Islamic Banking Bulletin

March 2020

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 2.3 percent (Rs. 76 billion) during the quarter January to March, 2020. Similarly, deposits of Islamic banking industry experienced a quarterly growth of 1.5 percent (Rs. 40 billion) during the said period. Market share of Islamic banking assets and deposits in the overall banking industry was recorded at 15.2 percent and 16.9 percent, respectively by end March, 2020 **(see Table 1)**. Profit before tax of Islamic banking industry was recorded at Rs. 21 billion by end March, 2020.

Table 1: Industry Progress and Market Share*

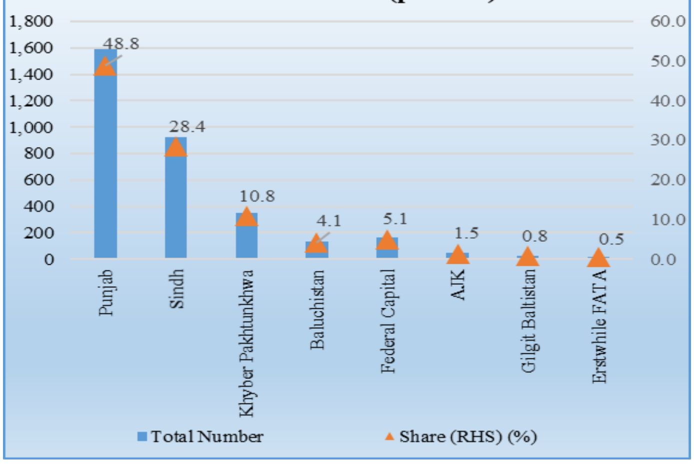
Particulars	Industry Progress			YoY Growth (%)	Share in Overall Banking Industry (%)		
	Mar-19	Dec-19	Mar-20	Mar-20	Mar-19	Dec-19	Mar-20
Assets (Rupees in billion)	2,790	3,284	3,360	20.4	15.0	14.9	15.2
Deposits (Rupees in billion)	2,199	2,652	2,692	22.4	15.6	16.6	16.9
Number of Islamic banking institutions	22	22	22	-	-	-	-
Number of Islamic banking branches**	2,869	3,226	3,250	13.3	-	-	-

Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)
*Figures in this bulletin are rounded off
**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) with 3,250 branches spread across 120 districts by end March, 2020. Despite some improvement, major share of branches is still concentrated in Punjab & Sindh (see **Figure 1)**. The number of Islamic banking windows operated by conventional banks having IBBs stood at 1,375 (see **Annexure I** for details of branches and windows).

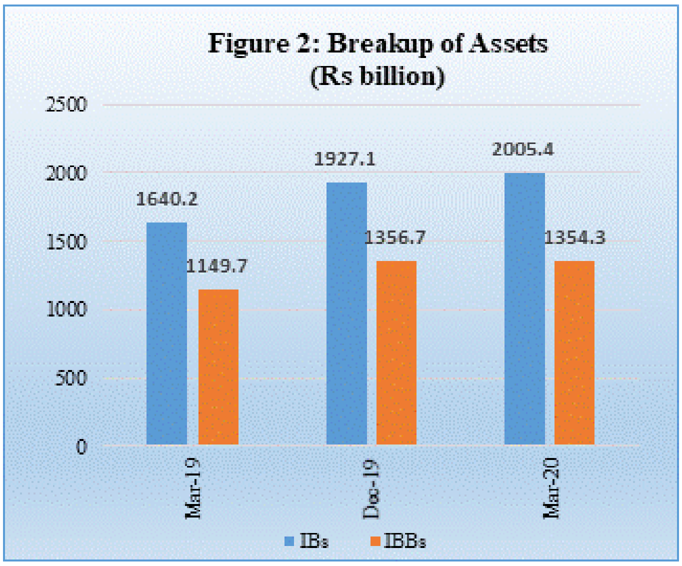
Figure 1: Region Wise Branches (number) & Relative Shares (percent)



Asset and Liability Structure

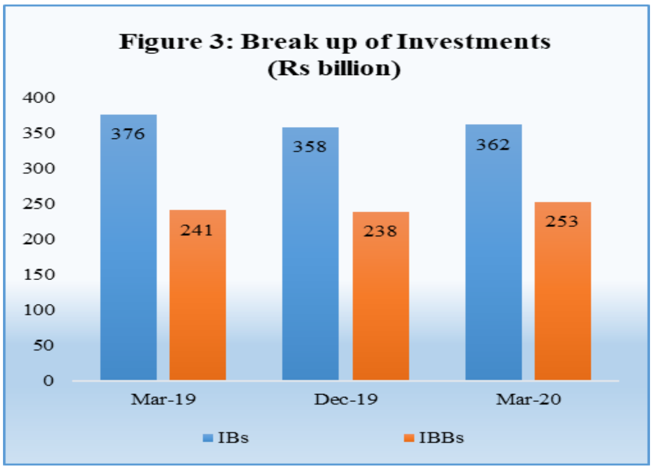
Assets: Assets of Islamic banking industry increased by Rs. 76 billion during the quarter January to March, 2020 and were recorded at Rs. 3,360 billion, compared to Rs. 3,284 billion in the previous quarter. Resultantly, the market share of Islamic banking industry's assets in overall banking industry's assets increased from 14.9 percent for the year ended December, 2019 to 15.2 percent by end March, 2020. Financing & Investments remained the major components of assets of Islamic banking industry: the share of financing and investments (net) in total assets of Islamic banking industry stood at 48.6 percent and 18.3 percent, respectively, by end March, 2020 (see section below on **Investments, Financing and Related Assets** for details).

Bifurcation of assets among IBs and IBBs reveals (see **Figure 2**) that assets of full-fledged Islamic banks increased by 4.1 percent (Rs. 78 billion) and were recorded at Rs. 2,005 billion while assets of IBBs declined by more than Rs. 2 billion and were recorded at Rs. 1,354 billion by end March, 2020. Resultantly, a marginal increase in share of IBs could be witnessed which accounted for 59.7 percent by end March, 2020 compared to 58.7 percent by end December, 2019. The share of IBBs was recorded at 40.3 percent in overall assets of Islamic banking industry during the period under review.



Investments

Investments (net) of Islamic banking industry, while experiencing growth of 3 percent, increased by Rs. 18 billion and were recorded at around Rs. 615 billion by end March, 2020 compared to Rs. 597 billion in the previous quarter. Analysis of investment with respect to bifurcation between IBs & IBBs reveals that increase in investments (net) of IBBs (Rs. 14 billion) was higher than the increase of investment in IBs (Rs. 3 billion) during the period under review. (see **Figure 3**).



Financing and Related Assets

Financing and related assets (net) of Islamic banking industry increased by Rs. 12 billion to reach at Rs. 1,634 billion by end March, 2020. Breakup of the data between full-fledged Islamic banks and Islamic banking branches of conventional banks reveals that financing and related assets (net) of IBs declined by 1 percent (Rs. 9 billion) during the period under review and stood at Rs 923 billion. While financing and related assets (net) of IBBs on the other hand, experienced 3 percent growth

Table 2: Financing Mix (% Share)

Mode	Mar-19	Dec-19	Mar-20
Murabaha	14.1	12.9	14.2
Ijarah	6.2	5.7	5.6
Musharaka	19.7	19.8	19.4
Diminishing Musharaka	32.9	34.1	31.8
Salam	2.4	2.6	2.7
Istisna	9.3	9.5	10.8
Others	15.3	15.4	15.5
Total	**100.0**	**100.0**	**100.0**

(Rs. 21 billion) and reached at Rs. 711 billion by end March, 2020. In terms of mode wise financing, the share of Diminishing Musharaka remained the highest in overall financing of Islamic banking industry with a share of 31.8 percent, followed by Musharaka (19.4 percent) and Murabaha (14.2 percent) (see **Table 2**).

Table 3: Sector Wise Financing Concentration (% Share)

	Mar-19	Dec-19	Mar-20	Industry
Chemical and Pharmaceuticals	3.8	3.7	3.6	3.3
Agribusiness	7.8	7.3	6.0	7.1
Textile	12.2	13.4	14.9	14.3
Cement	3.5	3.7	3.9	2.3
Sugar	5.2	2.5	4.6	3.7
Shoes and leather garments	0.6	0.5	0.5	0.4
Automobile and transportation equipment	1.2	1.6	1.4	1.8
Financial	0.4	0.5	0.3	2.9
Electronics and electrical appliances	1.3	1.1	1.0	1.4
Production and transmission of energy	16.9	18.4	15.7	17.1
Individuals	11.9	11.0	10.8	8.5
Others	35.3	36.4	37.2	37.3
Total	**100.0**	**100.0**	**100.0**	**100.0**

In terms of sector wise financing, production & transmission of energy retained its leading position, though experiencing slight attrition, with a share of 15.7 percent in overall financing of Islamic banking industry, followed by textile (14.9 percent) and individuals (10.8 percent) by end March, 2020 (see **Table 3**). This trend of sector wise financing of Islamic banking industry is in line with the overall banking industry.

Review of client wise financing reveals that corporate sector, while strengthening its position, accounted for 76.3 percent share in overall financing of Islamic banking industry, followed by consumer financing and commodity financing with share of 9.9 percent and 9.2 percent respectively. The share of small and medium enterprises (SMEs) financing and agriculture financing in overall financing of Islamic banking industry were recorded at 3 percent and 0.4 percent, respectively (see **Table 4**).

Table 4: Client Wise Financing Portfolio (% Share)

Sector	Mar-19	Dec-19	Mar-20	Industry
Corporate	74.5	74.6	76.3	73.3
SMEs	3.6	3.5	3.0	5.0
Agriculture	0.4	0.4	0.4	3.9
Consumer Financing	10.4	9.9	9.9	6.8
Commodity Financing	9.9	10.1	9.2	9.0
Staff Financing	1.0	1.1	1.2	1.9
Others	0.2	0.3	0.1	0.1
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 increased and were

Table 5: Asset Quality Ratios (%)

Ratio	Mar-19	Dec-19	Mar-20	Industry
NPFs to Financing (gross)	2.3	4.3	5.0	9.1
Net NPFs to Net Financing	0.3	2.0	2.6	1.8
Provisions to NPFs	89.0	54.0	50.5	82.0

recorded at 5 percent and 2.6 percent, respectively by end March, 2020 (see **Table 5**) owing to increase in NPFs.

Liabilities

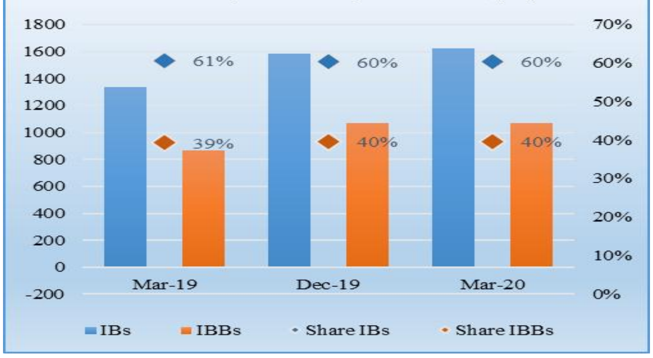
Deposits of Islamic banking industry were recorded at Rs. 2,692 billion by end March, 2020 reflecting an increase of Rs. 40 billion which has resulted in increasing its market share in overall banking industry's deposits to 16.9 percent by end March, 2020 compared to 16.6 percent in the previous quarter. The category wise breakup of deposits shows that all categories of deposits reflected growth during the period under review, except current (non-remunerative) deposits which experienced a decline. Fixed deposits increased by 1.8 percent (Rs. 11 billion) while current (remunerative), and saving deposits increased by 31.8 percent (Rs. 4 billion), 6.4 percent (Rs. 61 billion), respectively. Current (non-remunerative) deposits experienced a decline of 2.6 percent (Rs. 22 billion) by end March, 2020 (see **Table 6**).

Table 6: Break up of Deposits

	Rupees in billion			Growth (%)	
	Mar-19	**Dec-19**	**Mar-20**	**YoY**	**QoQ**
Customers					
Fixed Deposits	445	599	610	37.0	1.8
Saving Deposits	866	959	1020	17.8	6.4
Current accounts – Remunerative	13	11	15	13.8	31.8
Current accounts - Non-remunerative	722	835	813	12.6	-2.6
Others	18	30	24	37.6	-18.2
Sub-total	**2,064**	**2,434**	**2,482**	**20.3**	**2.0**
Financial Institutions					
Remunerative Deposits	132	212	206	55.6	-2.8
Non-remunerative Deposits	3	6	4	7.7	-44.6
Sub-total	**135**	**218**	**210**	**54.5**	**-4.0**
Total	**2,199**	**2,652**	**2,692**	**22.4**	**1.5**

Breakup of deposits among IBs and IBBs reveals that deposits of full-fledged Islamic banks increased by 2.7 percent (Rs. 43 billion) during the period under review and were recorded at Rs. 1,626 billion by end March, 2020. Deposits of IBBs on the other hand experienced a decline of Rs. 3 billion and were recorded at Rs. 1,066 billion by end March, 2020. Resultantly, the share of IBs in overall deposits of Islamic banking industry increased marginally and stood at 60.4 percent while share of IBBs declined slightly and was recorded at 39.6 percent during the period under review.

Figure 4: Deposits of IBs Vs. IBBs Volume (Rs billion) & Shrae (%)



Liquidity

Liquid assets to total assets and liquid assets to total deposits of Islamic banking industry experienced slight decline from previous quarter and stood at 20 percent and 24.9 percent, respectively by end March, 2020. Financing to deposits ratio (net) of Islamic banking industry was recorded at 60.7 percent by end March, 2020 compared to 51.4 percent of overall banking industry (see **Table 7**).

Table 7: Liquidity Ratios (%)

Ratio	Mar-19	Dec-19	Mar-20	Industry
Liquid Asset to Total Assets	21.0	20.8	20.0	49.8
Liquid Assets to Total Deposits	26.6	25.8	24.9	69.3
Financing to Deposits (net)	69.3	61.2	60.7	51.4

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 6.8 percent and 5.4 percent, respectively by end March, 2020 (see **Table 8**). Both the ratios remained lower than those of overall banking industry averages.

Table 8: Capital Ratios (%)

Ratio	Mar-19	Dec-19	Mar-20	Industry
Capital to Total Assets	6.4	6.8	6.8	7.3
(Capital-Net NPAs) to Total Assets	6.2	5.7	5.4	6.8

Profitability

Profit before tax of Islamic banking industry was recorded at Rs. 21 billion by end March, 2020. Profitability ratios like return on assets (ROA) and return on equity (ROE) before tax were recorded at 2.5 percent and 36.7 percent, respectively by end March, 2020. During the period under review, operating expense to gross income ratio was recorded at 47.4 percent, improving further from 51.5 percent recorded in the previous quarter (see **Table 9**). This ratio remained lower than that of overall banking industry ratio.

Table 9: Profitability & Earning Ratios (%)

	Mar-19	Dec-19	Mar-20	Industry
Profit Before Tax (Rupees in billion)	14	66	21	79
Return on Assets (before tax)	2.0	2.2	2.5	1.4
Return on Equity (before tax)	31.8	34.4	36.7	18.9
Operating Expense to Gross Income	54.7	51.5	47.4	56.6

Country Model: Kingdom of Saudi Arabia

Introduction

Kingdom of Saudi Arabia (KSA), the largest country in Gulf Cooperation Council (GCC), is the world's second largest oil producer. As of 2018, the Kingdom GDP stood at USD 786.5 billion while the real GDP was expected to grow at 1.9 percent for the year 2020 (the World Bank, Global Economic Prospects-Forecasts). However, owing to the pandemic of Corona virus, the estimate could be readjusted downward.

Saudi Arabia is the largest in GCC and second largest globally after Iran with respect to share of Islamic banking assets in overall banking industry's assets; the total Islamic banking assets amounted to USD 168.81 billion as of 2018. The Kingdom is also an active player in the sukuk market.

Islamic Banking and Finance

Saudi Arabia has a very prominent role in the development of Islamic banking and finance globally; specifically owing to the efforts in establishment of Islamic Fiqh Academy and Islamic Development Bank (IsDB) in 70's. The kingdom has a very mature and developed Islamic finance industry where Islamic banking assets represent 20.2 percent share of the global Islamic banking industry and 51.5 percent of the total domestic banking industry.

Islamic banking industry is running parallel to conventional banking industry in the Kingdom. Currently banking industry of the Kingdom consists of 12 domestic banks and 14 foreign investment banks; out of the 12 domestic banks, four are full-fledged Islamic banks (Albilad, Aljazira, Alinma and AlRajhi) and the rest are conventional banks offering Islamic banking services through their respective windows. According to Islamic Financial Stability Report (IFSB), the Islamic banking assets in the country stood at USD 168.81 billion by end fourth quarter of 2018.

Regulatory Environment

The Saudi Arabian financial sector is regulated by the central bank of Saudi Arabia; Saudi Arabian Monetary Authority (SAMA) under the Banking Control Law (BCL) of 1966, which was issued under Royal Decree No. M/5 of 1966. The Kingdom operates under a single regulatory framework for all financial institutions and the regulatory framework does not distinguish between Islamic banking and conventional banking. The use of interest is prohibited in Saudi Arabia, however, interest based transactions are practiced with the usage of term 'commission' instead of 'interest'. There is no dedicated central Shariah board and Shariah compliance is fully carried by Shariah boards of respective banks.

Banking & Finance related disputes used to fall under the purview of the Shariah courts being the 'competent court holding original jurisdiction power' till the establishment of the Banking Dispute Committee (BDC) in 1987 by SAMA. Both Islamic financial institutions and conventional financial institutions arbitrate their disputes in the same way. In case the committee fails to reach to a reasonable settlement, the dispute is referred to Shariah Courts.

In 2017, the kingdom extended license to the three renowned international rating agencies S&P Global Ratings, Fitch Ratings and Moody's Investors Service and it is believed that establishment of these agencies has helped in accelerating the growth of Shariah banking industry in Kingdom. Moreover, it is expected that in line with the Saudi Vision 2030, the legislative reforms of 2019 aimed at liberalising the financial markets including publication of the Corporate Governance Regulations, the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies and the Guidance Note to the Regulatory Rules and Procedures, a number of enhancements to the fee and commission structure of the sukuk and bond market, as well as the price stabilization mechanism for IPOs will help in further extending stimulus to banking industry including Shariah compliant banking.

Sukuk

Saudi Arabia is the world second largest sukuk issuer after Malaysia, although the Kingdom's Islamic capital market is not much developed. As of 2018, Saudi Arabia accounted for 23.1 percent of the total global sukuk issuances by jurisdiction. In 2019, Saudi Telecom Company, IsDB and Saudi Investment Bank were the three biggest names that floated their respected papers.

Takaful

Saudi Arabia Takaful industry, which is called cooperative insurance, is based on a cooperative model enforced by the Cooperative Insurance Companies Law issued in 2005. Practicing a unique cooperative model, Saudi Arabia has the world's largest takaful market, with 38 percent of global takaful contributions (IFSB 2018). The cooperative insurance industry consists of 33 cooperative insurance and reinsurance and 3 Consulting firms[1].

Conclusion

With a considerable Islamic assets base, a prosper state economically and home to more than 85 percent Muslim population, the Kingdom has great opportunity to play an instrumental role in the development of domestic and global Islamic financial industry.

Sources of Information

- Islamic Finance News {https://www.islamicfinancenews.com/brunei} Accessed on March 16, 2020
- Website Saudi Arabian Monetary Authority {http://www.sama.gov.sa/en-US/Pages/default.aspx } Accessed on March 18, 2020
- The World Bank {https://www.worldbank.org/} Accessed on March 17, 2020
- International Monetary Fund {https://www.imf.org/external/index.htm} Accessed on March 17, 2020
- Global Islamic Finance Report{ http://www.gifr.net/gifr}
- Central Intelligence Agency The Fact Book {https://www.cia.gov/the-world-factook/} Accessed on March 20, 2020
- International Islamic Financial Market Report{ http://www.iifm.net}

[1] Consulting Firms provide consultancy to cooperative insurance and reinsurance companies It may also be noted If the Saudi Arabian Monetary Agency finds that any of the insurance or re-insurance companies has violated the provisions of the Law or its implementing regulations or followed a policy liable to adversely affect its ability to fulfill its obligations, the Agency may take one or more of measures like appointing one consultant or more to provide consultation to the company in relation to the management of its activities.

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 24: (Syndicated Financing)

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 have been discussed in detail, one by one, in former issues of quarterly bulletin since January 2019.

Up till now four standards i.e. (i) No. 2 (Debit Card, Charge Card and Credit Card), (ii) No. 5 (Guarantees), (iii) No. 14 (Documentary Credit), (iv) No. 18 (Possession (Qabd)), among the above mentioned standards have been covered while in the current issue, Standard No. 24 (Syndicated Financing), is discussed below with the amendments advised by the Shariah Advisory Committee of State Bank of Pakistan.

1. Scope of the Standard

This standard covers syndicated financing operations, whether those arranged among Islamic Financial Institution(s), or between them and conventional banks, and the Institution-agent relationships relating to such operations.

2. Definition of Syndicated Financing

It refers to the participation of a group of institutions in a joint financing operation through one of the Shariah-compliant modes of financing. The accounts of the syndicated financing operation are kept independent from the accounts of the participating institutions.

3. Projects Financed Through Syndication

Syndicated financing should be channeled towards investment activities that are permissible in Shariah. It should not be totally or partially directed towards projects that encounter Shariah restriction or constitute Riba.

4. Modes of Providing Syndicated Financing to Customers

Syndicated financing should be provided to customers through Shariah compliant modes of financing, including the following:

- 4/1 Sale through bargaining, Murabahah or installments
- 4/2 Ijarah and Ijarah Muntahia Bittamleek
- 4/3 Salam and Parallel Salam
- 4/4 Istisna’a and Parallel Istisna’a
- 4/5 Mudarabah
- 4/6 Muzara’ah, Musaqat and Mugharasah
- 4/7 Investment Sukuk

5. Participation of the Institutions with Conventional Banks in Syndicated Financing

5/1 Originally, syndicated financing shall take place among Islamic financial institutions.

5/2 There is no Shariah restriction against participation of conventional banks and Islamic financial institutions in syndicated financing, as long as subscription and utilization of funds are arranged according to Shariah-compliant forms.

5/3 Originally, the syndication should be led by an Islamic financial institution. However, there is no Shariah restriction against appointing a conventional bank to lead the syndication and initiate, on its own or with Islamic financial institutions, the mechanisms and conditions of operation management. Assigning the role of the Musharakah lead manager to a conventional bank as indicated above is acceptable only if the contracts, projects financed and the modes of financing are all Shariah-compliant.

5/4 Arrangement, implementation and follow up of syndicated financing operations should take place under supervision of the Shariah supervisory boards of the institutions participating in the syndication. Preferably, a joint committee of the Shariah supervisory boards of these institutions could be formed and delegated to make decisions that become binding to all parties.

5/5 It is not prohibited for Islamic financial institutions to provide syndicated financing to certain parts of a project that also receives financing for its remaining parts from other sources through conventional modes. This could be done on condition that the accounts and lead manager arrangements of the two types of financing are kept separate. It is well known that usurious lending and borrowing is a Shariah-impermissible practice and the responsibility thereof falls right on the party who commits it.

6. Shariah-Compliant Methods of Arranging the Relationship between the Syndication Parties

The relationship between the institutions participating in a syndicated financing operation may be arranged in one of the following forms:

6/1 Mudarabah: The syndication manager acts as a Mudarib and becomes the exclusive operation manager according to the Mudarabah contract. [see Shariah Standard No. (13) on Mudarabah, item 8/9]

6/2 Musharakah: The institutions participate jointly in providing the funds and bearing any losses proportionately, whereas profits are shared as agreed upon. In this case, the institutions may select a joint committee to undertake management, or they may delegate one of them to manage the company against an increase in its profit share or a lump sum payment. A separate management contract in this case should be signed with the selected institution. [see Shariah Standard No. (12) on Sharikah (Musharakah) and Modern corporations]

6/3 Paid agency: In this case, the work to be done should be clearly defined, along with estimation of the period of agency. The agent shall become entitled to remuneration whether profit is actually materialized or not. Furthermore, the agent may be given a bonus as a lump sum amount or a share of profits above a certain limit. [See Shariah Standard No. (23) on Agency and the Act of an Un-commissioned Agent (Fodooli)]

6/4 Non-paid agency: The lead manager in this case undertakes to manage the operations for no reward, and the financing Institutions share the profit.

7. Preparatory Tasks and Commissions

7/1 It is permissible for the leading institution to receive commission for performing the preparatory tasks such as conducting feasibility studies, organization, mobilization of participatory funds, preparations of contracts etc. The commission thus obtained may be equal to, less or more than the actual cost the institution incurs for carrying out such tasks. Furthermore, an institution performing such tasks against the commission may or may not be a lead manager.

7/2 Musharakah It is not permissible to receive commitment commission. [see Shariah Standard No. (17) on Investment Sukuk and Shariah Standard No. (8) on Mudarabah, item 2/4/1].

8. Provision of Guarantee and Suretyship by the Syndication Manager

8/1 In dealing with the syndication funds the lead manager (being a Mudarib, partner or an agent) is considered as a trustee, and therefore he should not guarantee these funds except in case of misconduct, negligence or breach of conditions embodied in syndication arrangement. [see Shariah Standard No. (5) on Guarantees, item 2/2/2]

8/2 It is not permissible for the Institution that manages the syndication as a Mudarib, partner or an agent to guarantee the debtors of his partners, or to guarantee the contributions of these partners against exchange rate fluctuations. [see Shariah Standard No. (5) on Guarantees and Shari'ah Standard No. (23) on Agency and the Act of an Un-commissioned Agent (Fodooli)]

9. Exchange Rates

9/1 A specific currency should be fixed for the syndicated financing operation. However, the participating parties may pay their contributions in other currencies on condition of revaluating the contributions terms of the syndication currency, and according to the prevailing exchange rate on the same day of contributions payment.

9/2 It is permissible for any of the participating institutions to receive all its profits and entitlements in a currency other than the currency of the syndication on the condition of revaluing the receipts in terms of syndication currency and, according to the prevailing exchange rate on the day of receiving such amounts.

9/3 It is impermissible for the investment agent or any other party of the Musharakah or the Mudarabah to provide a commitment to safeguard any other party against exchange rate fluctuations. [see Shariah Standard No. (1) on Trading in Currencies, item 2/9/3].

10. Exit in Syndicated Financing

10/1 It is permissible to agree on a closed syndicated financing operation that does not allow premature exit.

10/2 It is permissible for an institution to dispose of its share in the investment to an external or internal party before liquidation, as per the contract conditions, and at the value agreed upon, if the physical assets and usufructs of the company exceed its cash money, debts and financial rights. If the company's cash money, debts and financial rights are predominant, Shariah rulings on currency exchange and debt-related transactions should be referred to and applied. It is, however, not permissible to agree beforehand on such transfer of shares at nominal value or on guarantee of a certain limit of profits. [see Shariah Standard No. (17) on Investment Sukuk and Shariah Standard No. (21) on Financial Paper (Shares and Bonds)}

Adoption of the Standard in Pakistan

For adoption of the standard in the country, following amendments have been made on the advice of the Shariah Advisory Committee, State Bank of Pakistan. In accordance with the past practice, all amendments are in the form of footnotes.

Clause No.	Original clause	Clarifications/amendments
4	4/1: Sale through bargaining, Murabahah or installments.	Should be read as 'Sale through Musawama or Murabaha either deferred or on installments.'
		Following is included to make the clause 4 consistent with Arabic text of AAOIFI Shariah Standards: 'Clause 4/6 Musharakah and Diminishing Musharakah.' Accordingly, serial number of existing Clauses 4/6 and 4/7 to be read as 4/7 and 4/8, respectively. Following is added for clarity: 'Clause 4/9 Any other mode(s) approved by Shariah Advisory Committee of State Bank of Pakistan.'
5/3	Originally, the syndication should be led by an Islamic financial institution. However, there is no Shariah restriction against appointing a conventional bank to lead the syndication and initiate, on its own or with Islamic financial institutions, the mechanisms and conditions of operation management. Assigning the role of the Musharakah lead manager to a conventional bank as indicated above is acceptable only if the contracts, projects financed and the modes of financing are all Shariah-compliant.	The clause should be read with reference to IBD Circular No. 3 of 2007 and also a self-contained Shariah Standard No. 12 pertaining to 'Sharika (Musharaka) and Modern Corporations' notified vide IBD Circular No. 1 of 2013. Consequently, the conventional bank, not having duly licensed Islamic Banking Division shall not act as lead arranger in a syndicated Islamic financing; it may however participate in the syndicate as partner.
6/1	**Mudarabah:** The syndication manager acts as a Mudarib and becomes the exclusive operation manager according to the Mudarabah contract. [see Shariah Standard No. (13) on Mudarabah, item 8/9]	The term 'item 8/9' is deleted.
6/2	**Musharakah:** The institutions participate jointly in providing the funds and bearing any losses proportionately, whereas profits are shared as agreed upon. In this case, the institutions may select a joint committee to undertake	Following is inserted as Clause 6/2 to make the Clause 6 consistent with Arabic text of AAOIFI Shariah Standard No 24 – Syndicated Financing, due to omission in English version: '6/2 Mudarabah executed with the

	management, or they may delegate one of them to manage the company against an increase in its profit share or a lump sum payment. A separate management contract in this case should be signed with the selected Institution. [see Shariah Standard No. (12) on Sharikah (Musharakah) and Modern corporations]	permission to Mudarib to commingle his capital in the Mudarabah investment. [see Shariah Standard No. (13) on Mudarabah, item 8/9]'. Accordingly, serial number of existing clauses 6/2 (Musharakah), 6/3 (Paid agency) and 6/4 (Non-paid agency) will be changed to 6/3, 6/4 and 6/5, respectively.
6/3	**Paid agency**: In this case, the work to be done should be clearly defined, along with estimation of the period of agency. The agent shall become entitled to remuneration whether profit is actually materialized or not. Furthermore, the agent may be given a bonus as a lump sum amount or a share of profits above a certain limit. [See Shariah Standard No. (23) on Agency and the Act of an Un-commissioned Agent (Fodooli)]	The clause should be read as follows: 'With the condition that the agency contract is independent and the work to be done should be clearly defined, along with estimation of the period of agency. The agent shall become entitled to remuneration whether profit is actually materialized or not. Furthermore, the agent may be given a bonus as a lump sum amount or a share of profits above a certain limit without prejudicing the entitlement of the institution of its share in the profit, if any'.
6/4	**Non-paid agency**: The lead manager in this case undertakes to manage the operations for no reward, and the financing Institutions share the profit.	The clause should be read as follows: 'The lead manager in this case undertakes to manage the operations for no reward, and the financing Institutions including the lead manager as per his ratio of investment, if any, share the profit'.
7/1	It is permissible for the leading institution to receive commission for performing the preparatory tasks such as conducting feasibility studies, organization, mobilization of participatory funds, preparations of contracts etc. The commission thus obtained may be equal to, less or more than the actual cost the institution incurs for carrying out such tasks. Furthermore, an institution performing such tasks against the commission may or may not be a lead manager.	The clause 7/1 may be read in consideration with revised clauses i.e. 6/4 (Paid agency) & 6/5 (Non-paid agency) along with changes.

7/2	Musharakah It is not permissible to receive commitment commission. [see Shariah Standard No. (17) on Investment Sukuk and Shariah Standard No. (8) on Mudarabah, item 2/4/1]	The word 'Musharaka' is deleted. The word 'Mudarabah' should be read as 'Murabahah'.
10/2	It is permissible for an institution to dispose of its share in the investment to an external or internal party before liquidation, as per the contract conditions, and at the value agreed upon, if the physical assets and usufructs of the company exceed its cash money, debts and financial rights. If the company's cash money, debts and financial rights are predominant, Shariah rulings on currency exchange and debt-related transactions should be referred to and applied. It is, however, not permissible to agree beforehand on such transfer of shares at nominal value or on guarantee of a certain limit of profits. [see Shariah Standard No. (17) on Investment Sukuk and Shariah Standard No. (21) on Financial Paper (Shares and Bonds)}	The clause should be read as follows: if the physical assets, usufructs and financial rights of the company exceed its cash and debts. If the company's cash and debts are predominant, Shariah rulings on currency exchange and debt-related transactions should be referred to and applied'. The term 'nominal value' should be read as 'face value' in the last sentence of Clause 10/2.

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

Events

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

This 5-day training program aims at up-scaling capacity levels of banking field staff, and promoting awareness amongst Shariah scholars and academia. During the first Quarter of the calendar year 2020, five iterations of 'Fundamentals of Islamic Banking Operations (FIBO)' were held in Lahore, Sukkur, Sialkot, Hyderabad and Multan to upgrade capacity level of various stakeholders.

- **Capacity Building Programs on Islamic Finance for Official of Federal Board Revenue (FBR)**

In order to further enrich exposure of FBR Officials and some other related government departments, 2-days Capacity Program on 'Islamic Banking' was held in the first quarter of calendar year 2020. This program was largely attended by Income Tax Commissioners throughout Pakistan. These Programs would not only promote a better understanding of FBR officials about Islamic banking but would also facilitate in a timely resolution of Islamic banking tax related issues.

- **Support for International Conferences / Forums**

Islamic Banking Department also extended its support to universities during first quarter of calendar year 2020 which included: COMSATS, UMT and Minhaj University Lahore in arranging conferences, seminars and workshops on the theme of Islamic finance.

Developments

- **Adoption of AAOIFI Shariah Standards**

In pursuance of one of the IBD's objective to further strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standards No. 19 (Loan (Qard)) No. 23 (Agency and the Act of an Un-commissioned Agent (Fodooli)), and No. 28 (Banking Services in Islamic Banks) have been adopted along with clarifications/amendments vide IBD Circular No. 01 of 2020. With the adoption of these three standards, the total number of AAOIFI standards, which have been adopted by SBP now stands at 15.

- **Islamic Banking Department has issued first circular of 2020**

IBD vide its Circular Letter No. 1 of 2020, has rationalized training hours for the staff, designated/transferred/posted at any new/existing Islamic branch/window or any conventional branch being converted into an Islamic branch. Further the Circular also advises on the programs that qualify as trainings on Islamic banking.

Islamic Banking News and Views

A. Local Industry News

State Bank of Pakistan to launch third Islamic banking strategic plan

Deliberations for a separate Islamic banking chapter in Pakistan's Banking Companies Ordinance is currently underway against the backdrop of the State Bank of Pakistan (SBP) preparing to unveil its next Islamic finance strategic plan in 2020, as the regulator ramps up its efforts to meet the national target of 25% Shariah finance market share by 2023. In response to market calls for a separate legislation to govern the Islamic banking industry, the Pakistani banking regulator is currently working on introducing a dedicated Islamic banking chapter into the Banking Companies Ordinance 1962, which currently regulates both conventional and Islamic banking sectors.
https://www.islamicfinancenews.com

Islamic banks stand to gain from State Bank of Pakistan's latest circulars

With the aim to improve the business environment for both corporates and financial institutions, SBP has released new circulars introducing stricter rules on foreign currency financing, addressing risks stemming from outsourcing arrangements and raising real estate exposure limit for banks. For one, the central bank published a circular requiring all foreign currency Islamic financings, irrespective of amount, to be registered at banks. These include private sector foreign currency funds mobilized through securitized instruments and issuance of bonds/sukuk. Previously, only foreign currency financings above US$1 million were required to be registered with the Exchange Policy Department of the SBP, but the central bank has delegated registration to banks.
https://www.islamicfinancenews.com

SBP adopts AAOIFI Shariah standards

The State Bank of Pakistan (SBP) has announced in a statement its adoption of the AAOIFI Shariah standards No 19 (Loan (Qard)), No 23 (Agency and the Act of an Uncommission Agent (Fodooli)) and No 28 (Banking Services in Islamic Banks). The central bank urged all Islamic banking industry players to comply with the standards or risk invoking penal action under the provisions of the Banking Companies Ordinance 1962.
https://www.islamicfinancenews.com

Pakistan releases sandbox guidelines for regulated sectors, including Islamic financial services

Ramping up efforts to encourage innovation in its regulated sectors, the Securities and Exchange Commission of Pakistan (SECP) has issued the Regulatory Sandbox Guidelines 2019 in preparation for the first cohort of the country's first-ever regulatory sandbox. The guidelines include eligibility criteria and instructions for applicants to ensure they meet requirements; Islamic financial service providers participating are urged to ensure their solutions are consistent with Shariah standards.
https://www.islamicfinancenews.com

Pakistan to issue energy sukuk

Pakistan's Economic Coordination Committee of the Cabinet has given its approval to the Ministry of Energy (Power Division) to raise PKR 200 billion (US$1.29 billion) through the issuance of Pakistan Energy Sukuk II, proceeds from which will be used to repay liabilities of the distribution companies.

According to Gulf Today, the sukuk will use assets of distribution and generation companies as collateral through open competitive bidding.
https://www.islamicfinancenews.com

SBP revises financing limit for ILTFF

The State Bank of Pakistan (SBP) has announced in a statement that, with a view to further promoting investment in export-oriented projects, the scope of the Islamic long-term financing facility (ILTFF) has been extended to all sectors, which is allowed as per the Export Policy Order issued by the Ministry of Commerce from time to time. In addition, the maximum financing limit for a single project under the ILTFF has been increased from PKR 2.5 billion (US$16.11 million) to PKR 5 billion (US$32.23 million) for new projects and upgrade of projects.
https://www.islamicfinancenews.com

SBP sells GOP Sukuk Ijarah

The State Bank of Pakistan has conducted an open market operation for an outright sale of GOP Sukuk Ijarah for which it received PKR 22.45 billion (US$144.7 million) in bids and accepted PKR 4.65 billion (US$29.97 million), according to a statement.
https://www.islamicfinancenews.com

Pakistan to borrow from Islamic banks

The Pakistani government is set to borrow PKR 200 billion (US$1.29 billion) from Islamic banks to pay off dues owed to energy firms, and has invited consortiums to submit the desired return in order to acquire the loan at the minimum possible price, The Express Tribune reported, citing an industry official. At least one Shariah compliant consortium, led by Meezan Bank, is said to have submitted the desired return; the bids were scheduled to be opened in the presence of the consortiums' representatives on the 17th February 2020.
https://www.islamicfinancenews.com

Pak-Qatar Takaful expands network

Pak-Qatar Takaful's nationwide branch network has reached over 100 branches across more than 90 cities, the Takaful operator confirmed in a statement. There are plans to further expand the network this year. Serving over 700,000 members and over 1,100 corporate clients, Pak-Qatar Takaful recorded an aggregate turnover of PKR 9 billion (US$58.16 million) in 2019 while Pak-Qatar Family Takaful declared a surplus of about PKR 447 million (US$2.89 million) since its inception.
https://www.islamicfinancenews.com

SECP issues simplified takaful requirements

The Securities and Exchange Commission of Pakistan (SECP) has issued simplified product submission requirements applicable to takaful products that have standardized features, terms and conditions similar to the operators' existing products, a statement said. The new requirements state that a life insurer is only required to provide details on products with differences in pricing or benefit structure from its other existing products. For Takaful products, a certificate from the Shariah advisor for the permissibility of the product is also required.
https://www.islamicfinancenews.com

B. International Industry News

Tunisia plans to introduce new regulations on sukuk issuance and sukuk funds

Tunisia's Financial Market Council intends to tweak its securities issuance regulations to further accommodate sukuk while also proposing to allow the establishment of sukuk funds — two signs that a long-awaited maiden sovereign sukuk issuance is still on the table. The proposed update to the securities issuance regulations aims at harmonizing Tunisia's regulatory framework following the introduction of the sukuk law back in July 2013. It also details how a sukuk prospectus should be drafted. The successful transaction was a groundbreaking development for Tunisia's Islamic debt capital market, as it was no less than the first Shariah papers ever issued in the Republic.
https://www.islamicfinancenews.com

Islamic finance opportunities in Syria shattered by civil war and sanctions

Despite the fact that Syria counts three full-fledged Islamic banks, namely Al Baraka Bank, Cham Bank and Syrian International Islamic Bank, Islamic banking has not achieved significant growth in the country while the industry is getting an increasing demand in Muslim and non-Muslim countries. This is not due to the Syrian crises that started in 2011 but more to a lack of knowledge of the industry and therefore a lack of practitioners. But globally, before 2011, 14 banks were operating in Syria (including Islamic banks), being a strong impactor on the Syrian GDP and showing a spectacular growth of the financial sector. The civil war seriously affected all the sectors and industries with an active population that decreased by 25% and if the Syrian economy reached US$ 60.5 billion in 2010, it has dramatically dropped between US$ 24 billion and US$ 28 billion nowadays.
https://www.islamicfinancenews.com

IFSB issues new papers

The IFSB has issued three working papers: Intermediaries in the Islamic Capital Market, Regulatory and Supervisory Issues in Shariah Compliant Hedging Instruments and a joint IFSB-Arab Monetary Fund working paper on Money Laundering and Financing of Terrorism Risks in Islamic Banking. The standard-setting body also released a revised compilation guide on its Prudential and Structural. Islamic Financial Indicators and a second set of frequently asked questions on four of its standards, namely: Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukuk and Islamic Collective Investment Schemes) (IFSB-19); Key Elements in the Supervisory Review Process of Takaful/Retakaful Undertakings (IFSB-20); Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment] (IFSB-21); and Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services [Banking Segment] (IFSB-22).
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S&P and Dow Jones Islamic benchmarks finished 2019 with standout performance

The S&P and Dow Jones Shariah compliant global benchmarks finished a standout 2019, a welcome turnaround in comparison to lackluster returns of the prior year. Broad-based Islamic indices outperformed their conventional counterparts in 2019 as information technology, which tends to be overweight in Islamic indices led sector returns by significant margins, while financials, which are underrepresented in Islamic indices, continued to trail behind the broader market. The S&P Global BMI Shariah and Dow Jones Islamic Market (DJIM) World each gained 31.2% and 30.9% respectively, outperforming the conventional S&P Global BMI by an excess of 400bps.

https://www.islamicfinancenews.com

AAOIFI issues governance standards

AAOIFI has published three final governance standards: Shariah Compliance and Fiduciary Ratings for Islamic Financial Institutions, Internal Shariah Audit for Islamic Financial Institutions and Sukuk Governance, according to a statement.
https://www.islamicfinancenews.com

AAOIFI issues final standard on code of ethics

AAOIFI's governance and ethics board has approved the issuance of the final standard on the code of ethics for Islamic finance professionals, according to a statement. This marks the completion of the first of the four key documents AAOIFI has planned to develop as part of its comprehensive ethics project, which commenced in January 2017.
https://www.islamicfinancenews.com

Turkey welcomes first sukuk for natural gas distribution sector

A Turkish energy company has turned to the Islamic capital market to raise funding for the natural gas distribution sector, the first for the Republic as Turkey soldiers on with creating a sustainable renewable energy sector. The first issuance of Islamic lease certificates in the natural gas distribution sector of Turkey was worth TRY 150 million (US$ 25.28 million), and was also the second issuance for the wider energy sector, affirming the country's aspirations of forming a natural gas corridor within its borders.
https://www.islamicfinancenews.com

Philippines's new Islamic banking rules vital step forward but constraints remain

Market players have welcomed in earnest the Philippines's long-awaited Islamic banking regulations which set the foundation for its fledgling industry; but the ASEAN economic powerhouse still has to wrangle with monumental challenges, compounded by the absence of an enabling environment for other integral components of the ecosystem, if it wants to fully develop its Shariah finance sector. Despite being among the first in the world to house a full-fledged Islamic bank almost half a century ago, the Philippines has for years been struggling to expand the Shariah banking proposition to its 105 million strong population..
https://www.islamicfinancenews.com

Jordan: A look at the last 15 years

Since its incorporation into Jordanian law under a separate chapter in Banking Law No (28) of 2000, Islamic financing has shifted from a revolutionary financial instrument into a core division of the economy. This shift corresponded with the emergence of Islamic financing as a powerful means of funding not only in the MENA and GCC regions, but on a global scale predominantly in Asia and other continents. The evolution of Islamic financing in Jordan has not only matched global reliance on it, but also solidified Jordan as a serious competitor within the Islamic financing market.
https://www.islamicfinancenews.com

Bangladesh Bank approves two new Shariah-based banks

Bangladesh Bank, the central bank of Bangladesh, has approved two new banks to operate Shariah-based banking during its board meeting held on the 9th February 2020 at its headquarters in the capital

city of Dhaka. The banks are Standard Bank and NRB Global Bank. NRB Global Bank will operate in the name of Global Islami Bank after converting into a Shariah-based banking operation. There is robust growth in the Islamic banking industry in Bangladesh. At present, there are eight full-fledged Islamic banks operating with 1,198 branches out of a total of 10,387 branches in the whole banking industry that has 59 scheduled banks.
https://www.islamicfinancenews.com

2020 promises strong pipeline of sukuk including green deals
S&P Global Ratings reported that it expects that there will be a strong demand for sukuk issuance in 2020. The rating agency reports that total sukuk issuance is estimated to be between US$160 billion and US$170 billion this year, thus representing a 5% growth on the US$162 billion observed in 2019 compared with US$129 billion in 2018. S&P expects that factors contributing to the stronger appetite for sukuk issuance will be robust global liquidity and initiatives by governments. Several core Islamic markets have committed to diversify their energy use with contributions from green energy initiatives that are predicted to be financed by the sukuk market.
https://www.islamicfinancenews.com

Senegal leverages Islamic microfinance to fill its MSME financing gap
Profiting from the recent introduction of a dedicated Islamic microfinance regulatory framework in West Africa, Senegal is leveraging the industry to boost its economy, create new jobs and reduce poverty. Colloquially known as PROMISE, the program aims to financially support 50,000 MSMEs and create 25,000 new jobs over five years, with a focus on women and the youth as well as rural areas. Microfinance institutions offering Islamic solutions will be pivotal in the success of this plan designed to reduce unemployment and poverty while also partly bridging the US$ 915 million MSME financing gap representing 6.64% of Senegal's GDP, according to SME Finance Forum.
https://www.islamicfinancenews.com

SAMA issues Shariah Governance Framework for Saudi banks
On the 13th February 2020, the Saudi Arabian Monetary Authority (SAMA) issued the Shariah Governance Framework (Framework) for Saudi Arabian banks. The Framework shall be effective as of the 9th August 2020 and will apply to Saudi banks which provide Shariah compliant financial services. The Framework sets out the minimum governance and oversight requirements for banks that provide Shariah compliant banking services. In general, the Framework (1) requires banks to internally adopt a Shariah governance policy to implement the Framework, (2) requires banks to establish a Shariah committee (Committee), including setting out the requirements for membership of the Committee and (3) set outs the roles and responsibilities of the bank's board and executive management. The Framework appears to be a further step toward enhancing the confidence in Shariah compliant services provided by SAMA-regulated financial institutions in the Kingdom.
https://www.islamicfinancenews.com

IsDB tackles COVID-19 threats
The IsDB Group has affirmed its commitment to assist its member countries in addressing the threats posed by the COVID-19 outbreak effectively. In a statement, the multilateral bank said it is looking to retrofit existing programs, scale up financing for healthcare infrastructure that are fit-for-purpose and promote the relevant exchange of experience through its reverse linkage program. The IsDB will also evaluate the readiness of affected and vulnerable member countries, identify potential gaps in

response delivery and develop the necessary mechanisms to speed up the emergency preparedness response.
https://www.islamicfinancenews.com

Sri Lanka: Bouncing back
After a spate of negative, anti-Muslim sentiments following the April 2019 Easter Sunday attack that rocked the country and slowed down business, the Islamic finance industry is back on its feet. Sri Lanka's Banking Act No. 30 of 1988, amended in 2005, allows commercial and specialized banks to offer Islamic finance products. The Central Bank of Sri Lanka requires these banks to maintain separate books of accounts and to comply with the same regulations imposed on conventional banks.
https://www.islamicfinancenews.com

New Islamic bank in Bangladesh
Bangladesh Bank has approved the proposal of Jamuna Bank to become a full-fledged Islamic bank, bringing the number of Shariah banks in the country to 11, according to Dhaka Tribune.
https://www.islamicfinancenews.com

PSE updates list of Shariah compliant companies
Based on Memorandum CN – No 2020- 0001 of the Philippine Stock Exchange (PSE), there were 48 Shariah compliant companies as of the end of the fourth quarter of 2019. This new list has an additional three companies compared with the list in the third quarter. The PSE retained the services of Ideal Ratings in formulating the updated list based on the standards prescribed by AAOIFI. This publication of the PSE gained added momentum with the enactment of Republic Act No 11439, which is a general legislative framework on Islamic banking and finance in the Philippines. The Securities and Exchange Commission (SEC), which is the regulator of capital markets in the Philippines, has allowed the quarterly publication by the PSE of the said list. The expectation is for the SEC to eventually issue guidelines on the issuance of sukuk and other Shariah compliant instruments by Philippine entities.
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Islamic banking boosts agent banking activities in Bangladesh
The Islamic banking industry is playing a vital role to boost agent banking in Bangladesh through its large network. As Bangladesh has developed a sizeable Islamic finance industry, the agent banking market has also been thriving significantly through Shariah-based banking in the country. Islami Bank Bangladesh (IBBL) has the highest amount of deposits with BDT 16.3 billion (US$ 188.12 million), which is 21.69% of the total deposits in agent banking in Bangladesh. Another Shariah-based bank, namely Al-Arafah Islami Bank, has around 20% share of the total deposits in agent banking. Agent banking has also been playing a major role in the financial inclusion of rural people, especially for women where the number of accounts of women has considerably increased by 56.84% from the previous quarter.
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C. Articles & Views

What is the risk of Islamic finance education?
One of the major risks banks face is non-performing loans, i.e. loans that cannot be repaid and also known as bad loans. Then what about the risk of the Islamic finance education sector? I will name this

risk as non-performing graduates risk or unemployed graduate's risk. Employment of graduates is one of the main indicators of the successful education program. However, today finance and economics graduates are part of the unfortunate segment of unemployed youth. This question was raised a number of times during the forums, conferences and symposiums on Islamic finance education. As educators, we are aware of the technological development, which rapidly shifts the frontier between the work tasks performed by humans and those performed by machines and algorithms and major transformations in the global labor markets.
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Cybersecurity: Rising threats and fears

As cyberattacks may cause immediate financial consequences and long-term damage to a financial institution's image, brand and reputation, cybersecurity has become a top priority for regulators, banks and financial institutions. With the digital revolution, financial institutions have relatively recently integrated cybersecurity in their risk management strategy. Cheaper and easier attacks such as ransomware, denial-of-service attacks, ATM hacking, code skimming, card fraud, phishing and USB drops are also great threats. In these attacks, the human factor is essential. The risk can only be reduced to its minimum by creating awareness. As cybersecurity, threats are growing, financial institutions need to cover any potential loss that would result from an attack.
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Client primacy instead of shareholders to increase benefit maximization for Islamic banks

Islamic banks are expected to base their decision-making models on client primacy instead of shareholders. The interest of stakeholders is also expected to be addressed before maximizing their financial returns. Moreover, benefit maximization is no longer limited to maximizing shareholders' long-term value (MSV) in Islamic banks as Islamic financial institutions need to align their metrics with their corporate purpose as financial intermediaries. Pricing strategy and the policy related to price elasticity of demand may be an example of how embracing client primacy may influence the decision-making process in Islamic banks. With relatively lower elasticity, there is an opportunity to increase shareholders' financial returns through increasing prices.
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Help small businesses with ethical investing

The New Year could be a chance to support small businesses. Small businesses serve their communities well, treat customers like old friends and treat their staff like family. These businesses are built on passion rather than profit, and by supporting them; you are making a real difference. Instead of going to the supermarket to get, your groceries you could go to the farmers' market or you could try shopping on Etsy instead of Amazon. Another way of supporting local businesses is with Islamic crowdfunding. Islamic crowdfunding enables multiple investors to contribute toward an SME loan. Islamic crowdfunding enables investors to control exactly where they invest their money, so if there is a particular SME that they want to support, then they can do so.
https://www.islamicfinancenews.com

Takaful is ethical insurance for all religions

Ethics and religion are inseparable. Ethics is known as the guide to mold us to behave fairly and to create a harmonious society. Its role in cultivating civilized individuals and societies cannot be undermined. Due to its ability to regulate behavior, ethics has interested researchers in the field of

business. Many countries have issued ethical codes of conduct to guide business activities. We are exposed to risk and most of the time; it will result in a financial loss for the unfortunate. To mitigate risk, most people subscribe to insurance. In some cases, the government requires certain types of general insurance products like motor insurance. Islam allows risk management but not involvement in insurance due to its non-Shariah compliance nature and unethical flavor.
https://www.islamicfinancenews.com

Can Islamic finance increase financial inclusion and economic development?
Countries worldwide are increasingly viewing financial inclusion as a crucial part to economic development as it is significant for a sustainable economy. Since over 90 developing countries, representing more than 75% of the world's unbanked population, signed the Maya Declaration (the Alliance for Financial Inclusion's initiative to encourage national commitments to financial inclusion) in 2011 to achieve desirable socioeconomic outcome, financial inclusion has become a growing important concern for a vast number of governments worldwide. Financial inclusion is broadly defined as a measure of the proportion of individuals and firms that use financial services. The benefits go beyond individuals and firms as greater access to financial services for both individuals and firms may help to reduce income inequality and accelerate economic growth. Based on the foregoing discussion, it is very clear that in order to promote financial inclusion among the masses in Pakistan, financial services must be offered to customers and the public by keeping in view the religious preference and cultural norms.
https://www.islamicfinancenews.com

Blockchain- a Shariah perspective
Blockchain is considered a tool to manage transaction databases in a chain of distributed digital transactions (algorithms) through the internet, whereby the contracting parties in financial and commercial transactions can execute deals without a medium or a third party. One of blockchain's main functions is managing contracts; any organization that depends heavily on contracts such as financial institutions and real estate companies do benefit from blockchain technology in updating, managing and insuring contracts. If we observe its evaluation from a Shariah perspective based on the previous conception, then it is permissible for technology companies to provide such services to users, whether individuals or corporations, under subscription contracts or the like, for a specific fee. The contract between the technology company and its clients is adjusted to be a joint lease (Ijarah) contract between them, subject to the terms of the lease contract and its provisions in general, and to the provisions of the lease contract with a joint lessee in particular.
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Regtech: Game-changer for Islamic finance
The lack of regulation and supervision in the financial markets that prevailed before 2007–08 accelerated the emergence of the factors that caused the financial crisis. As a reaction to this situation after the crisis, very detailed regulations and comprehensive supervision schemes emerged. The abundance of regulations and data affected the effectiveness of financial institutions, where it became practically impossible for financial institutions to leave their regulatory compliance task to human power alone. Today, one of the most pronounced challenges of the Islamic finance industry is the lack of harmonization of the processes required to verify the Shariah (Islamic law) compliance of Islamic financial instruments. Most Islamic financial institutions verify Shariah compliance of their Islamic financial instruments through their in-house review committees. Financial institutions that do not have

an in-house review committee can receive this service from Shariah advisory firms that provide Shariah consultancy. However, if this harmonization can be achieved, at least at a regional level in the beginning, the efficiency provided by regtech can lead to a greater leap than ever for Islamic finance.
https://www.islamicfinancenews.com

Waqf: An alternative to development finance

Waqf is a specific instrument of the Islamic economy that aims to address complex social issues. Waqf is defined in Islamic law as a donation made in perpetuity by an individual to a work of public, pious or charitable purpose, or to one or more individuals. Thus, Waqf has a direct impact on economic development and the wellbeing of beneficiary populations. Today, with the financing instruments of Islamic finance, Waqf institutions can raise more funds and generate more revenue thus improving their economic efficiency. Islamic finance offers several Shariah compliant products that can contribute to the financing of the Waqf institution.
https://www.islamicfinancenews.com

Afghanistan's Islamic banking industry still not profitable due to excess liquidity

Since the beginning of the banking liberalization era post-2003, Shariah non-compliance was cited as a major reason for not using the conventional banking system by the people of Afghanistan. Therefore, the introduction, as well as promotion, of Islamic finance is considered the appropriate methodology to attract more people and increase the level of financial inclusion in the formal financial system of the country. Providing a Shariah compliant banking system was then important for Da Afghanistan Bank (DAB), the central bank of Afghanistan, and hence DAB granted a license to the first Islamic banking window in 2008 with the aim of boosting financial inclusion and attracting more faith-based customers to the banking system. Nevertheless, the asset base of the Islamic banking sector has almost doubled in the last two years; however, the financing to deposit ratio remains small and the Islamic banking industry is still not profitable due to excess liquidity. Thus, it is considered crucial for the central bank to introduce Islamic liquidity management tools at the central bank level, create an interbank Islamic money market and collaborate with the Ministry of Finance to issue sovereign sukuk to absorb excess liquidity from the Islamic banking industry.
https://www.islamicfinancenews.com

Evaluation of Islamic leasing from regulatory perspective

There are some issues in Islamic leasing in terms of accounting treatment and disclosure in financial statements and their legal and economic results. According to the IFRS, a finance lease is recorded upon the criteria of the 'substance over form' rule. This implies that the legal form represented by the ownership of the asset by the lessor falls behind the economic considerations that relate to the benefits of the asset to the lessee. As a consequence, the lessor will report the amount of rent received as receivables in the assets side of the balance sheet, and the lessee will account for the leasing as an asset at the same time, he reports a liability in terms of depreciation. According to AAOIFI, substance and form are equally important and a lease is recorded upon the criteria of both the substance and form. Therefore, all lease contracts are treated as operating leases. In the current practice of Islamic leasing, financial leasing is very common and the real objective is generally sale and finance rather than lease. Therefore, the IFRS approach in leasing practice is in first place because of tax advantages and some international criteria such as Basel in the banking sector. As a consequence, the current Islamic leasing practice is generally a type of sale agreement in terms of the substance.
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Annexure: I

Islamic Banking Branch Network

(As of March 31, 2020)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	184	-
	BankIslami Pakistan Limited	227	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Meezan Bank Limited	775	-
	MCB Islamic Bank Limited	186	-
	Sub-Total	**1,582**	
Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Limited	117	60
	Askari Bank Limited	91	-
	Bank Al Habib Limited	87	142
	Bank Alfalah Limited	163	121
	Faysal Bank Limited	413	24
	Habib Bank Limited	48	493
	Habib Metropolitan Bank Limited	31	224
	National Bank of Pakistan	189	-
	Silk Bank Limited	30	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	25	-
	Standard Chartered Bank (Pakistan) Limited	4	62
	Summit Bank Limited	14	35
	The Bank of Khyber	84	39
	The Bank of Punjab	98	-
	United Bank Limited	100	162
	Zarai Taraqiati Bank Limited	5	
	Sub-Total	**1,513**	**1,375**
	Total Full-Fledged Branches	**3,095**	**-**
Sub Branches	AlBaraka Bank (Pakistan) Limited	8	-
	Askari Bank Limited	3	-
	BankIslami Pakistan Limited	112	-
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	1	
	Habib Bank Limited	2	-
	United Bank Limited	2	-
	Total Sub-Branches	**155**	**-**
	Grand Total Branches/Sub-Branches	**3,250**	**1,375**

Source: Information/Data obtained from different banks

Annexure: II

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

(As of March 31, 2020)

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	2	16	102	48	184
	BankIslami Pakistan Limited	4	14	-	9	3	20	99	78	227
	Dubai Islamic Bank Pakistan Limited	7	5	-	15	3	10	86	84	210
	Meezan Bank Limited	6	26	1	36	3	48	414	241	775
	MCB Islamic Bank Limited	2	13	2	9	1	11	79	69	186
	Islamic Banks	**22**	**65**	**3**	**75**	**12**	**105**	**780**	**520**	**1,582**
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	-	3	1	10	31	38	87
	Bank Alfalah Limited	1	5	-	13	-	11	93	40	163
	Faysal Bank Limited	7	21	3	18	7	40	231	86	413
	Habib Bank Limited	2	1	1	4	-	4	24	12	48
	Habib Metropolitan Bank Limited	-	-	-	1	-	7	9	14	31
	National Bank of Pakistan	9	6	3	6	1	35	95	34	189
	Silk Bank Limited	1	1	-	3	-	5	11	9	30
	Sindh Bank Limited	1	1	-		-	2	7	3	14
	Soneri Bank Limited	-	1	1	2	1	5	10	5	25
	Standard Chartered Bank (Pakistan) Limited	-	-	-		-	1	1	2	4
	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	6	-	6	-	13	72	-	98
	United Bank Limited	1	4		5	-	19	39	32	100
	Zarai Taraqiati Bank Limited		-	-	1	-	1	2	1	5
	Islamic Banking Branches Total	**25**	**62**	**12**	**80**	**14**	**240**	**752**	**328**	**1,513**
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
	Dubai Islamic Bank Pakistan Limited							9	16	25
	Faysal Bank Limited		-	-	-	-	-	1	-	1
	Habib Bank Limited	-	-	-	-	-	-	-	2	2
	The Bank of Punjab	-	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	-	1	-	1		-	2
	Sub Branches Total	**1**	**7**	**0**	**10**	**0**	**7**	**55**	**75**	**155**
	Grand Total	**48**	**134**	**15**	**165**	**26**	**352**	**1,587**	**923**	**3,250**

* Merged with KP through 25th Amendment to Constitution

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of March 31, 2020)

S. No.	Province	District	No. of Branches*
1	Sindh	Badin	4
2		Dadu	6
3		Ghotki	4
4		Hyderabad	63
5		Jacobabad	5
6		Jamshoro	3
7		Karachi City	738
8		Khairpur	3
9		Larkana	6
10		Matiari	4
11		Mirpurkhas	13
12		Naushahro Feroze	3
13		Shaheed Benazir Abad	18
14		Sanghar	16
15		Shikarpur	1
16		Sukkur	20
17		Shahdadkot	2
18		Tando Allahyar	4
19		Tando Mohammad Khan	3
20		Thatta	3
21		Umer Kot	4
Sindh Total			**923**
22	Punjab	Attock	20
23		Bahawalnagar	19
24		Bahawalpur	28
25		Bhakkar	5
26		Chakwal	19
27		Chiniot	6
28		Dera Ghazi Khan	19
29		Faisalabad	121
30		Gujranwala	80
31		Gujrat	58
32		Hafizabad	6
33		Jhang	15
34		Jhelum	19
35		Kasur	19
36		Khanewal	30
37		Khushab	8
38		Lahore City	515
39		Layyah	7
40		Lodhran	5
41		Mandi Bahauddin	15
42		Mianwali	9
43		Multan	91
44		Muzaffargarh	12
45		Nankana Sahib	11
46		Narowal	10
47		Okara	27
48		Pakpattan	11
49		Rahim Yar Khan	44
50		Rajanpur	4
51		Rawalpindi	161
52		Sahiwal	33
53		Sargodha	36
54		Sheikhupura	28
55		Sialkot	54
56		Toba Tek Singh	22
57		Vehari	20
Punjab Total			**1,587**

S. No.	Province	District	No. of Branches*
58	Khyber Pakhtunkhwa	Abbottabad	24
59		Bannu	9
60		Batagram	3
61		Buner	5
62		Charsadda	10
63		Chitral	7
64		Dera Ismail Khan	15
65		Hangu	6
66		Haripur	12
67		Karak	1
68		Kohat	11
69		Lakki Marwat	1
70		Lower Dir	15
71		Malakand	15
72		Mansehra	16
73		Mardan	21
74		Nowshera	22
75		Peshawar	105
76		Shangla	4
77		Swabi	8
78		Swat	30
79		Tank	2
80		Torghar	1
81		Upper Dir	7
82		Kohistan	2
Khyber Pakhtunkhwa Total			**352**
83	Gilgit-Baltistan	Astore	1
84		Ghizer	1
85		Hunza	1
86		Skardu	3
87		Diamir	7
88		Gilgit	13
Gilgit-Baltistan Total			**26**
89	Erstwhile FATA**	Bajaur Agency	3
90		Khyber Agency	7
91		Mohmand Agnecy	1
92		Orakzai Agency	2
93		Kurram Agency	2
Erstwhile FATA Total			**15**
94	Federal Capital	Islamabad	165
Federal Capital Total			**165**
95	Balochistan	Chaghi	2
96		Gawadar	8
97		Harnai	1
98		Kech	2
99		Khuzdar	4
100		Lasbela	6
101		Loralai	6
102		Noshki	1
103		Nasirabad	1
104		Panjgur	2
105		Pishin	8
106		Qilla Abdullah	6
107		Qilla Saifullah	7
108		Quetta	67
109		Sibi	2
110		Turbat	2
111		Zhob	6
112		Ziarat	3
Balochistan Total			**134**
113	Azad Kashmir	Bagh	2
114		Bhimber	1
115		Dadyal	4
116		Hattian Bala	1
117		Kotli	6
118		Mirpur	19
119		Muzaffarabad	12
120		Poonch	3
Azad Kashmir Total			**48**
Grand Total			**3,250**

*including sub-branches

** Merged with KP through 25th Amendment to Constitution