Islamic Banking Bulletin

September 2016

Islamic Banking Department
State Bank of Pakistan

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Opening Ceremony of
World Islamic Finance Forum (WIFF)
Organized by Centre of Excellence in Islamic Finance Education (CEIFE)
Institute of Business Administration (IBA)

Keynote Address by Mr. Ashraf Mahmood Wathra,
Governor, State Bank of Pakistan
Marriott Hotel, Karachi
September 05-06, 2016

Respectable Senator Muhammad Ishaq Dar, Federal Minister for Finance, Revenue, Economic Affairs, Statistics, & Privatization, Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan, Dr. Ishrat Hussain, Chairman, Centre of Excellence in Islamic Finance Education (CEIFE), IBA, Distinguished Guests, Ladies & Gentlemen

Assalam-o-alaikum

It gives me immense pleasure to see global strategic players like International Centre for Education in Islamic Finance (INCEIF), The Islamic Research and Training Institute (IRTI), International Shariah Research Academy for Islamic Finance (ISRA) joining hands with the Centre of Excellence in Islamic Finance Education (CEIFE), IBA for organizing World Islamic Finance Forum in the largest city of Pakistan. This is not only the reflection of Pakistan being a significant contributor towards the growth and development of Islamic finance industry but also represents the recognition of importance of cooperation and collaboration. I want to appreciate the organizers for providing this forum bringing together global thinkers and practitioners who can synthesis the work so far done and build on the core competencies of Islamic finance for its sustainable growth. I wish all the best for the success of this global event and a very pleasant stay to the distinguished foreign delegates.

Ladies & Gentlemen

The ability of Islamic finance to introduce greater discipline into the financial system owing to its inherent strengths has indicated this system with relatively more stability and resilience. Islamic banking is a growing reality which is expanding outside the traditional borders of Muslim countries into western economies; at present global Islamic financial assets have reached to US $1.8 trillion in 2015 from US $150 billion in the 1990s. Asia is expected to be the key driver in advancing the growth of the Islamic finance industry; According to Islamic Financial Services Board's (IFSB) Report (2015) Pakistan is among potential leaders of Islamic finance.

Despite its impressive growth, Islamic finance Industry cannot be complacent as there still prevails huge untapped market. There are some challenges that the industry is facing in order to sustain its growth momentum. I would like to discuss few challenges with respect to the theme of this event.

Enabling supervisory, regulatory and legal environment; a suitable accounting and auditing framework, supportive financial market infrastructure are all pre-requisites for successful development of the industry. It is agreed that prudential supervision on banks is just as necessary in an Islamic system as in conventional systems; however, the supervisory framework needs to recognize special characteristics of Islamic banks in order to be more effective. State Bank of Pakistan (SBP) being the regulator of banking sector is aware of the significance of prudent and effective supervisory framework and remains committed to this end. Improving market development and regulatory regimes are continuous processes in the context of changing's needs and overall macroeconomic environment; therefore, we regularly review and update our regulatory framework. In this regard one significant example of recent past is the issuance of Shariah Governance Framework for Islamic banking institutions which has enhanced the earlier issued Shariah compliance regulations for the industry.

Moreover, we are working on improving regulatory and legal infrastructure by providing a balanced tax regime, enhanced disclosure requirements, strengthening of insolvency framework and standardizing practices. By taking the advantage of having global audience here, I would suggest/propose for dialogue at global level for harmonization and standardization of practices all across Islamic finance industry.

Ladies & Gentlemen

Many researches including the Knowledge, Attitude and Practices of Islamic Banking in Pakistan (KAP) Study issued by the State Bank of Pakistan indicated the concentration of demand for Islamic financial industry in the category of clients who are not only faith sensitive but are also responsive to efficient operations and high quality services. This signifies that the strategy of Islamic banking industry should be customer centric in its proposition, delivery and service. This demands for widening product range, improvement in operational efficiency and service quality. I would take this opportunity to urge industry to take full advantage of these Islamic Finance specific established Centres of Excellence with particular respect to product innovation and for conducting research on contemporary issues.

Ladies & Gentlemen

As a system, Islamic Finance facilitates in stimulating economic activity and entrepreneurship towards promoting comprehensive human development and addressing poverty and inequality. Under this system, not only the prevalence of re-distributive instruments such as zakat, waqf (endowment) and sadqaat (charity) can play vital role towards broad based development and poverty alleviation but characteristics like equity financing can also lead to the same objective. Equity financing enables Islamic finance to cater to needs of unconventional but strategic sectors like small and medium enterprises (SMEs), small farmers and low income housing. However, like many other jurisdictions the penetration of banking industry and especially of Islamic banks to these sectors is very low in the country. Lack of adequate professionals and relatively young age of the industry is quoted as one among major reasons in this regard. CEIFES have been established with the main objective of providing human resource for the industry with desired skills and knowledge. Closer interaction between industry and these centres is critical in making CEIFE successful towards this objective. I would also like to encourage industry to make use of technology especially to cater to these sectors to minimise cost. By expanding the range and reach of financial products, Islamic finance can help in improving financial access and foster the inclusion of those deprived of financial services whether voluntary or involuntary.

Ladies & Gentlemen

While growth is likely to continue at reasonably fast pace, issues and challenges confronting the industry need attention and ownership on part of all stakeholders. The huge untapped potential market of Islamic Finance can be harnessed by capitalizing on its distinct characteristics. I would encourage all Islamic financial institutions to actively engage themselves and be recognized as value embedded, efficient financial players committed towards contributing to the real economic growth. I am optimistic about the future outlook of the industry and events like today's are helpful in mapping out a strategy for sustainable growth of the industry. I assure the full support and cooperation from the central bank.

I wish you successful deliberations during the conference and the best of luck for all future endeavors.

Thank you.

Islamic Banking Industry - Progress & Market Share

Overview

Assets of Islamic banking industry (IBI) witnessed growth of Rs. 43 billion during the quarter July to September 2016 and reached to Rs. 1,788 billion. Deposits of IBI also increased by Rs. 15 billion during the review quarter to reach Rs. 1,476 billion. Market share of Islamic banking assets and deposits in overall banking industry stood at 11.8 percent and 13.3 percent respectively by end September 2016 (see **Table 1**). Profit after tax (PAT) of IBI was registered at Rs. 8.4 billion by end September 2016 compared to Rs. 6.5 billion in the same quarter last year. Among other profitability indicators, return on equity (ROE) and return on assets (ROA) were recorded at 10.4 percent and 0.7 percent respectively during the review quarter.

Table 1: Industry Progress and Market share

	Industry Progress (Amount in billions)			Growth (YoY in Percent)			Share in Industry (in Percent)		
	Sep-15	Jun-16	Sep-16	Sep-15	Jun-16	Sep-16	Sep-15	Jun-16	Sep-16
Total Assets	1,511	1,745	1,788	37.1	16.8	18.3	11.2	11.4	11.8
Deposits	1,271	1,461	1,476	36.1	14.1	16.1	13.1	13.2	13.3
Total Islamic Banking Institutions	22	22	22	_	_	_	_	_	_
Number of Islamic Banking Branches*	1,783	2,146	2,226	25.3	26.1	24.8	_	_	_

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

* *number includes sub-branches*

Branch Network of Islamic Banking Industry

As of September 2016, the network of IBI consisted of 22 Islamic Banking Institutions (IBIs); 6 full-fledged Islamic banks (IBs) and 16 conventional banks having standalone Islamic banking branches (IBBs). Branch network of IBI reached to 2,226 branches (spread across 100 districts) by end September 2016. Province/ Region wise breakup of branches shows that Punjab and Sindh jointly account for almost 78 percent share in overall IBI's branch network. The number of Islamic banking windows operated by conventional banks having Islamic banking branches stood at 1,125 by end September 2016 (see **Annexure I** for details).

Table 2: Region Wise Branches (July-September 2016)

Province/Region	Total Number	Share (%)
Punjab	1,052	47.2
Sindh	679	30.5
Khyber Pakhtoonkhawa	240	10.8
Baluchistan	90	4.0
Gilgit Baltistan	9	0.4
FATA	9	0.4
Federal Capital	113	5.1
AJK	34	1.5
Total	**2,226**	**100.0**

Asset and Liability Structure

Assets: Asset base of IBI witnessed growth of Rs. 43 billion during the quarter July to September 2016 to reach Rs. 1,788 billion compared to Rs. 1,745 billion in the previous quarter. Market share of IBI's assets in overall banking industry's assets was recorded at 11.8 percent by end September 2016. The share of net financing and investments in total assets (net) of IBI stood at 38.2 percent and 37.0 percent respectively at the end of the quarter under review (see section on **Investments** and **Financing** for details).

Analysis of assets by breakup among IBs and IBBs reveals that assets of both IBs and IBBs increased by Rs. 28 billion and Rs. 15 billion respectively during the review quarter. However, the share of IBs (60.9 percent) remained higher than that of IBBs (39.1 percent) in overall assets of IBI.

Investments

Investments (net) of IBI were recorded at Rs. 663 billion by end September 2016 compared to Rs. 642 billion in the previous quarter. Break up of investments among IBs and IBBs shows that investments of IBs declined by Rs. 5 billion during the review quarter while investments of IBBs increased by Rs. 26 billion.

Financing and Related Assets

Financing and related assets (net) of IBI were recorded at Rs. 683 billion by end September 2016. Financing to deposits ratio (FDR) of IBI was recorded at 46.3 percent by end September 2016 compared to overall banking industry's advances to deposits ratio (ADR) of 45.5 percent. A further analysis of FDR shows that FDR of IBs remained higher (52.8 percent) compared to FDR of IBBs (36.1 percent).

Table 3: Financing Mix (% Share)

	Sep-15	Jun-16	Sep-16
Murabaha	24.8	20.1	16.9
Ijarah	7.5	7.2	7.8
Musharaka	13.6	12.9	12.0
Diminishing Musharaka (DM)	34.2	35.8	38.5
Salam	4.4	3.3	3.3
Istisna	9.5	7.3	7.0
Others	5.8	13.4	14.5
Total	**100.0**	**100.0**	**100.0**

Mode wise breakup of financing (gross) shows that Diminishing Musharaka remained the most preferred mode for financing as its share in overall financing of IBI increased by 2.7 percent during the review quarter. Murabaha and Musharaka remained other major modes in overall financing of IBI (see **Table 3**).

Table 4: Financing Concentration (% Share)

	Sep-15	Jun-16	Sep-16	Industry
Chemical and Pharmaceuticals	8.7	6.5	6.3	4.4
Agribusiness	7.0	4.0	3.4	10.3
Textile	15.9	13.9	14.9	13.1
Cement	2.6	1.7	1.9	1.1
Sugar	2.5	2.8	1.9	2.5
Shoes and leather garments	1.0	0.6	0.6	0.4
Automobile and transportation equipment	1.5	1.4	1.5	1.5
Financial	0.5	0.6	0.6	3.0
Electronics and electrical appliances	1.7	1.1	1.3	1.3
Production and transmission of energy	9.3	14.9	16.8	14.8
Individuals	12.8	13.2	13.4	9.4
Others	36.6	39.2	37.5	38.3
Total	**100.0**	**100.0**	**100.0**	**100.0**

In terms of sector wise financing, production & transmission of energy remained the leading sector and its share in overall financing of IBI stood at 16.8 percent by end September 2016. Besides, textile and chemical & pharmaceuticals were some other major sectors in terms of their share in financing of IBI (see **Table 4**).

Review of client wise financing reveals that corporate sector accounts for 79.8 percent share in overall financing of IBI followed by consumer financing having 11.8 percent share (see **Table 5**). Like previous quarters, financing extended by IBI to Small and Medium Enterprises (SMEs) and Agriculture remained lower compared to overall banking industry's averages indicating limited outreach of IBI to these two sectors.

Table 5: Client Wise Financing Portfolio (% Share)

	Sep-15	Jun-16	Sep-16	Industry
Corporate Sector	73.5	78.1	79.8	66.2
SMEs	2.8	2.8	3.2	6.0
Agriculture	0.8	0.8	0.7	5.3
Consumer Financing	11.3	10.9	11.8	6.5
Commodity Financing	7.9	5.6	2.8	11.4
Others	3.7	1.8	1.7	4.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

Asset Quality

Asset quality indicators of IBI, including non-performing finances (NPFs) to financing (gross), net NPFs to net-financing and net NPFs to Capital were better than those of overall banking industry's averages. Further, Provisions to NPFs ratio was at 88.1 percent by end September 2016 compared to the industry's average of 82.7 percent (see **Table 6**).

Table 6: Assets Quality Ratios (%)

	Sep-15	Jun-16	Sep-16	Industry
NPFs to Financing (gross)	5.6	4.5	4.8	11.3
Net NPFs to Net Financing	0.6	0.4	0.6	2.2
Provisions to NPFs	90.2	91.5	88.1	82.7
Net NPFs to Capital	3.1	2.6	3.7	9.1

Liabilities

Deposits of IBI depicted a growth of Rs. 15 billion during the quarter July to September 2016 and were recorded at Rs. 1,476 billion compared to Rs. 1,461 billion in the previous quarter (see **Table 7**). Market share of IBI's deposits in overall banking industry's deposits stood at 13.3 percent by end September 2016. Customers' deposits grew by Rs. 26 billion while financial institutions' deposits witnessed decline of Rs. 11 billion during the review quarter.

Table 7: Break up of Deposits

Rupees in billion and growth in %

				Growth	
	Sep-15	Jun-16	Sep-16	YoY	QoQ
Deposits	**1,271**	**1,461**	**1,476**	**16.2**	**1.0**
Customers	**1,188**	**1,359**	**1,385**	**16.6**	**1.9**
Fixed Deposits	341	314	320	(6.2)	1.9
Saving Deposits	495	567	607	22.7	7.1
Current accounts - Remunerative	4	9	7	75.0	(22.2)
Current accounts - Non-remunerative	342	460	443	29.4	(3.7)
Others	6	9	8	33.3	(11.1)
Financial Institutions	**83**	**102**	**91**	**9.4**	**(10.8)**
Remunerative Deposits	81	100	89	9.9	(11.0)
Non-remunerative Deposits	2	2	2	-	-

Bifurcation of deposits among IBs and IBBs reveals that deposits of IBs and IBBs, witnessed increase of Rs. 10 billion and Rs. 5 billion respectively. The share of IBs and IBBs in overall deposits of IBI stood at 60.8 percent and 39.2 percent respectively by end September 2016.

Liquidity Ratios

Liquid Assets of IBI increased by Rs. 72 billion during the review quarter and were recorded at Rs. 747 billion. As a result, Liquid Assets to Total Assets and Liquid Assets to Deposits ratios depicted growth during the review quarter compared to the previous quarter (see **Table 8**).

Table 8 : Liquidity Ratios (%)

	Sep-15	Jun-16	Sep-16	Industry
Liquid Assets (Rupees in billions)	511	675	747	8,416
Liquid Asset to Total Assets	33.8	38.6	41.8	55.6
Liquid Assets to Deposits	40.2	46.2	50.6	75.9

Capital

The capital base of IBI stood at Rs. 110 billion by end September 2016 compared to Rs. 109 billion by end June 2016. However, ratios like Capital to Assets (6.1 percent) and Capital-Net NPAs to Total Assets (5.8 percent) of IBI were lower than those of industry averages which were at 7.9 percent and 8.0 percent respectively (see **Table 9**).

Table 9 : Capital Ratios (%)

	Sep-15	Jun-16	Sep-16	Industry
Capital to Total Assets	6.6	6.2	6.1	7.9
(Capital-Net NPAs) to Total Assets	6.6	6.1	5.8	8.0

Profitability

Profit after tax (PAT) of IBI was recorded at Rs. 8.4 billion by end September 2016 compared to Rs. 6.5 billion in the same quarter last year. ROE and ROA of IBI were recorded at 10.4 percent and 0.7 percent respectively during the review quarter (see **Table 10**). In line with general trend, Operating Expense to Gross Income of IBI remained higher than that of overall banking industry mainly due to expansionary phase of the industry.

Table 10: Profitability & Earning Ratios of IBI (%)

	Sep-15	Jun-16	Sep-16	Industry
Return on Assets	0.6	0.7	0.7	1.3
Return on Equity	9.8	11.3	10.4	14.2
Operating Expense to Gross Income	68.2	75.6	76.6	52.2

Country Model: Iraq

Islamic banking started in Iraq in 1993 with the establishment of Iraqi Islamic Bank for Investment and Development. At present, more than fifteen Islamic banking institutions are providing services in the country including eight full-fledged local Islamic banks and four foreign Islamic banks. Central Bank of Iraq (CBI) also allowed opening of Islamic banking windows in 2011. Islamic banking windows work as a separate department within a conventional bank and operate under guidance of an independent Shariah Advisory board of the bank.

Legal Framework for Islamic Banks in Iraq:

CBI regulates both conventional and Islamic banking institutions through a single regulatory framework and Islamic banking activities fall under framework of the Banking Law 2004. In the year 2011, CBI issued new regulations addressing issues surrounding Islamic banking institutions. These regulations specified the activities that can be performed by Islamic banking institutions. Further, these regulations also illustrate funding and dealing mechanisms regarding the purchase of foreign currencies, foreign currency exchange companies, commercial papers and stock market etc.

Shariah Board:

In terms of regulations issued by CBI in 2011, each Islamic banking institution is required to establish Shariah board which is responsible for providing a Shariah view on operations of the bank in order to ensure its compliance with Shariah Law. One of the main responsibilities of Shariah Board of each bank is to suggest to General Assembly/ Board of Directors of the bank all necessary steps that need to be taken or carried out to achieve compliance with Shariah Laws. The decisions of the Shariah board are binding on the executive management of the bank.

Sources

- Central Bank of Iraq website http://www.cbi.iq/
- http://www.islamicfinancenews.com (Country Analysis)
- http://www.iraqdailyjournal.com
- http://www.tamimi.com

A Brief on IFSB 17: Islamic Financial Services Board (IFSB)'s Core Principles for Islamic Finance Regulation (Banking Segment) (CPIFR 1 to CPIFR 13)

Background:
The Islamic financial services industry (IFSI) has rapidly progressed across the globe and encompasses not only an increase in the business volume and number of institutions offering Islamic financial services (IIFS), but also an enhanced variety of products and services offered, improved legal and regulatory infrastructure, and new initiatives for international cooperation. This cross-border development and growth has raised a number of challenges in respect of the resilience and stability of financial systems where IIFS operate alongside their conventional counterparts.

Core Principles, such as those issued by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), have become a standard tool to guide regulators and supervisors in developing their regulatory regimes and practices.

In view of the above, the Islamic Financial Service Board (IFSB) Council, in its 21st meeting held on 12 December 2012 at Islamic Development Bank's headquarters in Jeddah, Kingdom of Saudi Arabia, approved the preparation of a set of IFSB Core Principles for Islamic Finance Regulation (CPIFR) and also the setting up of a Working Group for CPIFR (CPIFRWG).

In previous edition of Islamic Banking Bulletin (June 2016), the main objectives, general approach and scope & application of CPIFR were discussed. In the present edition out of the total 33 core principles, we will discuss the first 13 principles (CPIFR 1 to CPIFR 13) which relate to supervisory powers, responsibilities and functions.

CPIFR 1: Responsibilities, objectives and powers. An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of IIFS and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.

CPIFR 2: Independence, accountability, resourcing and legal protection for supervisory authorities. The supervisory authority possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisory authority.

CPIFR 3: Cooperation and collaboration. Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.

CPIFR 4: Permissible activities. The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word “bank” in names is controlled.

CPIFR 5: Licensing criteria. The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board of Directors (BOD) members and senior management) of the IIFS and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisory authority is obtained.

CPIFR 6: Transfer of significant ownership. The supervisory authority has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing IIFS to other parties.

CPIFR 7: Major acquisitions. The supervisory authority has the power to approve or reject (or recommend to the responsible authority the approval or rejection), impose prudential conditions, major acquisitions or investments by an IIFS against prescribed criteria, including the establishment of cross-border operations.

CPIFR 8: Supervisory approach. An effective system of banking supervision requires the supervisory authority to develop and maintain a forward-looking assessment of the risk profile of individual IIFS and banking groups, proportionate to their systemic importance. The supervisory authority needs to identify, assess and address risks emanating from IIFS and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve IIFS in an orderly manner if they become non-viable.

CPIFR 9: Supervisory techniques and tools. The supervisory authority uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of an IIFS.

CPIFR 10: Supervisory reporting. The supervisory authority collects, reviews and analyses prudential reports and statistical returns from IIFS on both solo and consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.

CPIFR 11: Corrective and sanctioning powers of supervisors. The supervisory authority acts at an early stage to address unsafe and unsound practices or activities that could pose risks to an IIFS or to the banking system. The supervisory authority has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.

CPIFR 12: Consolidated supervision. An essential element of banking supervision is that the supervisory authority supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

CPIFR 13: Home-host relationships. Home and host supervisory authorities of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisory authorities require the local operations of foreign IIFS to be conducted to the same standards as those required of domestic IIFS.

In summary the first 13 Core Principles (CPIFR 1 to CPIFR 13) which relate to supervisory powers, responsibilities and functions can serve the purpose of providing a standard tool to guide regulators and supervisors in developing their regulatory regimes and practices. Detailed analysis on the remaining 20 core principles (CPIFR 14 to CPIFR 33) related to prudential regulations and requirements for IIFS will be presented in the forthcoming editions of Islamic Banking Bulletin.

Source:

- IFSB website http://www.ifsb.org/

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

Session on Islamic Banking for SBP Interns
Held on July 18, 2016 at LRC, SBP

SBP organized a session on Islamic banking on July 18, 2016 at LRC – SBP, wherein Mufti Muhammad Najeeb Khan, Resident Shariah Board Member – Summit Bank Limited, was the guest speaker. The session was attended by internees of SBP Summer Internship Program 2016. Organizing such events is in line with the objective of Islamic Banking Department for promoting awareness of Islamic finance among different segments of society.

Orientation Session on Islamic Banking & Takaful
Held on September 1, 2016 at Lahore

SBP in collaboration with Standing Committee on Banking & Takaful of the Federation of Pakistan Chambers of Commerce & Industry (FPCCI) organized an Orientation Session on Islamic Banking & Takaful on September 1, 2016 at Chamber of Commerce & Industry, Lahore. The program was graced by Mr. Saeed Ahmad, Deputy Governor SBP as Chief Guest and was also attended by (i) Mr. Ghulam Muhammad Abbasi, Director Islamic Banking Department – SBP, (ii) Mufti Khalil Ahmed Azmi, Chairman Shariah Board – Bank Alfalah Limited and (iii) Mr. Mehmood Arshad, Chairman Steering Committee on Islamic Banking & Takaful – FPCCI as guest speakers. Organizing such events is in line with the objective of this department to promote awareness of Islamic finance among different segments of society.

World Islamic Finance Forum – 2016
Held on September 5 – 6, 2016 at Movenpick Hotel, Karachi

Centre for Excellence in Islamic Finance – Institute of Business Administration (IBA), Karachi hosted World Islamic Finance Forum (WIFF) – 2016 during September 5 – 6, 2016 at Movenpick Hotel, Karachi. The opening ceremony of the program was attended by Senator Mohammad Ishaq Dar, Minister for Finance as Chief Guest, while internationally renowned experts on Islamic finance also delivered keynote addresses. During the event, a number of local and international experts presented their papers while the event was largely attended by officials from SBP and Islamic financial institutions, along with Shariah scholars and academia. Facilitating such events is in line with this department's objective to enhance awareness of Islamic finance among different stakeholders.

IFN Pakistan Forum – 2016
Held on September 26, 2016 at PC Hotel, Lahore

Islamic Banking Department supported "Islamic Finance News (IFN) Pakistan Forum – 2016" organized by Redmoney on September 26, 2016 at Pearl Continental Hotel Lahore, wherein a number of renowned scholars and Islamic finance experts attended the same as speakers/panelists. Mr. Saeed Ahmad, Deputy Governor, SBP inaugurated the event and delivered the keynote address. The event was largely attended by officials from SBP and Islamic financial institutions, along with Shariah scholars and academia. Facilitating such international events is in line with IBD's objective to further awareness of Islamic finance among different stakeholders.

IBD Circular No. 01 of 2016

Exemption from KIBOR as Benchmark Rate for Participatory and Wakalah Modes Based Products:

SBP issued IBD Circular No. 1 dated September 8, 2016 wherein Islamic banking institutions (IBIs) have been allowed to delink the pricing of financing provided on the basis of participatory (Musharakah & Mudarabah) and Wakalah (Agency) modes from the KIBOR. This historic development will pave the way for development of Shariah compliant pricing benchmark by IBIs in near future.

Islamic Banking News and Views

News

JPMorgan adds sukuk to emerging markets indices

US investment bank JPMorgan will include Islamic bonds, or sukuk, in its emerging markets indices for the first time from later this year, widening the appeal of Islamic instruments among global debt investors. JPMorgan, which runs the most widely used benchmarks of emerging market debt, will include eight sukuk across its index family starting Oct 31. The decision was taken after JPMorgan conducted an annual governance review, it said in a research report to clients, and seen by Reuters. Dollar-denominated sukuk from Turkey, Malaysia and Indonesia will be included in JPMorgan's flagship EMBI Global Diversified index, against which an estimated US$313 billion in assets is benchmarked. The move could help sukuk break away from their traditional buy-and-hold investor base. "Despite having a market size of US$200 billion, so far sukuk was seen as an exotic asset class mainly targeted at Islamic banks," said Okan Akin, emerging market credit analyst at Alliance Bernstein in London. The decision by JPMorgan would increase the liquidity of sukuk instruments, the lack of which has been the main negative feature of the market, Mr Akin said.

http://www.businesstimes.com.sg/banking-finance/jpmorgan-adds-sukuk-to-emerging-markets -indices

Islamic finance body IIFM launches FX forward standards

The International Islamic Financial Market (IIFM) launched standard templates for Shariah compliant foreign exchange forwards, the latest effort by the industry body to improve hedging practices in the sector. Islamic finance is expanding beyond its core centers in the Gulf and Southeast Asia, prompting the need for more cost effective tools to manage foreign currency risks. The Bahrain-based IIFM, a non-profit organization which develops specifications for Islamic finance contracts, outlined two templates to accommodate the main industry practices, although it expects one of them to eventually gain more favor. The standards involve use of either one or two unilateral promises, known as wa'ad, which are committed separately by each counterparty, with the latter providing greater credit security. "Based on market requirement and feedback, our assessment is that the use of two unilateral wa'ad structure will increase," chief executive Ijlal Ahmed Alvi told Reuters.

http://pakobserver.net/islamic-finance-body-iifm-launches-fx-forward-standards/

Focusing on the corporate side; a new dawn in Islamic banking

Focus on corporate banking technology is witnessing resurgence and none more so than in the Islamic states. Trade finance currently supports 90% of world trade; however, emerging economies have seen the highest volumes of trade globally, and many of these are countries that have a high Islamic population. As corporates increase their need for enhanced liquidity, the opportunities to use Islamic trade finance as an alternative source of liquidity need to be realized.

www.islamicfinancenews.com

Shariah indices indicate positivity in the face of turbulence

The global markets have been volatile and the Islamic finance industry has not escaped the turmoil. However, the situation is improving as both regional and global Shariah indices reflect this positive progress. "Islamic finance in the GCC region has not been affected as much as the conventional side,"

confirmed Charbel Azzi, the head of Middle East, Africa & CIS at S&P Dow Jones Indices. “We are still seeing a lot of positive movement on our Sukuk indices and our regional Shariah equity indices.”
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Deloitte and IRTI releases Islamic finance white paper
Deloitte’s Islamic Finance Knowledge Center (IFKC) and the Islamic Research and Training Institute (IRTI) have launched a new white paper on governance and regulation in Islamic finance practice, according to a press release. The report is the first publication in IFKC’s new Islamic finance insights series ‘Leading by Engaging’ which consists of a series of white papers and policy documents meant to address industry issues and present practical analyses and policy briefings to practitioners.
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Malaysia-Indonesia bilateral agreement to spur Islamic cross border trade as ASEAN nations move toward single market
Islamic cross-border trade and investment are poised for a boom as the world’s largest Islamic banking market and most populous Muslim nation have formally agreed to grant greater access and operational flexibility to their respective banks operating in each other’s jurisdictions under a framework designed to integrate the economies of the 10-member ASEAN bloc. The financial regulators of Malaysia and Indonesia have entered into a bilateral agreement under the ASEAN Banking Integration Framework (ABIF), a component of the ASEAN Framework Agreement on Services engineered to ease the flow of trade in services within the region by eliminating trade restrictions and increasing efficiency and competitiveness of service suppliers.
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Karachi Meezan-30 Index recomposed
The Pakistan Stock Exchange (PSX) announced in a press release the re-composition of the Karachi Meezan-30 Index (KMI-30) where four of the listed companies have been replaced by four new entrants: Sui Southern Gas Company Limited, Sui Northern Gas Pipelines, Byco Petroleum Pakistan and Kot Addu Power Company. The new entrants replace Fauji Fertilizer Bin Qasim, Fauji Fertilizer, Millat Tractors and Shell Pakistan. The screened list of Shariah compliant securities is provided by Al Meezan Investment Management while the index was reviewed by the PSX between the 1st July 2015 and the 31st December 2015.
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Government to tap Islamic banking liquidity for infrastructure developments
The government has a desire to utilize the surplus liquidity of the Islamic banks to fund the infrastructure development in the country, Finance Minister Ishaq Dar said. “There has been an instruction from the finance ministry that wherever there is need to raise funds the first priority should be given to the Islamic finance system,” Dar said, addressing the inaugural session of the World Islamic Finance Forum – 2016. He also hoped that the liquidity would also be used to fund the projects under the China-Pakistan Economic Corridor. He said the importance of Islamic financial system was realized during the financial crisis of 2008. Pakistan was pioneer in the promotion of the system but unfortunately the initiatives could not produce results. “However, now this system grows parallel to the conventional system,” he added.

Minister Dar said constraints facing the industry need to be addressed. He said amendments into the SBP Act were introduced to allow the central bank to issue Islamic financial instruments.
https://www.thenews.com.pk/print/148012-Govt-to-tap-Islamic-banking-liquidity-for-infrastructure-developments

Big boost for Islamic finance in Pakistan
Taking full advantage of rising popularity of Islamic financial system, Pakistan announced a two percent tax cut for all Shariah-compliant companies. The tax relief is expected to have multi-dimensional effect on the economy. More companies are likely to switch from conventional to Islamic banks and Islamic modes of financing, selling, or leasing. The Islamic banks will expand in size, volumes, spreads, profits and numbers. More individuals will turn to Islamic banking because their companies and associates will be working for these companies or their associates. The tax rebate became effective from July 1, as the current fiscal year has just started, and the new national budget has just been approved by the parliament. "In order to incentivize listed manufacturing companies, the federal government has introduced a two percent rebate for Shariah-compliant companies through the Finance Act 2016," the Ministry of Finance announced. The Finance Act also covers the entire national budget for fiscal year 2017.
http://www.pakistantoday.com.pk/2016/08/02/business/big-boost-for-islamic-finance-in-pakistan/

SBP calls for diversified financial services
The State Bank of Pakistan (SBP) has stressed on a need for innovative Shariah-compliant financial products to meet the demand of people in the country. "There is a need for introducing innovative Shariah-compliant products to provide diversified financial services and solutions, catering to the needs of different economic tiers of society," Mr. Saeed Ahmad, Deputy Governor SBP said, speaking at an agreement signing ceremony. Bank Alfalah signed an agreement with the Centre for Excellence in Islamic Finance (CEIF) and IMSciences Peshawar to speed up the efforts for the development and promotion of Islamic banking in the country. "The move has come in compliance with the State Bank of Pakistan's directives and Bank Alfalah's cherished ambition of sustaining and reinforcing an efficient Islamic banking system in Pakistan," a statement said.
https://www.thenews.com.pk/print/144449-SBP-calls-for-diversified-financial-services

Articles/Views:

Rethinking the branding of Islamic funds
The call for the rebranding of Islamic funds to be considered not only 'Shariah compliant' but also labeled under the broader umbrella of 'environmental, social and governance (ESG)-compliant' and as 'socially responsible investments (SRIs), is getting louder as representatives from the Islamic finance industry and academia are increasingly promoting the potential benefits of leveraging the connection between ESG and Islamic funds. Rising from US$13.3 trillion in 2012 to US$21.4 trillion at the start of 2014 (according to the latest data from the Global Sustainable Investment Association), the SRI market is fast gaining recognition among investors. The Islamic finance industry too is looking to benefit from this narrative, with a number of industry players suggesting that by ensuring compliance with ESG criteria and by branding Islamic funds as ESG funds, the Islamic finance community too could reach out to this sizeable target audience.
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Could infrastructure projects be the key to developing the secondary markets?

The perennial problem of sluggish and dull secondary markets for Sukuk trading has remained with few developments in the overall global Islamic finance marketplace, given the existing imbalance in the supply and demand of the Islamic certificates. The issue has been debated over the years among industry professionals as they seek to increase the vibrancy of the secondary market that conventional bonds, for example, have been enjoying. The lack of supply in Sukuk has been one of the major factors in the underdevelopment of the secondary markets. However, with more infrastructure projects utilizing Islamic financing coming to the fore in recent times, there is a growth opportunity for the Islamic capital markets, given that there will be a better liquidity prospect which would help provide the much needed boost to the secondary markets.

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Private banking and wealth management in Islamic finance

Knight Frank's 2016 Wealth Report found that there were 187,500 ultra-high net worth individuals (UHNWIs) - those with US$30 million-worth of assets or more - globally at the end of 2015, with a combined wealth of US$19.3 trillion. With the growing affluence of the Muslim community globally, new asset classes by the Islamic finance industry will provide an avenue for Shariah conscious investors to grow their wealth. An innovative approach toward the creation of new products and service level will also attract such investors to this niche area.

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Growing the crowdfunding market and securitizing its assets

Crowdfunding around the world is growing at a staggering pace, with double-digit growth in the US and Europe, and even triple-digit growth in Asia (Crowdfunding Insider 12/2015). It is surprising that, despite this enormous growth, Islamic crowd funding is only in its infancy and starting to develop, although crowdfunding in itself embodies key elements of Shariah compliant financing. The aim of crowdfunding is to raise funds for a specific project or business. It is either sustainable or entrepreneurial in nature and can either be based on a donation model, a financing model or by acquiring an equity stake in the underlying business.

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Corporate Waqf — the way forward?

Corporate Waqf is often believed to embody the best of both terms 'corporate' and 'Waqf'. As an entity that legally operates as a corporation but which, unlike most corporations, uses the usufruct of invested Waqf funds to perpetually provide for the welfare of society, Waqf corporations may have the potential of becoming one of the most effective mediums for a system of more equitable redistribution of wealth in societies.

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Annexure: I

Islamic Banking Branch Network

(As of September 30, 2016)

Type	Name of Bank	No of Branches*	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	136	
	BankIslami Pakistan Limited	206	
	Burj Bank Limited	74	
	Dubai Islamic Bank Pakistan Limited	199	
	Meezan Bank Limited	547	
	MCB -Islamic Bank Limited	50	
		1,212	
Islamic Branches of Conventional Banks	Allied Bank Limited	59	0
	Askari Bank Limited	78	0
	Bank AL Habib Limited	38	87
	Bank Alfalah Limited	157	52
	Faysal Bank Limited	111	0
	Habib Bank Limited	45	493
	Habib Metropolitan Bank Limited	23	208
	National Bank of Pakistan	121	0
	Silkbank Limited	10	0
	Sindh Bank	13	2
	Soneri Bank Limited	16	0
	Standard Chartered Bank (Pakistan) Limited	10	91
	Summit Bank Limited	10	12
	The Bank of Khyber	76	39
	The Bank of Punjab	49	0
	United Bank Limited	44	141
		860	**1,125**
Sub Branches	AlBaraka Bank (Pakistan) Limited	14	
	Askari Bank Limited	3	
	BankIslami Pakistan Limited	133	
	Faysal Bank Limited	1	
	Habib Bank Limited	2	
	United Bank Limited	1	
		154	
		2,226	

* *Source: Banking Policy & Regulations Department, State Bank of Pakistan.*

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of September 30, 2016)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	3	4		4	1	14	78	32	136
	BankIslami Pakistan Limited	3	12	1	9	2	15	97	67	206
	Burj Bank Limited	1	2		4		3	32	32	74
	Dubai Islamic Bank Pakistan Limited	5	5		10		10	84	85	199
	Meezan Bank Limited	6	20		25	1	35	275	185	547
	MCB -Islamic Bank Limited		6		2		6	22	14	50
	IB. Total	**18**	**49**	**1**	**54**	**4**	**83**	**588**	**415**	**1,212**
Islamic Branches of Conventional Banks	Allied Bank Limited	1	4		6		7	30	11	59
	Askari Bank Limited		2		8	1	10	41	16	78
	Bank AL Habib Limited		1		1		3	12	21	38
	Bank Alfalah Limited	1	5		9		8	94	40	157
	Faysal Bank Limited	1	4		4	1	20	54	27	111
	Habib Bank Limited	2	2	1	4		4	21	11	45
	Habib Metropolitan Bank Limited				1		4	8	10	23
	National Bank of Pakistan	7	4	1	3		19	60	27	121
	Silkbank Limited		1		1		2	4	2	10
	Sindh Bank	1					2	7	3	13
	Soneri Bank Limited		1		2	1	2	6	4	16
	Standard Chartered Bank (Pakistan) Limited				1		1	2	6	10
	Summit Bank Limited		1		1	2	1	1	4	10
	The Bank of Khyber		4	6	2		51	10	3	76
	The Bank of Punjab	1			4		6	38		49
	United Bank Limited	1	4		1		9	12	17	44
	SAIBBs Total	**15**	**33**	**8**	**48**	**5**	**149**	**400**	**202**	**860**
Sub Branches	AlBaraka Bank (Pakistan) Limited				1			12	1	14
	Askari Bank Limited		1				1	1		3
	BankIslami Pakistan Limited	1	7		10		6	50	59	133
	Faysal Bank Limited							1		1
	Habib Bank Limited								2	2
	United Bank Limited						1			1
	Sub Branches Total	**1**	**8**	**-**	**11**	**-**	**8**	**64**	**62**	**154**
Grand Total		**34**	**90**	**9**	**113**	**9**	**240**	**1,052**	**679**	**2,226**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of September 30, 2016)

S. No	Province	District	No of Branches		S. No	Province	District	No of Branches
1	Sindh	Badin	3		56	Khyber Pakhtunkhwa	Abottabad	18
2		Dadu	6		57		Banu	4
3		Ghotki	3		58		Batagram	4
4		Hyderabad	41		59		Buner	3
5		Jacobabad	3		60		Charsadda	7
6		Jamshoro	1		61		Chitral	5
7		Karachi City	560		62		Dera Ismail Khan	9
8		Kashmore	1		63		Hangu	3
9		Larkana	4		64		Haripur	7
10		Matiari	1		65		Kohat	6
11		Mirpurkhas	11		66		Lakki Marwat	1
12		Naushero Feroze	2		67		Lower Dir	5
13		Nawabshah	10		68		Malakand	5
14		Sanghar	8		69		Mansehra	13
15		Shahdadkot	2		70		Mardan	18
16		Sukkur	14		71		Nowshera	16
17		Tando Allahyar	6		72		Peshawar	74
18		Tando Mohammad Khan	1		73		Shangla	1
19		Umer Kot	2		74		Swabi	7
Sindh Total			**679**		75		Swat	24
20	Punjab	Attock	22		76		Tank	1
21		Bahawalnagar	12		77		Upper Dir	9
22		Bahawalpur	16		**KP Total**			**240**
23		Bhakkar	1		78	Gilgit-Baltistan	Baltistan	2
24		Chakwal	11		79		Diamir	4
25		Chiniot	1		80		Gilgit	3
26		Dera Ghazi Khan	13			**GB Total**		**9**
27		Faisalabad	89		81	FATA	Bajaur Agency	1
28		Gujranwala	43		82		Khyber Agency	3
29		Gujrat	44		83		Orakzai Agency	5
30		Hafizabad	4		**FATA Total**			**9**
31		Jhang	8		84	Capital	Islamabad	113
32		Jhelum	14			**Capital**		**113**
33		Kasur	16		85	Balochistan	Chagi	1
34		Khanewal	17		86		Gawadar	2
35		Khushab	6		87		Kila Abdullah	7
36		Lahore City	343		88		Killa Saifullah	4
37		Layyah	6		89		Lasbela	4
38		Lodhran	4		90		Loralai	11
39		Mandi Bahauddin	10		91		Pishin	2
40		Mianwali	7		92		Quetta	54
41		Multan	63		93		Zhob	4
42		Muzaffargarh	6		94		Ziarat	1
43		Nankana Sahib	2		**Balochistan Total**			**90**
44		Narowal	4		95	Azad Kashmir	Bagh	1
45		Okara	12		96		Bhimber	1
46		Pakpattan	7		97		Kotli	3
47		Rahim Yar Khan	25		98		Mirpur	20
48		Rajanpur	1		99		Muzaffarabad	7
49		Rawalpindi	125		100		Poonch	2
50		Sahiwal	17		**AJK Total**			**34**
51		Sargodha	30					
52		Sheikhupura	18					
53		Sialkot	34					
54		Toba Tek Singh	7					
55		Vehari	14					
Punjab Total			**1052**		**Grand Total**			**2,226**