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# ISLAMIC FINANCE BULLETIN

REVIEW OF FINANCIAL YEAR (2022 TO 2023)



SECP

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
ISLAMIC FINANCE DEPARTMENT



# PREFACE

Pakistan's steadfast commitment to the promotion of Islamic finance is deeply rooted in its constitutional mandate and the visionary ideals of its founding fathers. Quaid-i-Azam Muhammad Ali Jinnah, while laying down the foundation of State Bank of Pakistan in 1948, stressed on the need for developing an economic system based on the true concept of equality of manhood and social justice<sup>1</sup>. Article 38(f) of the constitution states that "the state shall eliminate 'Riba' as early as possible"

Despite encountering significant challenges in the process of economic transformation, the Islamic finance sector in Pakistan has made substantial strides and now constitute sizeable portion of the nation's financial landscape, with continued growth on the horizon. The landmark judgement by Federal Shariat Court in 2022, to eliminate Riba and transform the economic system in a span of five years has added powerful impetus to the ongoing efforts.

As the Islamic financial services industry in Pakistan reaches a pivotal juncture of development, the need for a comprehensive Islamic financial ecosystem that facilitates industry growth, is of paramount importance. The SECP takes great pleasure in presenting its first 'Bulletin of the Islamic Finance' comprising four quarters of Financial Year 2022-23 with an aim to equip the industry with an up-to-date data, insights into new developments and a deeper understanding of regulatory reforms. The Bulletin is intended to give the financial services industry with a future perspective on the SECP's policies, developments in non-bank Islamic finance, encouraging collaboration, and promoting cooperation.

As mentioned above, in this first edition, SECP presents a quarterly overview of the financial year from July 01, 2022, to June 30, 2023, specifically addressing the Islamic financial services industry within its regulatory scope. Additionally, for a comprehensive understanding of Pakistan's complete Islamic financial system, we encourage readers to refer to the Islamic Banking Bulletin published by the State Bank of Pakistan<sup>2</sup>.

Islamic Finance Department acknowledges SECP leadership's continued dedication to the cause and support. We also gratefully acknowledge the cooperation and zeal of all capital market infrastructure institutions, the industry associations, the academia and the industry players.

1 Quaid-i-Azam's speech on the occasion of opening ceremony of State Bank of Pakistan on July 1st, 1948. [https://www.sbp.org.pk/about/history/h\\_moments.htm#:~:text=I%20will%20watch%20their%20progress,men%20can%20find%20full%20play](https://www.sbp.org.pk/about/history/h_moments.htm#:~:text=I%20will%20watch%20their%20progress,men%20can%20find%20full%20play).

2 Quarterly Islamic Banking Bulletins published by the State Bank of Pakistan can be accessed at <https://www.sbp.org.pk/ibd/Bulletin/Bulletin-1.asp>



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# LIST OF ABBREVIATIONS

AAOIFI Accounting and Auditing Organization of Islamic Financial Institutions

ADB	Asian Development Bank
CDC	Central Depository Company
CEIF	Centre of Excellence in Islamic Finance
CMC	Collateral Management Company
ETF	Exchange Traded Funds
EWB	Electronic Warehouse Receipts
IBA	Institute of Business Administration
ICP	Islamic Commercial Papers
IFAAS	Islamic Finance Advisory and Assurance Services
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Industry
IsDBI	Islamic Development Bank Institute
NBFC	Non-Banking Finance Companies
NBFI	Non-Banking Finance Institutions
NCCPL	National Clearing Company of Pakistan Limited
NCMCL	Naymat Collateral Management Company Limited
PMEX	Pakistan Mercantile Exchange
PSX	Pakistan Stock Exchange
REITS	Real Estate Investment Trusts
RKR	Pak Rupee
SAC	Shariah Advisory Committee
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
Y-o-Y	Year-on-year



# CHAPTER 1: ISLAMIC FINANCE LANDSCAPE UNDER SECP'S WATCH: AN INTRODUCTION

The Securities and Exchange Commission of Pakistan (SECP) is an apex regulator for varied licensed activities, oversee capital market, Non-Bank Financial Institutions (NBFIs) and insurance sector. The core functions of SECP include, developing regulatory and legal framework for the regulated sectors, supervision and enforcement of the notified laws and adjudication of non-compliances. The Islamic financial services industry under regulatory purview of SECP includes, (a) Islamic finance intuitions like Modarabas, Takaful operators, Islamic NBFIs, (b) Islamic instruments like Sukuk, Islamic commercial papers, Shariah compliant securities, Islamic mutual funds, Islamic Exchange Traded Funds (ETFs), Shariah Compliant Real Estate Investment Trusts (RETIs), and (c) Islamic finance intermediaries, like Shariah Advisors. These are collectively referred to as the "Islamic financial services industry" in this document.

Islamic finance has been a priority area for the SECP. A dedicated Islamic Finance Department (IFD) was established in 2015, entrusted with the development of Islamic financial services industry. The department is now part of Specialized Companies Division headed by Commissioner (SCD). Besides, a Shariah Advisory Committee (SAC) constituted under the SECP Act, as well as an Apex Committee comprised of heads of SECP's policy departments and industry leaders provides guidance to the SECP on Shariah matters and oversee the conversion of all SECP's regulated sectors in light of Federal Shariah Court's (FSC) judgment, respectively.

Since its formation, IFD has been proactively engaged in fostering the growth of the industry. Some notable achievements of Islamic financial services industry during the period are as under:

- a. A comprehensive diagnostic review of Islamic finance in the non-banking financial sector of Pakistan, highlighting key issues and challenges for informed policy decisions and devising strategic action plan;
- b. Revamping of the Modaraba Regulations, 2021 and regulatory efforts to reignite the Modaraba sector resulting in successful pre-IPO subscription of first ever-clean energy Burj Modaraba and signs of fresh activity;
- c. Consistent growth of Islamic financial services industry with approval of 28 certificates of Shariah compliant securities and 3 certificates of Shariah compliant companies. A total of 24 new Shariah advisors were also registered during the period under review;
- d. The successful co-hosting of first International Islamic Capital Market Conference at Islamabad, in collaboration with AAOIFI. A diverse range of topics were discussed in the conference by renowned scholars and practitioners from around the world;
- e. SECP issued 'Guidelines for offering Islamic financial services, 2023' covering all the regulated sectors. The guidelines were welcomed by the industry and several companies have approached SECP for transformation;
- f. Islamic financial services industry showing a consistent growth, with a promising 43% growth in Asset under Management (AUM) of Shariah compliant mutual funds; and
- g. SECP formed several committees for the promotion of Islamic finance in its regulated sector. This included reconstitution of Shariah Advisory Committee, SECP's Apex Committee on Islamic Finance for Transformation of Regulated Sectors, and SECP's Committee on Islamic Finance. Besides, at least one officer from all policy departments have been designated as Islamic finance champions.



# CHAPTER 2: STATUS OF DEVELOPMENT OF ISLAMIC FINANCE IN SECP'S REGULATED SECTORS

Islamic finance in the SECP's regulated sectors has established itself firmly in the financial system and is expected to have rapid expansion in the years to come. The significant progress made by the Islamic financial services industry needs to be consolidated to serve as foundation for the robust and sustainable growth of the industry and the economy.

Besides, SECP has been actively engaged in encouraging FinTech companies to enter into Islamic financial services industry. Consequently, SECP issued 'Guidelines for Offering Islamic Financial Services, 2023', and introduced 'Islamic finance' specific theme in its Regulatory Sandbox. As a result, a significant shift is being witnessed in the industry, as increasing number of FinTech companies are entering Islamic financial services industry. A snapshot of the Islamic financial services industry in SECP's regulated sectors, as of June 30, 2023, is attached in Schedule-I.

## 2.1 Islamic Capital Market (ICM)

Capital market is one of the most important part of financial system contributing to the economic growth and development. In Pakistan, the Islamic capital market has now grown to a sizable portion of the overall capital market. A detailed overview of the primary and secondary market is as under.

### 2.1.1 The Primary Market

The securities are initially offered for investment in the primary market. These securities include sovereign and quasi-sovereign Sukuk, Tier-I and Tier-II capital instruments, and corporate Sukuks besides equity shares of Shariah-compliant companies.

#### 2.1.1.1 Sovereign and Quasi Sovereign Sukuk

The Government of Pakistan (GoP), since its entrance into the domestic Sukuk market in 2008 has been increasingly using Sukuks for meeting financing requirements. This renewed interest emanates from the GoP commitment to develop Islamic capital market and provision of Shariah compliant investment opportunities to the market. Recently, the GoP has vowed to increase its Sukuk portfolio in the 'Medium-term Debt Management Strategy, 2023-26'<sup>3</sup> and is considering various new types of Sukuk, including Asset light Sukuk, Green Sukuk and Sustainable Sukuk. Additionally, the Islamic capital market has the potential to substantially reduce GoP's financing cost.

The government has successfully issued Ijarah Sukuk amounting PKR 3,150.6 billion as of June 30, 2023. During the financial year 2022-23, the government raised PKR 847.6 billion through Sukuk issuance from the domestic market. Previously, a public sector company named Power Holding Limited (PHL), raised PKR 200 billion in 2020 through the issuance of Pakistan Energy Sukuk – II, listed at PSX through book-building process for the very first time. The listing of oversubscribed Pakistan Energy Sukuk - II has remained instrumental in saving cost of capital for the government at the one hand and enhancing investors' returns on the other. The Sukuk was aimed at settlement of circular debt in the power sector.

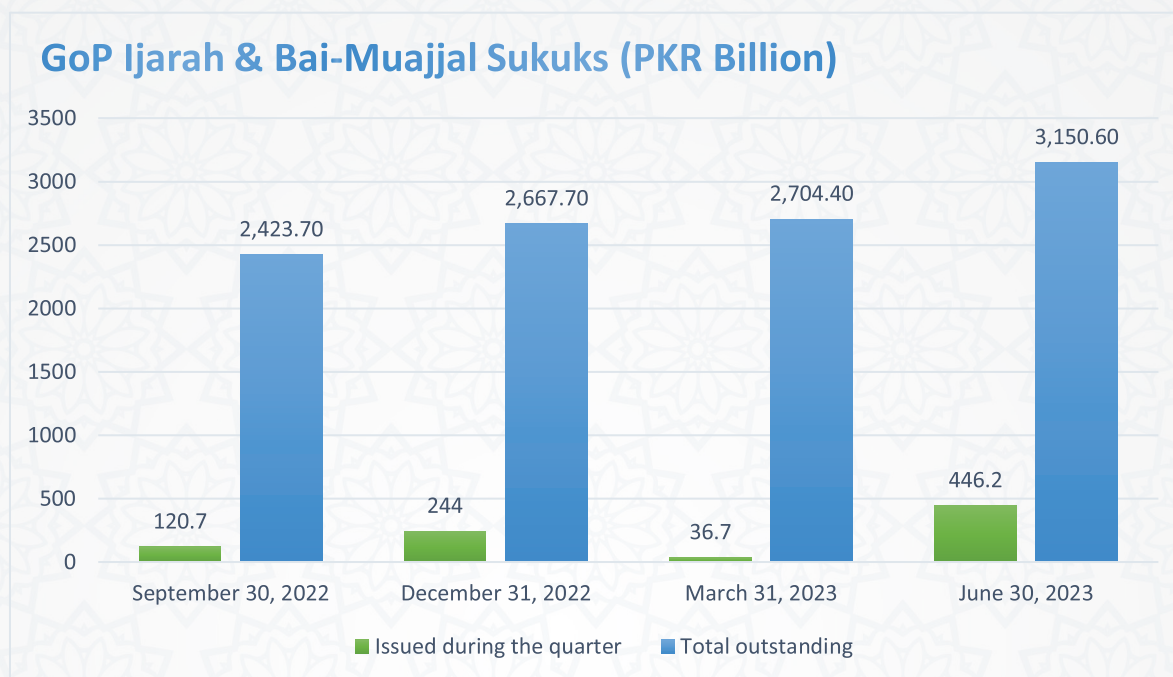
The quarterly break-up of Sovereign Sukuks issued in financial year 2022-23 is as under:

3 [https://www.finance.gov.pk/publications/MTDS\\_FY23\\_FY26.pdf](https://www.finance.gov.pk/publications/MTDS_FY23_FY26.pdf)



PKR Billion

GoP Ijarah & Bai-Muajjal Sukuks	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
Issued during the quarter	-	120.7	244	36.7	446.2
Total outstanding	2,303.03	2,423.7	2,667.7	2,704.4	3,150.6



### 2.1.1.2 Tier-I and Tier-II Capital Instruments

The Islamic banks have been issuing Tier-I and Tier-II capital instruments since 2016, to meet their minimum equity and capital adequacy requirements.

Eleven (11) Tier-I and Tier-II Sukuks amounting

**PKR. 45.74 BILLION** issued till June 30, 2023.

During the financial year 2022-23, SECP approved one new Shariah compliant Tier-II privately placed Sukuk of Dubai Islamic Bank Limited in the second quarter amounting PKR 4 billion. Complete detail of all the issues is attached in Schedule-II.

### 2.1.1.3 Corporate Sukuks - Listed and Privately Placed

SECP issues certificate of Shariah compliance to corporate Sukuks either listed or privately placed, under the Shariah Governance Regulations, 2018. An increasing trend has been witnessed in issuance of short term Shariah compliant instrument by companies to meet working capital and other financing requirements.

SECP approved thirty (30) Shariah compliant securities in 2022-23. Total Shariah compliant securities now 69 with cumulative amount of

**PKR. 563.640 BILLION** as of Jun 30, 2023.



The issuance of Shariah compliant securities exhibited a growth of 7% during the financial year 2022-23. Details of Shariah compliant securities is annexed in Schedule-III.

## 2.1.2 The Secondary Market and Capital Market Infrastructure Institutions

Islamic finance has strong foot prints in the secondary market as well. Nearly half of the securities listed on Pakistan Stock Exchange Limited (PSX) are Shariah compliant, with market capitalization of 64% of the total market capitalization. Moving forward, the Shariah compliant securities are expected to overtake the conventional securities, both in terms of number and market share. A detailed analysis of Islamic finance in the secondary market is presented below.

### 2.1.2.1 Pakistan Stock Exchange Limited

The market capitalization of Shariah compliant companies at PSX, amounted PKR 4,149.83 billion out of the PKR 6,369.47 billion of total market capitalization.

As of June  
30, 2023,

**253 OUT 524**

listed companies are categorized as Shariah compliant, constituting 48.2% of the listed companies.

Further, PSX features three Islamic indices, namely, All Shares Islamic Index of Pakistan<sup>4</sup> (PSX-KMI All Share Index), KSE-Meezan Index<sup>5</sup> (KMI-30 Index) and Meezan Pakistan Index<sup>6</sup> (MZNPI). PSX-KMI All Shares Index tracks the performance of all Shariah compliant listed companies, while KMI-30 Index tracks the performance of 30 most liquid Shariah compliant companies listed on PSX. MZNPI tracks the performance of top 12 Shariah compliant companies, with highest average traded value and free float market capitalization of KMI-30 Index.

Remarkably, during the financial year 2022-23, these indices exhibited substantial trading activity. A total trading turnover of 31.2 billion shares, 14.8 billion shares, and 5.3 billion shares was achieved, representing 66.11%, 31.42%, and 11.16% of the overall trade turnover, respectively. Likewise, trading values of PKR 1,054.95 billion, PKR 771.88 billion, and PKR 503.62 billion were recorded for these indices, translating to 70.06%, 51.26%, and 33.45% of the total trading value at the PSX. These figures underscore the notable presence and significance of these Islamic indices within the PSX ecosystem. A detailed account of activity in the PSX is given below:-

**PKR Billion**

Particulars	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
Listed companies				
• Shariah compliant	256 (48%)	265 (49.91%)	265 (50.09%)	253 (48.28%)
• Conventional	274 (52%)	266 (50.09%)	264 (49.91%)	271 (51.92%)
Market capitalization	4,533.61 (66.8%)	4,360 (67.07%)	4,103.83 (67.15%)	4,149.83 (65.15%)
• Shariah compliant	2,248.43	2,141 (32.93%)	2,007.67	2,219.64
• Conventional	(33.2%)		(30.85%)	(34.85%)

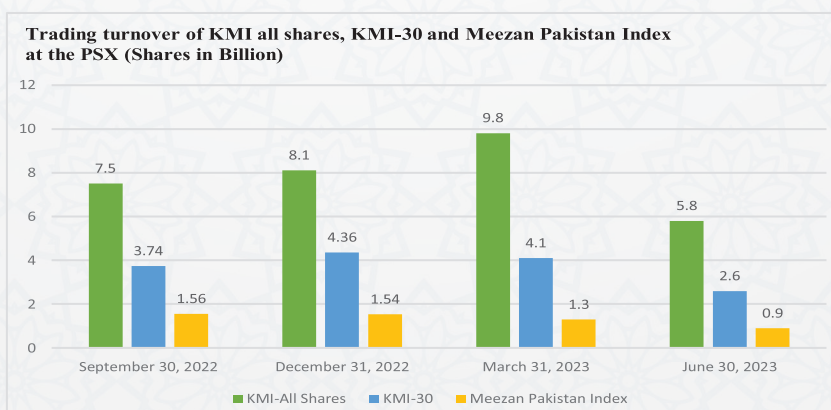
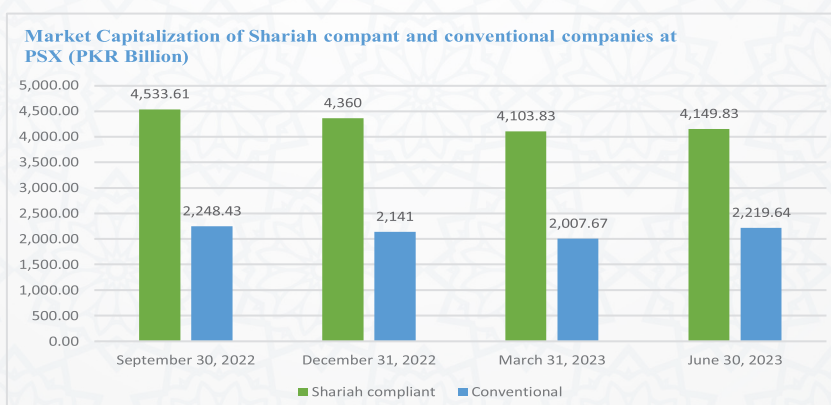
4 <https://www.psx.com.pk/psx/themes/psx/uploads/brochure-all-shares-islamic-index-of-pakistan.pdf>

5 <https://www.psx.com.pk/psx/themes/psx/uploads/brochure-kmi-30-index.pdf>

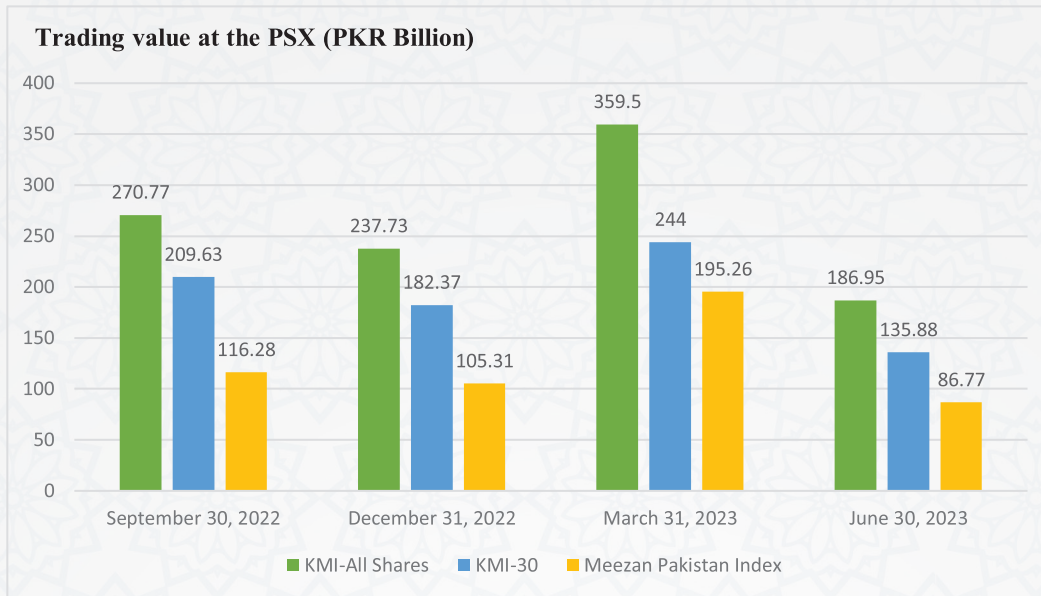
6 [https://www.psx.com.pk/psx/themes/psx/uploads/MZNPI\\_brochure\\_-\\_PSX.PDF](https://www.psx.com.pk/psx/themes/psx/uploads/MZNPI_brochure_-_PSX.PDF)



<b>KMI-All Shares</b> <ul style="list-style-type: none"> <li>Trading turnover</li> <li>% of total trading volume at the PSX</li> <li>trading value</li> <li>% of total trading trade value at PSX</li> </ul>	7.5 billion shares 56.8% 270.77 63.9%	8.1 billion shares 56.9% 237.73 61.2%	9.8 billion shares 65.9% 359.5 69.57%	5.8 billion shares 66.11% 186.95 70.05%
<b>KMI-30</b> <ul style="list-style-type: none"> <li>Trading turnover</li> <li>% of total trading volume at the PSX</li> <li>trading value</li> <li>% of total trading trade value at PSX</li> </ul>	3.74 billion shares 28% 209.63 49.4%	4.36 billion shares 29.3% 182.37 47.2%	4.1 billion shares 31.6% 244 50.99%	2.6 billion shares 31.42% 135.88 51.26%
<b>Meezan Pakistan Index</b> <ul style="list-style-type: none"> <li>Trading turnover</li> <li>% of total trading volume at the PSX</li> <li>trading value</li> <li>% of total trading trade value at PSX</li> </ul>	1.56 billion shares 11.69% 116.28 27.42%	1.54 billion shares 11.3% 105.31 26.7%	1.3 billion shares 11.3% 195.26 33.41%	0.9 billion shares 11.16% 86.77 33.45%







### 2.1.2.2 National Clearing Company of Pakistan Limited (NCCPL)

National Clearing Company of Pakistan Limited (NCCPL), in addition to its role as clearing house and operator of securities settlement system and central counter party system, operates a Murabaha Share Financing (MSF) platform. MSF is a Shariah-compliant financial product offering interest-free financing for capital market investments. Launched in January 2022 with SECP approval, MSF provides investors, especially those preferring Shariah-compliant finance, a positive avenue for portfolio diversification.

MSF has extended financing of

**PKR. 1.08 BILLION**

to 22 investors as of June 30, 2023.

During the financial year 2022-23 financing amounting PKR 7.59 million was provided. NCCPL currently serves 302,761 registered investors (UINs), including 196 broker clearing members and 210 non-broker clearing members.

### 2.1.2.3 Central Depository Company of Pakistan Limited (CDC)

Central Depository Company of Pakistan Limited held a total of 138 Shariah-compliant securities, including Islamic commercial papers (ICPs), Sukuk, Modaraba certificates and Islamic units offered by Mutual funds, apart from shares of Shariah-compliant companies in financial year 2022-23, as compare to 120 at the end of financial year 2021-22.

**138 SHARIAH COMPLIANT SECURITIES**

held at Central Depository Company of Pakistan Limited.

These securities represent approximately 12% of the total number of securities within the CDS, with a collective market value of PKR 895.9 billion, accounting for 15.5% of the total value of Shariah-compliant securities in the CDS. Quarterly details of Shariah compliant securities placed at CDC and their market value is as under:

Details of Shariah compliant Securities	<i>PKR Billion</i>			
	September 30, 2022	December 31, 2022	March 31, 2023	June 30 2023
No of Shariah Compliant Securities in CDC	126	122	132	138



Total No of Issuers in the CDS	829	903	900	922
Percentage of Shariah Compliant Securities into all Securities	11.6%	11.04	11.65%	12%
Market Value of Shariah Compliant Securities in the CDS	740.63	724.28	716.37	895.9
Percentage of Value of Shariah Compliant Securities in the CDS	12.76%	13%	13%	15.5%

#### 2.1.2.4 Pakistan Mercantile Exchange Limited

Pakistan Mercantile Exchange Limited (PMEX) is a platform for future trading, commodities Murabaha platform and issues Electronic Warehouse Receipts (EWRs). As Shariah compliant futures contract is still subject of discussion, hence a Shariah compliant futures market is yet to materialize. The Shariah compliant commodity Murabaha platform introduced at PMEX has however become inactive due to withdrawal of Hascol Petroleum.

Naymat Collateral Management Company Limited (NCMCL), the first Collateral Management Company (CMC) to issue EWRs. NCMCL now oversees five licensed warehouses for commodity storage, and other banks have also joined the EWR system. SECP has authorized PMEX for trading EWR-based futures contracts for several commodities, including yellow maize, super basmati paddy, long grain paddy, super basmati milled raw rice, super basmati brown raw rice, long grain milled raw rice, and dry dates. EWRs are acceptable collateral for extending financing by Islamic banking institutions and therefore possess potential to support Islamic Agri-financing ecosystem in the country.

Detail of activity in the sector during the period under analysis is given as below:

Description	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
Number of EWRs issued	192	430	723	1,043
Number of EWRs pledged	178	351	456	629
Quantity of total pledged commodity (MT)	4,094	9,314	12,995	20,742
Approx. value of total pledged commodity (PKR)	216 million	922 million	1,163 million	1,606 million
Total Quantity of commodity (MT)	4,596	11,373	17,927	38,110
Approx. value of commodity (PKR)	245 million	1,082 million	1521 million	2,683 million

### 2.1.3 Collective Investment Schemes

Shariah compliant collective investment schemes (CISs) include mutual funds, pension funds, REITs and private funds adhering to the principles of Islamic Shariah. Cumulatively, the CISs make a sizable part of the Islamic financial services industry. A detailed presentation of segment is as under.

#### 2.1.3.1 Mutual Funds

Shariah compliant mutual funds are one of the major players of Islamic financial services industry.

154 mutual funds  
with AUM of

**PKR. 721.67 BILLION** are Shariah compliant  
as of June 30, 2023.



The Shariah compliant funds constitute 43.07% and 45.29% of the total mutual funds industry in terms of size and number, respectively. The AUM of Shariah compliant funds witness a promising Y-o-Y growth of 61% during the financial year 2022-23.

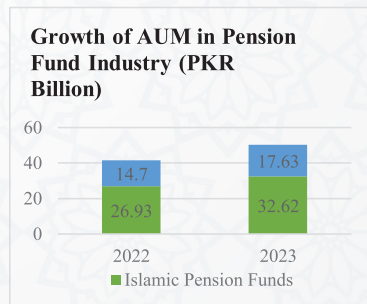
The quarterly growth of Shariah compliant mutual fund industry is given in table below:

<b>PKR Billion</b>					
AUM of Mutual funds and plans	June 30, 2022	Sep. 30, 2022	Dec. 31, 2022	Mar.31, 2023	June 30, 2023
• Conventional	832.93	878.85	944.28	890.92	953.87
• Shariah compliant	448.13	478.81	629.94	657.60	721.67



### 2.1.3.2 Islamic Pension Funds:

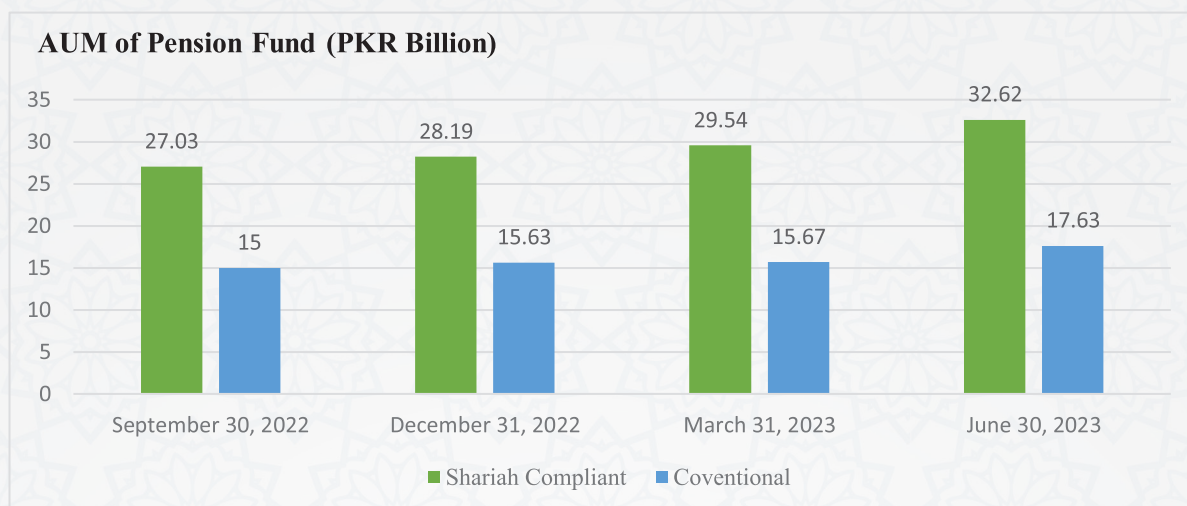
Islamic pension funds, under the voluntary pension fund schemes, are another important player in Islamic financial services industry. During the financial year 2022-2023, the AUM in Shariah compliant pension funds witnessed a Y-o-Y growth of 21%, making the asset share of Islamic pension funds to 65% of the total AUM in pension funds. The total AUM of pension funds amount to PKR 50.26 billion, of which PKR 32.62 billion constituting 65% of the AUM belong to Islamic pension funds.



The quarterly growth of Shariah compliant and conventional pension funds during financial year 2022-23 is given as under:

<b>PKR Billion</b>					
AUM of Pension Fund	June 30, 2022	Sep. 30, 2022	Dec. 31, 2022	Mar.31, 2023	June 30, 2023
• Shariah compliant	26.93	27.03	28.19	29.54	32.62
• Conventional	14.70	15.00	15.63	15.67	17.63





### 2.1.3.3 Islamic REITs

REIT is a regulated real estate investment avenue, exhibiting tremendous growth. The sector witnessed a whopping 181% Y-o-Y growth, with total industry size of PKR 276.64 billion as on June 30, 2023, as compared to PKR 97.69 billion for the preceding year. Interestingly, 13 out of 15 REIT schemes are claimed to be Shariah-compliant, with asset worth of PKR 271.25 billion, making up almost 98% of the REIT scheme. SECP has recently introduced requirements for the Shariah-certification of REITs by amending the REITs Regulations and imposing conditions at the time of approval. This certification is likely to be implemented from first quarter of financial year 2023-24.

Details of all the fifteen REIT Schemes are attached in Schedule-IV. The quarterly growth of conventional and Shariah compliant REIT during financial year 2022-23 is given as under:

AUM of REIT	PKR Billion				
	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
AUM of REIT Assets	97.69	160.28	162.82	180.09	271.25
• Shariah compliant	0.66	6.91	4.82	4.85	5.39
• Conventional					

### 2.1.3.4 Private Funds

Private funds in Pakistan include private equity, venture capital or alternate funds. This segment is relatively new and Islamic finance is yet to make inroads. Efforts are underway for the development and promotion of dedicated Islamic private funds. As of June 30, 2023, a total of seven (7) Private funds and 11 Private fund management companies are operating in Pakistan. The total asset AUM of the private funds stood at PKR 8.79 billion as of June 30, 2023, compared to PKR 10.96 billion as on June 30, 2022, representing a negative growth of 24.69 percent. However, the industry is yet to be demarcated between conventional and Shariah compliant.

The quarterly growth of private funds during financial year 2022-23 is as under:

AUM of Privat funds	PKR Billion				
	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
• Conventional	10.96	12.29	12.43	8.32	8.79



## 2.2 Modaraba and Non-Bank Finance Institutions

This segment consists of Modarabas and NBFCs, that include investment banks, non-bank microfinance companies, leasing companies, housing finance companies and discounting companies. This sector also plays a vital role in mobilizing resources complementing the banking industry, especially for the micro, small and medium businesses. The sector is showing a steady growth with renewed interest in Islamic finance.

### 2.2.1 Modarabas

Modaraba is the pioneer of Islamic financial services in Pakistan, starting in 1980. The model is unique and has existed only in Pakistan. The sector has huge potential to meet the financing needs of micro, small, and medium enterprises.

Modaraba sector  
with equity of

**PKR. 22.42 BILLION** and assets at **Rs. 52.32 billion** as of June 30, 2023.

As of June 30, 2023, the Modaraba sector's equity was PKR 22.42 billion, with total assets at PKR 52.32 billion, constituting only 1.8% of the NBF Industry. The sector includes 31 registered companies of which 22 currently operational. The quarterly growth of Modaraba sector during the period is as under.

<i>PKR Billion</i>					
AUM of Modarabas	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
AUM in Modaraba	61.46	63.35	65.34	66.45	52.32

### 2.2.2 NBFIs

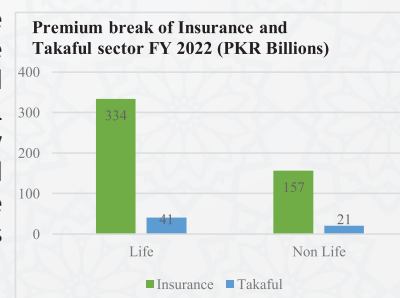
NBFIs include non-banking micro finance companies, investment banks, leasing companies, discounting companies and housing finance companies. This sector plays a vital role in meeting the financial needs of small and micro enterprises and the unbanked segment of population. NBFIs also play key role in enhancing the purpose of social finance, contributing to the Sustainable Development Goals (SDGs).

The quarterly AUM of selected NBFIs for the financial year 2022-23 is given below:

<i>PKR Billion</i>				
NBFIs	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
Non-Bank Micro Finance Companies	160.66	168.45	175.54	183.56
Investment Banks	95.90	108.98	111.02	128.93
Leasing Companies	5.97	6.00	5.92	6.42
Housing Finance Companies	0.45	0.51	0.51	0.54

## 2.3 The Takaful Sector

Pakistan is one the countries having lowest penetration of insurance services. Despite its nominal size, however shariah compliant alternative is available to customers in Pakistan. The takaful industry is comprised of 33 active takaful operators, of which 3 are dedicated family takaful operators, 2 are dedicated window takaful operators, 7 family window takaful operators and 21 are general window takaful operators. Detailed list of Takaful operators is given in Schedule-V. In terms of insurance premium, takaful market share is 11% of the total insurance market, as of December 31, 2022.





# CHAPTER 3: A NEW APPROACH FOR THE DEVELOPMENT OF ISLAMIC FINANCE: KEY DEVELOPMENTS AND REFORMS

SECP adopted a new strategy for the development of Islamic finance, in line with the constitutional goal and the institutional mandate. This approach involved a broader stakeholder engagement to identify challenges impeding the development of Islamic finance in the country. As a result, a comprehensive diagnostic review report of Islamic finance in the non-bank financial sector has been published. Based on the findings of the diagnostic review report, a comprehensive time-bound action plan has been devised, which shall be implemented in collaboration with all stakeholders.

## 3.1 Key Developments and Reforms in Area of Islamic Finance During Financial Year 2022-23

SECP undertook key reforms and development activities for the enhancement of institutional capacity, awareness creation and capacity building, and regulatory reforms.

- SECP developed a comprehensive diagnostic rereview of Islamic finance in the non-bank financial sector of Pakistan, to identify impediments, regulatory bottlenecks and gaps, with broader stakeholder consultation. The report served as the basis of strategic action plan for the development of Islamic finance.
- SECP through technical assistance from Asian Development Bank, engaged IFAAS to conduct a gap analysis of the Islamic FinTech and propose a regulatory framework. IFAAS proposed FinTech framework can be accessed from SECP's website.
- SECP reconstituted its SAC, which facilitates SECP in Shariah advisory and resolution of Shariah related issues. This has been a big leap in developing the internal institutional capacity.
- Further, SECP also constituted a functional committee comprising of experts for the promotion of Islamic finance. The committee is envisaged to study Islamic financial services industry of Pakistan and propose its recommendations.
- In the aftermath of Federal Shariat Court judgement on the elimination of Riba, SECP following a proactive approach constituted an Apex committee to provide strategic guidance on transformation of SECP regulated sector. The Committee held two meetings during financial year 2022-23 and deliberated on the transformation of SECP's regulated sectors.
- Continuing its effort to further capacity building and awareness creation, SECP co-hosted first International Islamic Capital Market Conference in Islamabad, in collaboration with AAOIFI. The conference has been a remarkable success with participation of industry experts from around 7 countries.
- To enhance its internal capacity, SECP provided training on Islamic finance to 146 officers at IBA-CEIF. Besides, SECP officers also participated in professional development and capacity building events of AAOIFI, IFSB, IFAAS and others.
- SECP organized a 'High Power Sensitization Session on Islamic Finance' for the top management of PSX, led by Dr. Mufti Irshad Ahmad Aijaz, Chairman of Shariah Advisory Committee. A workshop on "Misconceptions about Islamic Finance and Shariah Maxims" with IFAAS, ADB Technical Assistance, led by Dr. Mufti Irshad Ahmad Aijaz and Dr. Najeeb Zada was also organized.
- SECP collaborated with SBP on organizing a capacity building workshop in Islamabad, introducing IFSB Standards for Takaful and Islamic Capital Market Segments. Besides, SECP's senior leadership attended 15<sup>th</sup> IFSB public lecture as part of the 41<sup>st</sup> IFSB Council Meeting's side events.



- During the financial year 2022-23, SECP undertook several regulatory reforms aimed at market development. These included, issuance of Guidelines for Offering Islamic Financial Services, revamping of the Modaraba Regulations, issuance of Guidelines for Shariah Compliant Investing on PSX, and Consolidated Circular of the Modaraba sector.
- The new workstreams for the financial year 2023-24, include asset light Sukuk, Islamic crowdfunding and Sukuk tokenization. SECP is working on the aforementioned areas to develop regulatory framework and product model.
- Besides, SECP is also aiming at several legal and regulatory reforms during the ongoing financial year. These include, amendments in the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, amendments in Modaraba Companies and Modaraba Rules, 1981, developing guidelines for Islamic FinTech, developing a foundational framework for Shariah compliance and increasing the number of notified AAOIFI standards.
- SECP is also in process of consulting stakeholders for the development of dedicated Islamic financial Services Act, to serve as a parent law of all Islamic financial services.

### 3.2 Way Forward

SECP currently stands as the vanguard in nurturing the growth of Islamic finance within the country. The methodical approach employed by SECP, commencing with a comprehensive industry assessment, extensive stakeholder consultations, and the formulation of a strategic action plan, is poised to yield substantial dividends in the future. Furthermore, the SECP remains dynamically engaged with stakeholders to stay abreast of developments in the international financial landscape and to identify emerging opportunities.

With the significant potential of Islamic finance in Pakistan, driven by demographic factors, and SECP's proactive involvement in cultivating a thriving Islamic financial market, the future of Islamic finance in Pakistan shines brightly.



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## Snapshot of Islamic Finance under SECP's Regulatory Domain as on June 30, 2023

PKR Billion								
Description	Islamic				Conventional			
	Numbers	%	Numbers	%	Numbers	%	Numbers	%
NBFCs and Modarabas	Numbers		Asset Size		Numbers		Asset Size	
Mutual Funds	154	45.29%	721.67	43.07%	186	54.71%	953.88	56.93%
Pension Funds	13	54.17%	32.39	64.44%	11	45.83%	17.87	35.56%
REITs	13	86.67%	271.25	98.05%	2	13.33%	5.39	1.95%
PE&VCs	-	0.00%	-	0.00%	7	100.00%	8.79	100.00%
Investment Banks	-	0.00%	-	0.00%	28	100.00%	128.93	100.00%
REIT Companies	-	0.00%	-	0.00%	14	100.00%	9.4	100.00%
Microfinance companies	1	3.12%	36.85	3.56%	39	96.88%	146.71	96.40%
Modarabas	22	100.00%	52	100.00%	-	0.00%	-	0.00%
AMC/IAS**	-	0.00%	-	0.00%	29	100.00%	51.86	100.00%
Portfolio Discretionary & Non-Discretionary***	52	7.00%	59.31	12.43%	691	93.00%	418	87.57%
Leasing Companies		0.00%		0.00%	5	100.00%	6.42	100.00%
Housing Finance Companies	1	25.00%	0.06	10.64%	3	75.00%	0.48	89.36%
Private Equity Companies	-	0.00%	-	0.00%	11	100.00%	0.22	100.00%
Sukuk/TFCs	30	100.00%	406.94	100.00%	-	0.00%	-	0.00%
Listed companies	Numbers		Market Cap		Numbers		Market Cap	
	253	48.28%	4,149.83	65.15%	271	51.72%	2,219.64	34.85%
Insurance/Takaful*	Non-Life							
	Takaful				Insurance			
	Number of Operators		Premium share		Number of Operators		Premium Share	
	23		21		28		157	
	Life							
	Takaful				Insurance			
	Number of Operators		Premium share		Number of Operators		Premium share	
	10		41		8		334	
Total	580	26.20%	5,752	58.20%	1,631	73.80%	4,124	41.80%

## Notes:

\* Takaful sector of Pakistan consists of 33 active operators. This includes 3 Dedicated family takaful operators, 2 Dedicated window takaful operators, 7 Family Window Takaful Operators and 21 General Window Takaful Operators. Additionally, the data pertains to Takaful and insurance as of December 31, 2022.

\*\*The assets of 6 AMC and 6 Private Fund Managers having more than one licenses are covered in AMC/IAs section

and assets of 1 RMC has more than one licenses is covered in Private Fund Managers.

\*\*\*Based on information obtained from Off-site, Alflah Assets Management Limited, Al-Meezan Investment Management Limited, Faysal Asset Management Limited, and Pak Qatar Asset Management Co. Limited were presumed to be Islamic AMCs/advisors for Discretionary & Non-Discretionary Portfolios.



## SCHEDULE II: LIST OF ALL TIER-I AND TIER-II SUKUKS BY ISLAMIC BANKS (PKR BILLION)

Sr. No.	Name of Issuer	Year of Issue	Type	Size
1	Dubai Islamic Bank Pakistan Limited	2022	Tier II	4.00
2	Meezan Bank Limited	2021	Tier-II	9.99
3	Al Baraka Bank (Pakistan) Limited	2021	Tier-II	1.73
4	Bank Islami Limited	2020	Tier I	2.00
5	Meezan Bank Limited	2019	Tier II	4.00
6	Al Baraka Bank (Pakistan) Limited	2018	Tier I	1.40
7	Meezan Bank Limited	2018	Tier I	7.00
8	Dubai Islamic Bank Limited	2018	Tier I	3.12
9	Dubai Islami Bank Limited	2017	Tier II	4.00
10	Al-baraka Bank (Pakistan) Limited	2017	Tier II	1.50
11	Meezan Bank Limited*	2016	Tier II	7.00

\* Redeemed



# SCHEDULE-III: LIST OF ALL CORPORATE SUKUKS (LISTED AND PRIVATELY PLACED)

S. No.	Issuer	Issue details	Mode of finance (Shariah Structure)	Amount in millions (PKR)	Tenor
1	Masood Textile Mills Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah Lease and buy back	3,000	5 year
2	Engro Powergen Thar (Private) Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,000	5 year
3	Pak Elektron Limited	Sukuk Privately placed	Diminishing Musharakah Lease and buy back	1,500	15 months
4	K-Electric Limited	Sukuk - Listed	Diminishing Musharakah Lease and buy back	25,000	7 year
5	Power Holding Limited	Sukuk - Listed	Ijarah	200,000	10 year
6	Hub Power Company Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah Lease and buy back	5,000	4 year
7	Mughal Iron & Steel Industries Limited	Sukuk - Listed	Diminishing Musharakah Lease and buy back	3,000	5 year
8	Hub Power Company Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah Lease and buy back	7,000	4 year
9	Kot Addu Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
10	Hub Power Holding Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah Lease and buy back	6,000	5 year
11	TPL Trakker Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah Lease and buy back	1,400	5 year
12	Pakistan International Airlines Corporations Limited	Sukuk Listed	Diminishing Musharakah Lease and buy back	20,000	10 year
13	Mughal Iron & Steel Industries Limited	ICP Privately placed	Musharakah Shirkat ul Aqd)	1,827	12 months
14	K-Electric Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
15	K-Electric Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
16	Ghani Chemical Industries Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	913	12 months
17	K-Electric Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
18	K-Electric Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
19	Pak Elektron Limited	Sukuk Privately Placed	Diminishing Musharakah Lease and buy back	1,500	15 months
20	Meezan Bank Limited	Tier-II Sukuk Privately Placed	Mudaraba	10,000	10 year
21	Al Baraka Bank (Pakistan) Limited	Tier-II Sukuk Privately Placed	Mudaraba	2,000	10 year
22	Lucky Electric Power Company Limited	ICP Privately placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
23	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,500	6 months



24	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
25	TPL Corp Limited	Sukuk Privately Placed -OTC Listed	Musharakah (Shirkat ul Aqd)	2,500	5 year
26	Crescent Steel and Allied Productss Limited	Sukuk Privately Placed	Istisna	800	3 year
27	Berger Paints Pakistan Limited	Sukuk Privately Placed	Diminishing Musharakah Lease and buy back	500	4 year
28	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
29	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
30	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
31	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
32	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
33	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
34	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
35	China Power Hub Generation Company (Pvt.) Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	8,000	6 months
36	Hub Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
37	K-Electric Limited	Sukuk Privately Placed -OTC Listed	Diminishing Musharakah lease and buy back	12,000	7 year
38	Mughal Iron & Steel Industries Limited	Sukuk Privately Placed	Diminishing Musharakah lease and buy back	5,000	5 eary
39	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
40	Loads Limited	ICP	Musharakah (Shirkat ul Aqd)	700	6 months
41	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
42	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
43	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
44	Dubai Islamic Bank Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,000	6 months
45	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
46	Nishat Mills Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	12,500	6 months
47	Bank Islami Pakistan Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	1,000	6 months
48	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
49	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
50	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
51	China Power Hub Generation Company (Pvt) Ltd	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months



52	Hub Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	4,500	6 months
53	Rousch Pakistan Power Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	2,000	6 months
54	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
55	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
56	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
57	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
58	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
59	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
60	M/s Abhi Private Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	2,000	6 months
61	China Power Hub Generation Company (Pvt) Ltd	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
62	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
63	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
64	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	6,000	6 months
65	K-Electric Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	5,000	6 months
66	Hub Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	6,000	6 months
67	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	6,000	6 months
68	Lucky Electric Power Company Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
69	Agha Steel Industries Limited	Sukuk Privately Placed	Musharakah (Shirkat ul Aqd)	7,000	6 months
	<b>Total</b>			<b>563,640</b>	



## SCHEDULE-IV: DETAILED LIST OF REIT SCHEMES

**PKR Billion**

Sr. #	REIT Scheme	Management company	Total Assets/Fund AUM
1	Dolmen City REIT*	Arif Habib Dolmen REIT Management Co. Ltd	65.66
2	Silk Islamic Development REIT		12.87
3	Silk World Islamic REIT		6.16
4	Naya Nazimabad Apartments REIT		5.87
5	Rahat Residency REIT		1.93
6	DHA Dolmen Lahore REIT		95.30
7	Globe Residency REIT *		4.65
8	Sapphire Bay Islamic Development REIT		25.00
9	Pakistan Corporate CBD REIT		15.50
10	Signature Residency REIT		0.82
11	Imperial Development REIT		5.92
12	Meezan Center REIT		1.38
13	JS Rental REIT	JS Investments Limited	0.74
14	TPL REIT Fund I	TPL REIT Management Co. Ltd	32.06
15	Image REIT	Sinolink REIT Management Co. Ltd	2.76
	<b>Total</b>		<b>276.64</b>

*\*Listed REIT scheme*



## SCHEDULE-V: NUMBER OF TAKAFUL OPERATORS IN THE MARKET

Sector	Classes	2022	2021
Non-Life	General Window Takaful operators	21	21
	Dedicated Window Takaful operators	2	2
Life	Family Window Takaful Operators	7	7
	Dedicated Family Takaful operators	3	2
	<b>Total</b>	<b>41</b>	<b>39</b>





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