

5 Islamic Banking

5.1 Overview

During FY19, Islamic banking industry (IBI) continued its growth momentum, recording improvement in all the key performance indicators. The industry's asset base, while recording a 20.6 percent YoY growth, reached Rs 2,992 billion, equivalent to 14.4 percent of the country's overall banking system assets at end June 2019. Similarly, deposits of the IBI grew by 18.8 percent YoY and were recorded at Rs 2,415 billion, constituting 15.9 percent of the overall banking industry's deposits at end June 2019 (**Table 5.1**).

Table 5.1: Industry Progress and Market Share

	Islamic Banking Industry Progress		Percentage Growth (YoY)		Share in Overall Banking Industry (Percentage)	
	Jun-18	Jun-19	Jun -18	Jun-19	Jun-18	Jun-19
	Rs in billions					
Total Assets	2,482	2,992	21.9	20.6	12.9	14.4
Deposits	2,033	2,415	18.2	18.8	14.8	15.9
Total IBIs	21	22	-	-	-	-
Total Branches*	2,685	2,913	15.7	8.5	-	-

Source: Data/information submitted by banks under quarterly Reporting Charts of Accounts (RCOA)

*Number includes sub-branches

Net Financing, a key component of IBI assets, recorded 16.7 percent YoY growth and reached Rs 1,544 billion at end June 2019 from Rs 1,323 billion recorded in the same period last year. Similarly, net investments, growing by 9.3 percent YoY, reached Rs 606 billion at end June, 2019 from Rs 555 billion recorded in the corresponding period. The IBI financing to deposit ratio (FDR) was recorded at 63.9 percent during the period under review compared to the conventional banking industry's advances to deposits ratio of 53.2 percent.

During FY19, the IBI further expanded its branch network across the country. At end June 2019, 22 Islamic Banking Institutions (5 full-fledged Islamic banks, 16 conventional and one specialized bank i.e. Zarai Taraqiati Bank Limited having Islamic banking branches) were providing various Shariah compliant products and services through their network of 2,913 branches across 113 districts of the country. The IBI added 228 branches to its branch network during the period under review for providing better access to its clients. In addition to branches, 1,348 Islamic banking windows are being operated by conventional banks having standalone Islamic banking branches were also serving faith sensitive clients.

5.2 Initiatives for Promotion of Islamic Banking during FY19

SBP has taken following measures/key steps during FY19 for the promotion of Islamic banking in the country:

5.2.1 Adoption of AAOIFI Shariah Standards

SBP 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 vide IBD Circular No. 01 dated March 01, 2019. Previously, SBP had adopted six AAOIFI Shariah Standards. Adoption

of these Shariah standards marks a major milestone towards the standardization of Shariah products and practices in Islamic banking industry of Pakistan with internationally recognized standards.

5.2.2 Islamic Financing Facilities

In order to provide Shariah compliant alternatives of conventional financing facilities to meet demand of faith sensitive clients, SBP, during FY19, issued ‘Islamic Financing Facility for Renewable Energy (IFRE)’, ‘Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP)’, ‘Islamic Refinance Facility for Modernization of SMEs (IRFMS)’. Further, in order to facilitate availability of long-term affordable funding to some of the selective low income segments, SBP launched ‘Islamic Financing Facility for Low Cost Housing for Special Segments’ on the basis of Mudarabah.

These financing facilities were issued in line with similar facilities issued earlier like ‘Islamic Long Term Financing Facility (ILTFF)’ on the basis of Mudarabah.

5.2.3 Pakistan Energy Sukuk

The Government of Pakistan issued first the Pakistan Energy Sukuk of Rs 200 billion through Power Holding Private Limited, a Government owned company. The sukuk has been declared SLR eligible and is based on Ijarah mode, having a 10-years maturity with semi-annual rental payments.

5.2.4 Revision in Format of Interim Financial Statements for Islamic Banking Institutions

SBP amended format of interim financial statements (quarterly & half-yearly) for banks/ DFIs in view of the increasing size of the industry and developments taking place at international level to enhance disclosure requirements. Some additional disclosure requirements have been introduced for Islamic banking institutions, especially for Islamic banking branches (IBBs) of conventional banks. As per revised format, IBBs are now required to provide breakup of investments, interbank transactions, deposits, profit earned/ expensed and contingencies and commitments in the form of notes in their quarterly/ half yearly financial statements.

The above-mentioned amendments aim to provide more detailed and meaningful insight to relevant stakeholders about a business module/ financial health of an Islamic banking institution.

5.2.5 Awareness and Capacity Building Programs for Islamic Banking Industry

SBP is actively engaged in promoting awareness amongst masses and building capacity of the industry through arranging various local and international programs/ events. During FY19, awareness creation and capacity building remained part of vital components of SBP’s strategy to spearhead the growth momentum of IBI. The following initiatives were taken in the matter:

- SBP collaborated with various reputed national and international institutions for organizing targeted seminars, training programs and workshops on Islamic banking. SBP, in collaboration with NIBAF, offered ten iterations of a training program titled ‘Fundamentals of Islamic Banking Operations (FIBO)’. The customized training program, designed to target branch managers, operation managers, relationship managers of banks, academia and Shariah scholars, was offered at various geographical locations of the country i.e. Quetta, Mardan, Mirpur Azad Kashmir, Abbottabad, Bahawalpur, Hyderabad, Faisalabad, Lahore, Gilgit and Multan.

- In order to strengthen linkages on matters related to Islamic finance, SBP collaborated with Finance Division and established a 'Focus Group on Islamic Finance at Finance Division', which is serving as a center point to deal with all matters relating to Islamic banking and finance. A series of capacity building programs for the Focus Group were planned to be held in collaboration with NIBAF. During FY19, two iterations of two-day program were organized for the focal persons at Finance Division and other government departments/ ministries. The officials of FBR, SECP, Ministry of Religious Affairs and Finance Division attended these programs. The program series will continue as further iterations are planned to reinforce the discussions held in the earlier iterations.
- In pursuit of up-scaling capacity levels of Shariah scholars serving IBI, Islamic Banking Department (IBD), in collaboration with NIBAF, has launched a comprehensive training program 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 FY19.
- IBD, in collaboration with NIBAF, organized six awareness sessions on Islamic banking at leading educational institutions in Hyderabad, Lahore, Multan, Faisalabad and Quetta during FY19. The sessions were organized to raise awareness about Islamic banking amongst students and academia. The sessions were facilitated by reputable Shariah scholars who responded to queries and clarified misconceptions of participants about Islamic banking.
- IBD, in collaboration with NIBAF, organized four awareness sessions for traders and businessmen. The sessions were organized at local Chambers of Commerce in Hyderabad, Faisalabad, Lahore and Multan. The sessions remained successful in enhancing awareness levels of the business community about Islamic banking and to take those businessmen on board who remain out of financial ambit due to faith sensitivities.
- SBP, in collaboration with Dar ul Iqtisadi al Islami, Lahore organized two iterations of three-day awareness cum capacity building program for Shariah scholars at Idara Misbah-ul-Quran-Bahawalpur and Jamia Anwar-ul-Uloom -Multan during FY19. Further, a comprehensive four-month Islamic Banking Certification program exclusively for Shariah scholars was also held at Jamia Naeemia, which concluded during the year under review. The programs primarily targeted the final year students of Daura-e-Hadith & Thakhasus and faculty members (Mudarriseen and Muftiyaan-e-Karaam) to orient them with the application of Islamic principles on contemporary banking and financial solutions. The program envisaged to further develop Shariah scholars to serve as the ambassadors and key opinion leaders on Islamic finance.
- SBP provided patronage to COMSATS Institute of Information Technology in arranging a series of awareness-cum-capacity building programs for Shariah scholars at five cities of second tier category. In this regard, during FY19, two out of five programs were held, one each at Sahiwal and Vehari. The programs, which were held exclusively for Shariah scholars of various schools of thought, were well-received by the participants.

- SBP, in collaboration with Islamic Banking Industry, and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), facilitated the project of translating AAOIFI Shariah Standards into Urdu language. The Urdu version of AAOIFI Shariah Standards, developed through a rigorous process, was launched on December 12, 2018 through a launch ceremony organized by IBI at Karachi. Urdu version of the Shariah Standards will serve a long way in improving awareness about Islamic finance especially amongst Shariah scholars, academia and practitioners of Islamic finance. Furthermore, the translation of the Standards will broaden the scope of readership and promote a better understanding.
- SBP has been providing patronage to the IBI for the Islamic Finance Media Campaign. The campaign was launched by the Steering Committee on Media Campaign – an industry led Committee constituted by SBP. The media campaign was rolled out through television, newspapers, radio. Avenues of digital media i.e. Facebook, YouTube and website development are also being tapped.

5.2.6 Global Participation

SBP is recognized as an important global partner due to its representation and active participation in various fora of international institutions dealing with Islamic finance. SBP has been actively represented in various working groups, tasks forces, technical committee and Council of Islamic Financial Services Board (IFSB) and has also actively contributed in the development of prudential standards for global Islamic finance industry. Further, SBP participated in various senior level programs arranged by international institutions like IFSB, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Research and Training Institute (IRTI), and Islamic Development Bank (IDB), etc.

5.2.7 Global Recognition-SBP declared Best Central Bank for Promoting Islamic Finance

In recognition of its efforts, SBP has been voted as the Best Central Bank for 2018 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia.