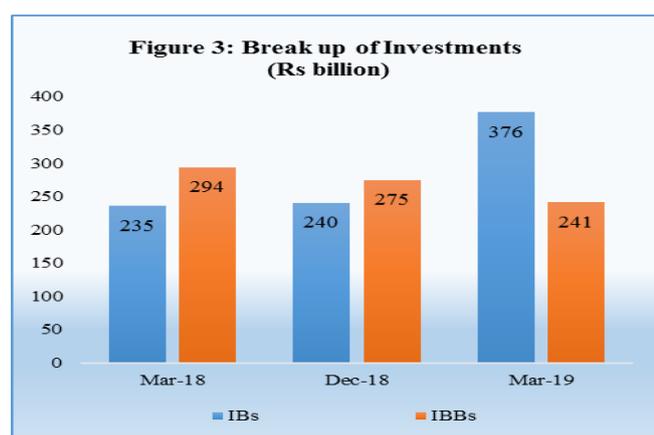
Islamic banking industry's assets in overall banking industry's assets was recorded at 15 percent by end March 2019, compared to 13.5 percent in the previous quarter. The share of net financing and investments in total assets of Islamic banking industry stood at 54.6 percent and 22.1 percent, respectively by end March, 2019 (see section below on **Investments** and **Financing and Related Assets** for details).

Bifurcation of assets among IBs and IBBs (see **Figure 2**) reveals that assets of IBs increased by 3 percent (Rs. 48 billion) and were recorded at Rs. 1,640 billion while assets of IBBs increased by 7.8 percent (Rs. 83 billion) and were recorded at Rs. 1,150 billion by end March, 2019. In terms of share, IBs accounted for 58.8 percent and IBBs 41.2 percent share in overall assets of Islamic banking industry during the period under review.



Investments

Investments (net) of Islamic banking industry increased by 19.9 percent (Rs. 102 billion) and were recorded at Rs. 617 billion by end March, 2019 compared to Rs. 515 billion in the previous quarter. During the period under review, investments (net) of IBs stood at Rs. 376 billion while the same was recorded at Rs. 241 billion for IBBs (see **Figure 3**).



Financing and Related Assets

Financing and related assets (net) of Islamic banking industry increased by Rs. 14 billion to reach Rs. 1,525 billion by end March, 2019 compared to Rs. 1,511 billion in the previous quarter; financing and related assets (net) of IBs stood at Rs. 904 billion while the same was registered at Rs. 621 billion for IBBs.

In terms of mode wise financing, Diminishing Musharaka retained the highest share (32.9 percent) in overall financing of Islamic banking industry followed by Musharaka (19.7 percent) (see **Table 2**).

Mode	Mar-18	Dec-18	Mar-19
Murabaha	13.1	13.6	14.1
Ijarah	6.4	6.2	6.2
Musharaka	21.2	19.9	19.7
Diminishing Musharaka	32.4	33.3	32.9
Salam	2.5	2.4	2.4
Istisna	7.7	9.1	9.3
Others	16.7	15.5	15.3
Total	100.0	100.0	100.0

	Mar-18	Dec-18	Mar-19	Industry
Chemical and Pharmaceuticals	4.1	3.6	3.8	3.4
Agribusiness	7.6	7.6	7.8	8.2
Textile	12.2	13.0	12.2	13.3
Cement	2.5	3.6	3.5	2.1
Sugar	4.3	2.8	5.2	3.9
Shoes and leather garments	0.5	0.5	0.6	0.4
Automobile and transportation equipment	1.0	1.2	1.2	1.6
Financial	0.7	0.5	0.4	2.7
Electronics and electrical appliances	1.4	1.2	1.3	1.5
Production and transmission of energy	18.5	17.7	16.9	16.8
Individuals	11.2	11.4	11.9	8.9
Others	36.0	36.8	35.3	37.2
Total	100.0	100.0	100.0	100.0

In terms of sector wise financing, production & transmission of energy and textile sectors remained two leading sectors and their share in overall financing of Islamic banking industry was recorded at 16.9 percent and 12.2 percent, respectively by end March, 2019 (see **Table 3**).

Review of client wise financing reveals that corporate sector accounted for 74.5 percent share in overall financing of Islamic banking industry, followed by consumer financing with a share of 10.4 percent and commodity financing with a share of 9.9 percent. The share of small and medium enterprises (SMEs) financing and agriculture financing in overall financing of Islamic banking industry were recorded at 3.6 percent and 0.4 percent, respectively (see **Table 4**).

Sector	Mar-18	Dec-18	Mar-19	Industry
Corporate	72.3	74.3	74.5	71.3
SMEs	2.9	3.7	3.6	5.5
Agriculture	0.3	0.3	0.4	3.9
Consumer Financing	10.1	10.1	10.4	6.5
Commodity Financing	13.3	10.5	9.9	9.5
Staff Financing	0.9	0.9	1.0	1.6
Others	0.2	0.2	0.2	1.7
Total	100.0	100.0	100.0	100.0

Asset Quality

Asset quality indicators of Islamic banking industry including non-performing finances (NPFs) to financing (gross) and net NPFs to net financing showed further improvement from previous quarter and were registered at 2.3 percent and 0.3 percent, respectively by end March, 2019 (see **Table 5**); both these ratios were better than those of overall banking industry's averages.

Ratio	Mar-18	Dec-18	Mar-19	Industry
NPFs to Financing (gross)	2.8	2.4	2.3	8.2
Net NPFs to Net Financing	0.5	0.4	0.3	1.4

Liabilities

Deposits of Islamic banking industry during the period under review were recorded at Rs. 2,199 billion and its share in overall banking industry's deposits increased to 15.6 percent by end March, 2019. The category wise breakup of deposits during the quarter shows that fixed deposits and current (non-remunerative) deposits declined by 3.8 percent (Rs. 18 billion) and 2 percent (Rs. 15 billion)

respectively while saving deposits and current deposits (remunerative) witnessed growth of 4.5 percent (Rs. 37 billion) and 50.7 percent (Rs. 4 billion) respectively; current deposits (remunerative) constituted only 1 percent of overall deposits of Islamic banking industry (see **Table 6**).

	Rupees in billion			Growth (%)	
	Mar-18	Dec-18	Mar-19	YoY	QoQ
Customers					
Fixed Deposits	364	463	445	22.4	-3.8
Saving Deposits	763	828	866	13.4	4.5
Current accounts – Remunerative	9	9	13	48.0	50.7
Current accounts - Non-remunerative	658	737	722	9.7	-2.0
Others	15	18	18	18.8	-1.1
Sub-total	1,809	2,055	2,064	14.1	0.4
Financial Institutions					
Remunerative Deposits	106	144	132	24.8	-8.3
Non-remunerative Deposits	1	4	3	122.3	-18.0
Sub-total	107	148	135	26.1	-8.6
Total	1,916	2,203	2,199	14.8	-0.2

Breakup of deposits among IBs and IBBs reveals that deposits of IBs were registered at Rs. 1,335 billion while deposits of IBBs stood at Rs. 864 billion as of March 31, 2019. The share of IBs and IBBs in overall deposits of Islamic banking industry stood at 60.7 percent and 39.3 percent, respectively by end March, 2019.

Liquidity

Liquid assets to total assets and liquid assets to total deposits ratios of Islamic banking industry stood at 21 percent and 26.6 percent, respectively by end March, 2019. Financing to deposits ratio (net) of

Ratio	Mar-18	Dec-18	Mar-19	Industry
Liquid Asset to Total Assets	24.2	22.4	21.0	45.3
Liquid Assets to Total Deposits	29.5	27.0	26.6	59.8
Financing to Deposits (net)	66.9	68.6	69.3	55.6

Islamic banking industry increased further and was recorded at 69.3 percent by end March, 2019 compared to 55.6 percent of overall banking industry (see **Table 7**).

Capital

The ratios of Capital to total assets and capital minus net non-performing assets to total assets of Islamic banking industry were recorded at 6.4 percent and 6.2 percent, respectively by end March, 2019

Ratio	Mar-18	Dec-18	Mar-19	Industry
Capital to Total Assets	6.2	6.4	6.4	7.8
(Capital-Net NPAs) to Total Assets	6.1	6.0	6.2	7.2

(see **Table 8**). Both the ratios were lower than those of overall banking industry's averages.

Country Model: Lebanon

Lebanon, known as “the Pearl of the Middle East” is bounded in the north and east by Syria, in the south by Israel and by the Mediterranean in the west. The role of the country in the region and world at large was shaped by trade. The estimated population of Lebanon was 6.075 million in 2018 with more than 57 percent as Muslims.

Overview of Economy

Lebanon is classified as a developing country. The nominal GDP of Lebanon was estimated at US\$53.577 billion in 2017 and real GDP is expected to grow by 1.3 percent in 2019. The GNI per capita in 2017 stood at US\$8400. The economy of Lebanon is dominated by services sector; major economic sectors include metal product, banking, agriculture, chemicals and transport equipment. The economy of Lebanon continues to struggle due to ethnic and sectarian tension alongside occasional war with Israel. The instability in the country caused great economic damages and affected the growth of Islamic finance in the country.

Islamic Banking & Finance

The Lebanese banking sector is dominated by foreign banks. According to the central bank of Lebanon (Banque Du Liban), there are 142 banks including the Now-defunct bank Al-Madina, by end 2018. By now there are five full-fledged Islamic banks operating in the country namely (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 complaint bank established in 2005, following the official gazette of law No. 575, which allows the creation of Islamic banks.

The Lebanese banking system is financially sound, stable and highly liquid. It plays key role in the economy where banks continue to dominate the financial system of the country. By mid-2018, the total banking assets of the country stood at US\$ 234.61 billion compared to US\$208.16 billion a year ago. Despite that, the country’s Islamic banking industry only reached about 0.43% of the total banking assets.

Regulatory Environment

Lebanon banking activities are subject to both the code of commerce (1962) and the code of money and credit (1963), while Shariah banking regulations are effective through official gazette of law No. 575 since 2004. Further, a three member consultative body is mandatory to approve and monitor Shariah compliance. The Islamic banking department at the Banking Control Commission of Lebanon (BCCL) was established in 2012, with a mission to put in place a sound and effective framework of supervisory policies, standards, controls and instruments that conform the international best practices and comply with Islamic banking activities and applicable laws and regulations in Lebanon. The industry have long recommended for a comprehensive and enabling financial regulations including the removal of double taxation and stamp duty and implementation of laws that are conducive for equity type financing, since current regulations do not accommodate a variety of financing.

Takaful

Conventional service providers dominate the Lebanon insurance market with a relatively small

Takaful presence. Takaful segment was pioneered by Al Aman Takaful (previously known as main insurance company established in 2001). Despite only one Takaful service provider on its shore, there are several Lebanese insurance companies involved in 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 the Egypt in 2012.

Conclusion

Since its inception, the progress of Islamic banking in Lebanon is stagnant, mainly owing to slow changes in legislation and lack of initiatives by Islamic banks. However, there appears great potential for Islamic banking industry to grow in Lebanon mainly due to huge Muslim population in the country.

Sources of Information

- Islamic Finance News {www.islamicfinancenews.com}
- Banque Du Liban website {<http://www.bdl.gov.lb/>}
- Banking Control Commission of Lebanon {<http://www.bccl.gov.lb/>}
- Association of Banks in Lebanon {<http://www.abl.org.lb/>}
- The World Bank {<https://data.worldbank.org/country/>}
- Central Intelligence Agency The Fact Book {<https://www.cia.gov/library/publications/the-world-factbook/>}

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 02: Debit Card, Charge Card and Credit Card

State Bank of Pakistan, vide IBD Circular No. 01 of 2019, has adopted six AAOIFI Shariah Standards; (i) No. 2 (Debit Card, Charge Card and Credit Card), (ii) No. 5 (Guarantees), (iii) No. 14 (Documentary Credit), (iv) No. 18 (Possession (Qabd)), (v) No. 24 (Syndicated Financing) and (vi) No. 38 (Online Financial Dealings). These standards will be discussed in detail one by one in six issues of quarterly bulletin.

For the current issue, standard No. 2 Debit Card, Charge Card and Credit Card is discussed below with amendments advised by the Shariah Advisory Committee of State Bank of Pakistan.

Standard

The Standard was adopted by the AAOIFI Shariah Board in its meeting No. (4) held on 25-27 Safar 1421 A.H., corresponding to 29-31 May 2000.

Preface

The purpose of the standard on debit card, charge card and credit card is to explain their types and characteristics, and to lay down the Shariah principles for dealing with the three types of card by both Islamic financial institutions and their customers who hold their cards and use them. The standard also explains the Shariah rulings on the use of the cards in various circumstances.

1. Scope of the Standard

The purpose of the standard on debit card, charge card and credit card is to explain their types and characteristics, and to lay down the Shariah principles for dealing with the three types of card by both Islamic financial institutions and their customers who hold their cards and use them. The standard also explains the Shariah rulings on the use of the cards in various circumstances.

- Debit card
- Charge card
- Credit card

2. Characteristics of Different Types of Card

While some of the characteristics are common to more than one type of card, some are specific to a particular type of card.

2/1- Characteristics of the debit card

2/1/1- The institution issues the card to a customer with available funds in his account.

2/1/2- The card confers on its holder the right to withdraw cash from his account or to pay for goods or services purchased up to the limit of the available funds (credit balance) on his account. The debit to the customer's account will be immediate, and the card does not provide him with any credit.

2/1/3- The customer will not normally pay any charges for using this card, except when it is used to withdraw cash or to purchase another currency through another institution different from the institution that has issued the card.

2/1/4- The issuing institution may charge a fee for issuing the card, or may make no charge for issuing it.

2/1/5- Some institutions charge the party accepting payment by means of the card a commission calculated as a percentage of such payments.

2/2- Characteristics of the charge card

2/2/1- The card provides a credit facility up to certain ceiling for a specified period of time, as well as providing a means of repayment.

2/2/2- The card is used to pay for goods and services and to obtain cash.

2/2/3- This card does not provide revolving credit facilities to the cardholder, insofar as the cardholder is obliged to make payment for the purchased goods or services by the end of a prescribed credit period following receipt of a statement sent by the institution issuing the card.

2/2/4- If the cardholder delays payment of the amount due beyond the period of free credit, an interest charge is imposed on the cardholder but none is imposed by the institutions.

2/2/5- The institution issuing the card does not charge the cardholder any percentage commission on purchases, but receives a percentage commission from the party accepting the card on purchases made by using the card.

2/2/6- The institution issuing the card is obliged to pay the party accepting the card for purchases made by the cardholder, within a specified transaction credit limit (or the agreed increase thereon). This obligation on the card issuer to pay for the cardholder's purchases is direct, and is independent of the relationship between the party accepting the card and the cardholder.

2/2/7- The institution issuing the card has a personal and direct right against the cardholder to be reimbursed for any payments made on his behalf. The issuer's right is absolute and independent of the relationship between the cardholder and the party accepting the card in accordance with the contract between them.

2/3- Characteristics of the Credit Card

2/3/1- This card provides a revolving credit facility within the credit limit and credit period determined by the issuer of the card. It is also a means of payment.

2/3/2- The holder of a credit card is able to pay for purchases of goods and services and to withdraw cash, within the approved credit limit.

2/3/3- When purchasing goods or services, the cardholder is given a free credit period during which the amount due should be paid and no interest is chargeable. The cardholder is also allowed to defer paying the amount due and is charged interest for the duration of the credit. In the case of a cash withdrawal, there is no free credit period.

3. Shariah Rulings for Different Types of Card

3/1- Debit Card

It is permissible for institutions to issue debit cards, as long as the cardholder does not exceed the balance available on his account and no interest charge arises out of the transaction.

3/2- Charge Card

It is permissible for institutions to issue charge cards on the following conditions:

3/2/1- The cardholder is not obliged to pay interest in the case of delay in paying the amount due.

3/2/2- If the institution obliges the cardholder to deposit a sum of money as a guarantee and this amount is not available for the use of the cardholder, then it must be made clear that the institution will invest the money for the benefit of the cardholder on the basis of Mudarabah and that any profit accruing on this amount will be shared between the cardholder and the institution according to a specified percentage.

3/2/3- The institution must stipulate that the cardholder may not use the card for purposes prohibited by the Shariah and that the institution has the right to withdraw the card in case such a condition is violated.

3/3- Credit Card

It is not permissible for an institution to issue credit cards that provide an interest-bearing revolving credit facility, whereby the cardholder pays interest for being allowed to pay off the debt in installments.

4. General Provisions

4/1- The affiliation of the institution to membership of international card regulatory organizations

4/1/1- It is permissible for institutions to join the membership of international card regulatory organizations, provided the institutions avoid any infringements of Shariah that may be prescribed by those organizations.

4/1/2- It is permissible for the institutions to pay membership fees, service charges and other fees to international card regulatory organizations, so long as these do not include interest payments, even in an indirect way, such as in the case of increasing the service charge to cater for the granted credit.

4/2- Commission to the card issuer payable by merchants accepting the card

It is permissible for the institution issuing the card to charge a commission to the party accepting the card, at a percentage of the purchase price of the items and services purchased using the card.

4/3- Fees charged by the institution to the cardholder

It is permissible for the institution issuing the card to charge the cardholder membership fees, renewal fees and replacement fees.

4/4- Purchasing gold, silver and currency with cards

It is permissible to purchase gold, silver or currency with a debit card or a charge card, in cases where the issuing institution is able to settle the amount due to the party accepting the card without any delay.

4/5- Cash withdrawal using a card

4/5/1- It is permissible for the cardholder to withdraw an amount of cash within the limit of his available funds, or more with the agreement of the institution issuing the card, provided no interest is charged.

4/5/2- It is permissible for the institution issuing the card to charge a flat service fee for cash withdrawal, proportionate to the service offered, but not a fee that varies with the amount withdrawn.

4/6- Privileges granted by card issuing parties

4/6/1- It is not permissible for institutions to grant the cardholder privileges prohibited by the Shariah, such as conventional life insurance, entrance to prohibited places or prohibited gifts.

4/6/2- It is permissible to grant privileges to the cardholder that are not prohibited by the Shariah, such as a priority right to services or discounts on hotel, airline or restaurant reservations and the like.

Adoption of the Standard in Pakistan

For adoption of standard in the country, following amendments have been made while all amendments are in the form of footnotes.

Clause No.	Original clause	Clarifications/amendments
1	Scope of the standard: The standard covers debit cards, charge cards and credit cards that are issued by institutions to their customers to enable the latter, by using the cards, either to withdraw cash from their accounts or to obtain credit or to pay for goods or services purchased.	The term 'purchased' for this clause means 'acquired'.
2/1/5	Some institutions charge the party accepting payment by means of the card a commission calculated as a percentage of such payments.	The term 'for goods and services' is added at the end of the clause.
3/2/2	If the institution obliges the cardholder to deposit a sum of money as a guarantee and this amount is not available for the use of the cardholder, then it must be made clear that the institution will invest the money for the benefit of the cardholder on the basis of Mudarabah and that any profit accruing on this amount will be shared between the cardholder and the institution according to a specified percentage.	The SBP's 'Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions' shall be followed.
4/4	It is permissible to purchase gold, silver or currency with a debit card or a charge card, in cases where the issuing institution is able to settle the amount due to the party accepting the card without any delay	In case of Debit or Charge Card, it is also permissible to purchase gold, silver and foreign currency on deferred delivery basis.

Source:

AAOIFI website: <http://aaoifi.com/>

IBD Circular No. 01 2019, March 01, 2019 {<http://www.sbp.org.pk/ibd/2019/C1.htm>}

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

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

During the first quarter (January- March), Islamic Banking Department (IBD), in collaboration with National Institute of Banking and Finance (NIBAF), organized three FIBO programs. The training programs were arranged at Bahawalpur, Faisalabad and Hyderabad. These training programs were aimed at enhancing skills and knowledge base of field staff of Islamic banking institutions particularly Branch Managers (BMs), Operation Managers (OMs), and Relationship Managers (RMs) of Islamic banking industry, academia, students and Shariah scholars.

- **Islamic Banking Certificate Course for Shariah Scholars**

In pursuit of up-scaling capacity level of Shariah scholars serving Islamic banking industry, IBD in collaboration with NIBAF, has launched a comprehensive certification course exclusively for Shariah scholars. The certification program has ten modules of two-days each, covering various topics of significant nature. The first iteration of the certification programs has been successfully held during the first quarter of CY19.

- **Awareness Session for Islamic Banking in Faisalabad**

IBD and NIBAF organized an awareness program in Faisalabad on March 13, 2019. Two half-day sessions were organized at a leading educational institution and local chamber of commerce, respectively.

- **Adoption/adaption of AAOIFI Shariah standards**

State Bank of Pakistan (SBP) has notified adoption of six Shariah Standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), i.e., No. 2 (Debit Card, Charge Card and Credit Card), No. 5 (Guarantees), No.14 (Documentary Credit), No.18 (Possession), No.24 (Syndicated Financing) and No. 38 (Online Financial Dealings) along with certain clarifications/amendments on March 01, 2019. Adoption of these Shariah standards marks a major milestone towards the standardization of the Shariah products and practices in Islamic banking industry of Pakistan with internationally recognized standards.

Islamic Banking News and Views

A. Local Industry News

SBP wins global award as the best Central Bank in promoting Islamic finance

State Bank of Pakistan (SBP) has won the global award as the best Central Bank in promoting Islamic finance for the year 2018. The coveted award is conferred by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia. IFN Best Banks Poll is regarded as one of the most prestigious accolades in the Islamic finance industry. The IFN Award as the best central bank for promotion of Islamic finance is the global endorsement of SBP initiatives for promotion of Islamic banking in the country. Previously, SBP was bestowed with this coveted award earlier in 2015 and 2017.

<https://dailytimes.com.pk/342777/state-bank-of-pakistan-wins-the-global-award-as-the-best-central-bank-in-promoting-islamic-finance/>

President stresses on promoting Islamic finance in Pakistan

Dr. Arif Alvi, the Honorable President of Pakistan extended his support for the development of Islamic banking industry in the country in a meeting held with Mr. Irfan Siddiqui, President & CEO, Meezan Bank and Mr. Jameel Ahmad, Deputy Governor, State Bank of Pakistan along with a delegation from Meezan Bank. The group discussed the opportunities and challenges of Islamic banking in Pakistan and urged for elimination of Riba from the society. The honorable President showed keen interest in promotion of Islamic banking and emphasized the need for Government support to the Islamic finance industry.

<https://mettisglobal.news/president-stresses-on-promoting-islamic-finance-in-pakistan/>

Pakistan launches three new Islamic refinancing schemes to nurture Islamic finance

In a drive to bring Islamic banks at par with their conventional counterparts and to boost key sectors of Pakistan's economy, SBP has accommodated three new subsidized refinancing schemes for storage of agricultural produce, modernization of SMEs and renewable energy. An yearly limit will be set for individual Islamic banks and development financial institutions leveraging the facilities, which all follow the Mudarabah structure.

www.islamicfinancenews.com

SECP defers applicability of IFRS 9

The Securities and Exchange Commission of Pakistan (SECP) has deferred the applicability of IFRS 9 'Financial Instruments' for all companies required to prepare their financial statements in accordance with the requirements of IFRS, according to a statement. Based on the recommendation of the Institute of Chartered Accountants of Pakistan (ICAP), the SECP has deferred the applicability of IFRS 9 for reporting the period/year ending on or after 30th June 2019. It is expected that the companies will benefit from the extension and will fully prepare themselves for transition to ensure complete compliance with IFRS 9 by the new effective date.

www.islamicfinancenews.com

DIBPL issues PKR3.12 billion additional Tier-I sukuk

Dubai Islamic Bank Pakistan (DIBPL) recently announced the successful issuance of fully paid-up, rated, perpetual, unsecured, subordinated, non-cumulative and contingent convertible and privately placed sukuk mudarabah valued at PKR3.12 billion.

www.islamicfinancenews.com

Islamic banks to participate in Prime Minister low cost housing scheme

Prime Minister Imran Khan launched low cost housing construction scheme that aims to tackle the housing crisis in the country. The government targets to construct five million low cost houses, worth PKR15-17 trillion. In this regard, Islamic banks are considering participating in government low cost housing scheme. Meezan bank, the leading Islamic financial institution consider participation in this government initiative as a vital step toward financial inclusion and foster economic growth by offering interest free housing finance products.

www.islamicfinancenews.com

Pakistan sells energy sukuk

The ministry of energy has auctioned a PKR 200 billion (US\$1.44 billion) 10 years Sukuk Ijarah facility to address the escalating circular debt in the nation's power sector. Eight banks participated in the transaction and will receive profit at the rate of Kibor plus 0.8% every six months.

www.islamicfinancenews.com

B. International Industry News

Wifak Bank to implement blockchain commodity trade facilitation platform

The youngest Islamic bank in Tunisia could become one of the first Shariah banks in the region to adopt blockchain technology as it prepares to implement a proof-of-concept (POC) expected to launch in March 2019, a pilot project which could potentially trigger wider adoption of distributed ledger technology for Islamic financial services in Africa and other OIC countries.

www.islamicfinancenews.com

Sovereign sukuk issuances reach US\$772.96 billion in 2018

The year has been inundated with Shariah issuances with a total of 17 countries from Asia, Africa, the Middle East and Europe tapping the Islamic capital market, often on a regular basis due to domestic programs. Overall, US\$772.96 billion worth of short, medium and long-term sovereign Shariah securities were sold throughout 2018, based on data collected by IFN.

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Indonesia beefs up sukuk issuance program to finance national infrastructure projects

Indonesia intends to keep its pole position in the sovereign sukuk landscape by bolstering its State Shariah Securities (SBSN) program in 2019, maintaining its aggressive sukuk momentum built over the last few years even as global sukuk volumes tapered over 2018. In a recent forum, the Ministry of Finance's Directorate General of Budget Financing and Risk Management (DJPPR) announced that it will be financing projects worth a whopping IDR28.43 trillion (US\$1.97 billion) via SBSN in 2019, an increase of IDR5.9 trillion (US\$408 million), or 26.19% from the projects financed last year.

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Islamic banking slowly warms to blockchain

Saudi Arabia's Islamic Development Bank (IDB) signed an investment agreement in November with i-FinTech Solutions, a Tunisia-based advisory firm, to create a series of Shariah-compliant tools to help Islamic banks with liquidity management issues. The first product announced is i-Trade, a blockchain-based, real-time transactional platform that helps conventional and Islamic banks transact

with each other. Blockchain technology is still a controversial topic in Islamic finance. Nevertheless, the Middle East as well as Southeast Asia are home to a growing number of Islamic fintechs.

<https://www.gfmag.com/magazine/january-2019/islamic-banking-slowly-warms-blockchain>

Islamic banking software a rapidly growing market

The global market for core Islamic banking software solutions for banks notably, not including products from fintech startups, is a rapidly growing segment seen increasing by around 13% annually from now until 2021 to around \$700mn, according to latest industry reports. This is pretty much in line with expected growth in the Islamic finance industry. Islamic banking software refers to banking software that functions according to Shariah norms for managing and monitoring banking operations and therefore has to have distinctive features that conventional banking software does not provide.

<https://www.gulf-times.com/story/620683/Islamic-banking-software-a-rapidly-growing-market>

Turkey to issue gold-backed sukuk

In order to contribute to the development of capital markets, increase domestic savings, expand the investor base and diversify financing instruments, Turkey will issue a 728-day gold-backed lease certificate with a periodic rental rate (six months) of 1% on 27th February 2019, according to a statement. The Islamic paper will be offered to institutional investors, in particular pension and investment funds.

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IFSB and ISRA fortify cooperation

The IFSB and the International Shariah Research Academy for Islamic Finance (ISRA) have renewed an agreement to facilitate cooperation between both parties. According to an announcement, the new deal will allow both institutions to, among others, participate mutually in the relevant activities of each other relating to research, development, training and education; as well as explore the possibility of Islamic Finance Knowledge Repository as a key tool for supporting knowledge work.

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AAOIFI releases draft on sukuk governance

AAOIFI has issued a draft exposure on sukuk governance. Called the Exposure Draft G2/2018, it is to introduce detailed guidelines on sukuk governance by providing a comprehensive framework for managing sukuk issuance as well as management during investment and maturity/ termination phases, according to an announcement. The public hearings for the exposure draft will be held in the upcoming months in different parts of the world.

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AAOIFI issues new standards

AAOIFI has rolled out two new financial accounting standards (FAS), bringing the total of standards and pronouncements issued by the organization to 111. The new standards are FAS 33, which is on investments in sukuk, shares and similar instruments; and FAS 44, which is on financial reporting for sukuk holders. FAS 33 includes improved principles for classification, recognition, measurement, presentation and disclosure of investment in sukuk, shares and other similar instruments of investments made by Islamic financial institutions; whereas FAS 34 introduces guidelines on the principles of accounting and financial reporting for assets and businesses underlying the sukuk.

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Government sukuk volumes to hit US\$100 billion mark in 2020 as sovereigns look to refinance maturing debts

Governments in key Muslim countries are expected to hit the sukuk market more religiously over the next two years as a substantial number of their Islamic borrowings come to full maturity, with 2020 shaping up to be one of the best years for the sovereign sukuk market, analysts believe. Following a slump in 2018 when sovereigns, particularly from the oil rich GCC, retreated from the Islamic debt capital markets as their coffers filled up buoyed by higher hydrocarbon prices, sovereign sukuk volumes are likely to pick up this year and could touch the US\$100 billion threshold in 2020, exceeding the all-time high of US\$93 billion in 2012, predicts Moody's Investors Service. It is projected that governments would raise US\$87 billion via sukuk this year, up from last year's US\$78 billion.

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Iran launches first cryptocurrency

The first Iranian cryptocurrency named 'Peyman' has been launched by Phoenix Company in partnership with four banks, namely Bank Mellat, Bank Melli Iran, Bank Pasargad and Parsian Bank, Agah Group reported. The tokens are based on two kilograms of gold and one billion pieces will be offered to the public during the initial coin offering. The tokens will be offered and traded on the Iran Fara Bourse.

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Offshore centers: Popular destination for Sukuk issuers

Offshore centers are the most important venue for Islamic finance industry, especially in the Islamic debt capital market industry. Among the offshore centers, Cayman Islands and British Virgin Islands have for many years remained the most popular offshore centers for Middle Eastern and UK Shariah investors. Sukuk and investment funds are staples in these jurisdictions. Al Hilal Bank, Dubai Islamic Bank, First Abu Dhabi Bank, Noor Bank, Sharjah Islamic Bank, Aldar Properties, Dar Al Arkan and DAMAC as well as DP World are among the issuers that have floated papers under programs that use Cayman Islands SPV issuers.

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Iran works with China on Sukuk issuances

The parliament of Iran has passed a bill opening the way for the issuance of Sukuk worth US\$3 billion with the proceeds to be used for the funding of various domestic hydrocarbon projects, News Base reported. China is due to act as a book runner for the deal and People's Bank of China (PBOC) will act as the sole lead underwriter and principal distributor of the paper. The structure will be as follows: either the Iranian government, or state vehicle, will issue a bond through the PBOC, which will be backed by the Chinese central bank, in renminbi or another currency pegged at a specific rate to the renminbi.

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C. Articles & Views

Pensions: promising progress in the Islamic space

Due to the lack of demand and understanding, the Islamic pension fund segment has long been seen as lagging behind. Over the past few years, only a small number of countries including Malaysia,

Pakistan, Turkey, Iran, Australia and the UK have been offering state-backed Islamic pension funds. However, the landscape is moving with the recent introduction of Islamic retirement schemes in Kenya and market players believe that pension funds will play a key role in the future of the Islamic asset management industry.

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Governance, compliance and regtech in financial inclusion

Governance, risk and compliance (GRC) is a relatively new discipline that aims to synchronize organizational governance and compliance to support managerial efficiency. There are a number of different approaches but GRC typically encompasses activities such as corporate governance, enterprise risk management (ERM) and organizational compliance with applicable laws and regulations. The underlying concept is to keep an organization on track on interconnected activities conducted in departments such as internal audit, compliance, risk, legal, finance, information technology, human resources as well as the lines of business, executive suite and the board itself.

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Islamic asset management in Pakistan

Asset management under the Islamic mode in Pakistan has progressed at a rapid pace in the last 10 years, either it is in banking channels, mutual funds, microfinance or insurance (takaful). The first Islamic mutual fund launched in 1995 was a closed-end mutual fund and the first open-end mutual fund under Shariah principles was launched in 2003. Takaful rules were promulgated in 2005 and the first license to undertake takaful in the non-life sector was also issued in the same year, while the first Family takaful company was launched in 2007.

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Time value of money in Islamic finance

Time is an issue well discussed in the ethical dimensions of economic theories, a fundamental concept in the critical dialogues of Islamic finance. It can be vividly demonstrated through a simple question centered over the ethical failure that occurred via the banning of interest in banks. If one borrowed a hundred rupees from a friend and agreed to return the same after one week, the denomination while returning will not be the same in tandem with the changes in the value of money. Thus, the giver is not getting the real money that he has lent to the borrower.

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2019: a new horizon for Islamic fintech?

The opportunity for collaboration between Islamic financial institutions and fintech companies has been greatly discussed in recent years. There is certainly a sizeable market of consumers who could benefit from increased accessibility to newer Islamic fintech products such as peer-to-peer lending, robo-advisory and services using artificial intelligence. Many Islamic banks have indeed been vocal in expressing their interest in introducing new digital initiatives. It is clear that a digital focus, be it using existing internal competencies or achieved through collaboration, will drive future growth opportunities in the long term.

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The five big challenges for Islamic finance in 2019

Islamic finance is at a historical juncture to make the next bold move by accepting the new opportunities available in the marketplace. The tech-savvy millennials are making yet another revolution by innovation. The changes in the banking and technological industry are fast-tracking a paradigm shift from our financial habits to social financial integration. No industry is rich enough to buy the past but every industry has an equal opportunity to understand tomorrow's demand and prepare for it today.

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Islamic finance and innovation

In cases where Shariah boards certify products or processes and audit them under the Shariah law on a regular basis, how is the quality of the product measured even though it is Shariah compatible? Firstly, we should not confuse the role of the Shariah board with that of the rating. The Shariah board is responsible for the lawfulness of products in compliance with Shariah and does not judge the bank as a whole, nor do they evaluate one bank over another. They do not judge the bank's compliance with criteria such as its involvement in the development aid of poor countries or in fair trade.

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Islamic fintech: advantages, opportunities and challenges

Fintech is the new kid on the block that has gained wide recognition in the west and is spreading fast to the east. The Islamic finance industry has its fair share of fintech too. What's interesting, being Shariah compliant, investments in or through Islamic fintech are available for both investors with restricted Shariah compliant mandates and those without such restrictions. The latter would be interested in Islamic fintech when they see the opportunity to make a profit or simply to diversify the portfolio.

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Supervision and anti-money laundering facility for takaful

Supervision is an important factor for the growth, efficiency and stability of a takaful operator. The role of supervision in the takaful industry is to prevent or mitigate crises and build public confidence in the solutions offered. Supervision is also an important implementation condition for the economic development, efficiency and stability of the takaful operator, with the supervisory authority having to carry out persistent controls on compliance with the regulations to guarantee their implementation.

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Can Shariah compliant products tackle the 'dark side' of microfinance?

Microcredit was once hailed as the solution for global poverty but many experts have warned that microfinance not only has positive effects but also a 'dark side'. They are referring particularly to the issue that credit also creates debt which can be crippling. In many ways, Islamic microfinance is what Islamic finance should be all about: ethical and equitable through financial intermediation between the rich and the poor in a Shariah compliant manner. But to make a real difference, it has to be mainstreamed into the product suite of Islamic financial institutions rather than remain a nice but add-on charity project.

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Takaful and sustainability: the missing link

According to the German development agency, GIZ, insurance is critical to the achievement of six of the 17 SDGs (sustainable development goals) and important to the achievement of five other SDGs. In this context, the Principles for Sustainable Insurance (PSI), developed by the United Nations Environment Program (UNEP) Finance Initiative, aim to establish sustainability principles for the global insurance industry that can catalyze and amplify transformational change.

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Regulatory capital arbitrage and the capital adequacy ratios of Islamic banks

The phenomenon, referred to as regulatory capital arbitrage, is so profound that it impacts both their competitiveness, and their contributions to systemic risk. The capital adequacy ratios of Islamic banks are calculated taking into consideration a risk which is unique to them. This is displaced commercial risk. This risk arises because it is not always possible for Islamic banks to generate asset returns which are sufficient to pay profit-sharing investment account holders a rate of return at least matching a conventional deposit rate benchmark. If Islamic banks fail to pay high-enough returns to investment account holders, it is likely that some investment account holders will switch to competing banks.

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Recent developments in Islamic finance regulation and outlook

Due to the significant regulation of the finance industry, development in the regulatory frameworks governing it is a key factor in the success or failure of the industry. While more liberal regulatory regimes may pose opportunities for short-term growth and high-risk investors, dedicated and effective regulation typically builds trust and fosters long-term progression. This is true to both the conventional industry as well as the Islamic finance industry. Over the last year, secondary Islamic finance markets have taken significant steps to develop the Islamic banking sector by adopting specific Islamic finance and banking legislation.

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The rise of Islamic finance on China's Belt and Road

The Gulf may not be highlighted on maps of China's Belt and Road Initiative (BRI), but the region has certainly experienced a rise in relations, particularly in the economic sphere on which the BRI is predicated. It is not widely reported that the BRI in the Gulf focuses on Islamic finance. Since the launch of the BRI in 2013, Chinese banks, including the Asian Infrastructure Investment Bank (AIIB), have made efforts to establish outbound Islamic financing frameworks and to encourage relevant entities to provide Islamic financing products.

<https://thediplomat.com/2019/02/the-rise-of-islamic-finance-on-chinas-belt-and-road/>

After a disastrous 2018, could this be the year Islamic funds finally recover?

Last year was the weakest performance for Islamic funds since the global financial crisis, with steep losses stunning Asia Pacific and tumbling oil prices pressuring even the relatively resilient GCC region. New data for January suggests that 2019 could finally start to see stronger returns but where are the hotspots, what are the weak spots and what should investors be watching out for as the year gets into its stride?

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Shariah non-compliance risk in Islamic banks

The Global Islamic Financial Report 2017 projected the assets of the Islamic finance industry to be somewhere between US\$3 trillion and US\$4.3 trillion by the end of 2020. Islamic banks (IBs) have been able to establish their foothold in the global financial industry owing to the Shariah-compliant nature of their products. This gives them legitimacy amongst the more conservative global Muslim populace because the profit-and-loss-sharing characteristic of products provides an alternative for the fixed-interest (*Riba*) based products offered by conventional banks. Islamic banking products, however, have also brought to the fore a new type of risk that the regulators and the banks themselves have to manage. The new risk is the Shariah non-compliance risk (SNCR), which potentially can hamper the bank's ability to meet capital adequacy ratio (CAR) requirements.

<https://internationalbanker.com/banking/shariah-non-compliance-risk-in-islamic-banks/>

Annexure: I

Islamic Banking Branch Network

(As of March 31, 2019)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	183	-
	BankIslami Pakistan Limited	218	-
	Dubai Islamic Bank Pakistan Limited	200	-
	Meezan Bank Limited	676	-
	MCB Islamic Bank Limited	176	-
	Sub-Total	1,453	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	10
	Askari Bank Limited	91	-
	Bank Al Habib Limited	71	132
	Bank Alfalah Limited	152	121
	Faysal Bank Limited	249	-
	Habib Bank Limited	46	495
	Habib Metropolitan Bank Limited	31	216
	National Bank of Pakistan	192	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	20	-
	Standard Chartered Bank (Pakistan) Limited	7	65
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	72	-
	United Bank Limited	93	158
	Zarai Taraqati Bank Limited	5	
	Sub-Total	1,288	1,284
	Total Full-Fledged Branches	2,741	-
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	-
	Total Sub-Branches	128	-
	Grand Total Branches/Sub-Branches	2,869	1,284

Source: Information/Data obtained from different banks

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

(As of March 31, 2019)

Type	Bank Name	Azad Kashmir	Balochistan	Erstwhile FATA*	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	7	-	6	1	16	102	48	183
	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	24	1	34	3	43	352	213	676
	MCB Islamic Bank Limited	2	11	1	9	1	11	74	67	176
	Islamic Banks	21	59	2	69	7	97	708	490	1,453
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	-	8	24	33	71
	Bank Alfalah Limited	1	5	-	11	-	8	89	38	152
	Faysal Bank Limited	2	12	1	11	1	27	141	54	249
	Habib Bank Limited	2	1	1	4	-	4	23	11	46
	Habib Metropolitan Bank Limited	-	-	-	1	-	7	9	14	31
	National Bank of Pakistan	9	6	3	5	1	35	96	37	192
	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	3	8	5	20
	Standard Chartered Bank (Pakistan) Limited	-	-	-	1	-	1	1	4	7
	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	2	-	5	-	11	53	-	72
	United Bank Limited	1	4	-	4	-	19	39	26	93
	Zarai Taraqati Bank Limited	-	-	-	1	-	1	2	1	5
	Islamic Banking Branches Total	20	49	9	68	7	218	630	287	1,288
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
	Sub Branches Total	1	7	0	9	0	7	45	59	128
	Grand Total	42	115	11	146	14	322	1,383	836	2,869
* Merged with KP through 25th Amendment to Constitution										

District wise Break-up of Islamic Banking Branch Network

(As of March 31, 2019)

S. No	Province	District	No. of Branches*	S. No	Province	District	No. of Branches*	
1	Sindh	Badin	3	58	Khyber Pakhtunkhwa	Abbottabad	23	
2		Dadu	6	59		Bannu	8	
3		Ghotki	3	60		Batagram	3	
4		Hyderabad	56	61		Buner	4	
5		Jacobabad	5	62		Charsadda	10	
6		Jamshoro	3	63		Chitral	7	
7		Karachi City	674	64		Dera Ismail Khan	13	
8		Khairpur	3	65		Hangu	5	
9		Larkana	6	66		Haripur	8	
10		Matiari	2	67		Karak	1	
11		Mirpurkhas	10	68		Kohat	11	
12		Naushahro Feroze	3	69		Lakki Marwat	1	
13		Shaheed Benazir Abad	16	70		Lower Dir	13	
14		Sanghar	14	71		Malakand	14	
15		Shikarpur	1	72		Mansehra	13	
16		Sukkur	18	73		Mardan	20	
17		Shahdaskot	2	74		Nowshera	21	
18		Tando Allahyar	4	75		Peshawar	97	
19		Tando Mohammad Khan	1	76		Shangla	4	
20		Thatta	2	77		Swabi	7	
21		Umer Kot	4	78		Swat	29	
			79	Tank	1			
	Sindh Total		836	80		Torghar	1	
22	Punjab	Attock	17	81		Upper Dir	7	
23		Bahawalnagar	13	82		Kohistan	1	
24		Bahawalpur	24	Khyber Pakhtunkhwa Total				322
25		Bhakkar	3	83	Gilgit-Baltistan	Skardu	2	
26		Chakwal	17	84		Diamir	5	
27		Chiniot	6	85		Gilgit	7	
28		Dera Ghazi Khan	16	Gilgit-Baltistan Total				14
29		Faisalabad	108	86	Erstwhile FATA**	Bajaur District	2	
30		Gujranwala	69	87		Khyber District	5	
31		Gujrat	53	88		Mohmand District	1	
32		Hafizabad	5	89		Orakzai District	2	
33		Jhang	14	90		Kurram District	1	
34		Jhelum	16	FATA Total				11
35		Kasur	17	91	Federal Capital	Islamabad	146	
36		Khanewal	23	Capital Total				146
37		Khushab	6	92	Balochistan	Chaghi	1	
38		Lahore City	462			93	Gawadar	6
39		Layyah	6			94	Harnai	1
40		Lodhran	5			95	Khuzdar	3
41		Mandi Bahauddin	13			96	Lasbela	6
42		Mianwali	8			97	Loralai	5
43		Multan	82			98	Panjgur	2
44		Muzaffargarh	9			99	Pishin	8
45		Nankana Sahib	7			100	Qilla Abdullah	6
46		Narowal	7			101	Qilla Saifullah	5
47		Okara	20			102	Quetta	63
48		Pakpattan	9			103	Turbat	2
49	Rahim Yar Khan	36	104			Zhob	6	
50	Rajanpur	4	105			Ziarat	1	
51	Rawalpindi	140	Balochistan Total				115	
52	Sahiwal	30	106	Azad Kashmir	Bagh	1		
53	Sargodha	32			107	Bhimber	1	
54	Sheikhupura	24			108	Dadyal	4	
55	Sialkot	45			109	Hattian Bala	1	
56	Toba Tek Singh	19			110	Kotli	5	
57	Vehari	18			111	Mirpur	17	
					112	Muzaffarabad	11	
			113	Poonch	2			
			Azad Kashmir Total				42	
	Punjab Total		1,383	Grand Total				2,869

*including sub-branches

** Merged with KP through 25th Amendment to Constitution