

## **Growth of Islamic Banking in Pakistan by Using AID Model**

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### **Abstract**

*Islamic Banking (IB) is flourishing dynamically in Pakistan like all other Muslim and non-Muslim countries since January, 1981 as a result of Islamization of banking sector by introducing radical and structural developments made by the Government. Financial stability has always been a great conventional concern for the banking authorities all over the world. Same is the case with IB. Due to strong demands/requirements for Shariah Compliance products and services, the Islamic banks and financial institutions are increasing in numbers at a much faster pace in comparison with conventional banks, especially in the Islamic countries in the last 30 years or so. Now, there are about 200 Islamic banks providing Shariah Compliant Banking in more than 70 nations, these include not only in Islamic countries but also in western countries. The strength and financial health of the Islamic banks of Pakistan was analyzed by using "AID model" (Assets, Investments and Deposits). Moreover, some qualitative factors were also given due weight like perception/expectations of customers, businessmen & entrepreneurs to fulfill their modern professional needs. The data of all the Islamic banks working in Pakistan was gathered and analyzed in order to prove quantitatively through AID model that Islamic banks have shown a remarkable growth as a milestone for future Islamic banking. As no doubt, future lies in IB.*

**Key Words:** Conventional Banks, Shariah Complaint, Islamic Banks, Financial stability, AID model

### **1.1 Introduction**

There has been a debate by many researchers from both academic sphere and within the banking and finance industry on Islamic banking and finance regarding its growth and development in the years to come. The notion of Islamic banking and finance, both theoretically and practically, is in contrast with the conventional banking and finance system, either from the point of view of capitalism or socialism.

Islamic banks, in general, are governed by Shariah, which prohibits Interest i.e. Riba (return of money on money), Gharar (risky sales) and Maysir (gambling, or investment in forbidden items, e.g. alcohol) (Benaissa, Parekh and Wiegand, 2005).

Due to a strong demand for Shariah compliant products and services, the Islamic banks and financial institutions are increasing at a much faster pace in comparison to conventional banks, especially in the Islamic countries in the last 30 years. Now, there are about 200 Islamic banks providing Shariah compliant banking in more than 70 nations. These include not only in Islamic countries but also in western countries. In Pakistan, Iran and Sudan etc., the entire banking system is now offering Shariah compliant products and services (Aggarwal and Yousef, 2000). The overall value of assets of these banks is over \$265 billion with a growth rate of 15% per annum. Moreover, the potential growth has attracted many banking giants like HSBC and UBS in this segment of the banking market and countries like Malaysia and Bahrain are creating Islamic banking hubs for over 1.2 Billion Muslims all over the world (Hassan & Lewis, 2007).

Presently a large number of people are interested in the Islamic banking and how it is different from the conventional banking especially from the point of achieving growth in its assets, investment and deposits. (Hassan & Lewis, 2007).

As far as Pakistan is concerned, the IB is on the way to success. As the numbers of customers are increasing day by day at Meezan Bank, Dubai Islamic Bank, Bank Albaraka, Faysal Bank, Burj Bank, UBL Islamic Bank, Bank Islamic. Apart from this, there are so many commercial banks whose different branches are currently in action and promoting IB and its products & services. Like others, Pakistani banking system, supported by the Government of Pakistan and the State bank of Pakistan has consolidated the base of IB in the country and is providing infrastructure. The study shows that in spite of financial crisis, drastic economic conditions, The growth of the IB has shown remarkable progress in the form of increased assets, expanding business volume, deposits and reserves in the country.

In recent years, due to the availability of the protected markets and other regularity advantages, e.g. higher lending limits, many Islamic banks are in a position to exploit these advantages against conventional banks. So, Islamic banks in Pakistan are providing purely Shariah Compliant Products and Services and giving a tough competition to other commercial banks. Furthermore, in many countries of the world, one or two Islamic banks were allowed to operate, thus creating monopoly or duopoly. This not only paved the way to increase their profits but also enabled these banks to create an increased demand for Shariah Compliant Products

It is blamed that recent financial crises are a direct consequence of operations of the modern banks and financial institutions. These banks focused more on to maximize shareholders' wealth, greedy behavior and interest are used as a tool to multiply shareholders' wealth.

Due to conceptual differences, Islamic banking and conventional banking are considered dissimilar in practical terms. The former prohibits the use of interest while later considers it an integral part of the entire banking system. In recent years, due to increased regulator advantages for Islamic banks and deteriorating performance of the conventional banks, Shariah compliant products are gaining popularity and, therefore, Islamic banks are giving a competitive environment through their growth in different aspect qualitatively & quantitatively.

## 1.2 Research Objectives

The aim of this study is to look into the achievements and growth of the *Islamic banking in Pakistan* based on Shariah *principles* and their *applications* and finally to analyze the *outcomes in the shape of increased profits, assets, market share or deposits or investment*,

For this reason it is imperative to:

- Identify and evaluate the principal components of structure of Islamic banking and finance with reference to its Volume of Asset, Investments & Deposits....
- Critically evaluate the outcomes of the impact of application of different Shariah Principles on the basis of AID Model (Assets, Investment & Deposits)

### 1.3 Problem Statement

In Islamic economic system, profit taking is considered lawful as is the private ownership as in capitalism. However, in capitalism, profit taking and private ownership are based on the use of unrestrained economic decision-making power. (Usmani, 1998).

So, an effort has been made to prove whether the IB is growing and developing in Pakistan or not? The answer of this simple question is sort out by using 3 variables and 4<sup>th</sup> one being the Shariah Compliance.

### Dependent and Independent Variables

Dependent variable for this study is Growth of Islamic Banking (GIB). While the Independent variables are (1) Return on Assets (ROA), (2) Investment Volume (IV), (3) Deposits Volume (DV), and Shariah Compliance (SC).

$$GIB = c + b_1(ROA) + b_2(IV) + b_3(DV) + b_4(SC)$$

### 1.4 Literature Review

If we look at the performance of these banks in respect of assets' annual return from 2000 to 2004, for example, for 25 Islamic and conventional banks in 7 countries with a dominant Muslim majority, it is evident that the scenario is of a mixed one. For example, in Saudi Arabia, Al Rajhi Banking an Investment's average return on asset was more the 3% while other Islamic banks were only giving 1% return (McKinsey Quarterly, 2005).

Islamic banking has seen rapid growth during the last two decades. There are many contributory factors for such growth, most notable of which are: the liberalization of financial regulation; globalization of financial markets; changes in technology; product innovation; the birth of several new Islamic States; and growing Islamic presence in the West. Product innovations have helped economists and religious scholars to develop new products in virtually all areas of banking and insurance, including many that were previously thought of as extremely controversial. There is no accurate data on the exact extent and volume of Islamic banking, but it is currently estimated that Islamic banks' assets are worth between US\$250 billion to US\$800 billion, while there are nearly 300 Islamic financial institutions worldwide, including the "Islamic Windows" of conventional banks. The Islamic *Sukuk* (Bond) is the fastest growing product, with an estimated outstanding value of US\$30 billion. In Pakistan and Malaysia, Shariah compliant funds have exceeded over 50 per cent of total market capitalization. (<http://www.emeraldinsight.com/journals.htm?issn=1755-4179&volume=3&issue=2&articleid=1937350&show=html>)

Moreover, in some countries, Islamic banks were good performers than conventional banks. However, on the contrary, it is also studied that when the real economic crises arose, the results were more adverse for Islamic banks as compared to conventional banks (IMF Survey Magazine, 2010).

There has been an increase, both in volume and scope, in financial activities based on Islamic modes of financing which has attracted a notable awareness around the world. A number of books and articles have been written on the subject in the last two decades ranging from highly religious exposition on Islamic law and to more realistic surveys of the more recent Islamic financial products (El-Gamal, 2006).

During the later half of the 20<sup>th</sup> century, the concept of Islamic economics and financial models started to emerge in the financial literature. In this respect, the most prominent work was done on the subject by Islamic scholars from Pakistan and India who also influence the writings of Arab scholars. Islamic financial system, put forward a different approach, based on the prohibition of interest and permission of trading activates (Ayub, 2007) and does not take influence from capitalistic and socialistic economic structure. (Hassan and Lewis, 2007)

A prominent Islamic scholar, Al – Mawdudi, was, one of the first persons to write a better thought-out and target oriented writings on the Shariah compliant economic and financial system and which also corroborate with modern economic and financial needs. Al – Mawdudi's writings also influenced the writings of other Islamic scholars, for example, Arab Sayid Qutb (Hassan and Lewis, 2007).

According to Ayub (2007), question arises that 'Will Islamic economics and finance theories sooner or later reach a point where they provide a better alternative to the world at large?'

However, the answer to this question is quite tricky one as there are many proportions to ponder on. For example, from the Islamic perspective, the stress is on the ethical and social perceptions which is not developed and employed at the state echelon.

In recent times, many groups are interested in knowing the concept and operations of Islamic banking and to what extent this is different from the conventional system of banking. The matter of fact, now, is that in many parts of the world including both Muslim and Non-Muslim countries, the despite the fact that Islamic banking is still an ambiguity (Hassan and Lewis, 2007).

There are various forms of information relevant to Islamic banking and finance available. This includes, for examples, dissertations of PhD level (El-Bdour, 1984; Khan, 1983), many books have been written by leading academics and practitioners (e.g. Homoud, 1985; Shirazi, 1990), published research reports (Ahmad, 1987; Iqbal and Mirakor, 1987) and journal & articles (e.g. Erol and El-Bdour, 1989; Erol et al., 1990; Shook and Hassan, 1988; and Sudin et al., 1994). Due to the prohibition of *riba* in Islam, Islamic banks have to provide products and deliver services which must be *Shariah* compliant. Resultantly, many special products have been created to in accordance with the strict *Shariah* criteria, for example, *Sukuk*, (Ali and Ali, 1994).

Islamic economic system and consequently Islamic finance and banking system is based on ethical and moral grounds which, are in contrast to modern economics. The modern economic system is based on merely to maximize profits with no moral and ethical perspectives. This leads to competitiveness between the two systems as the later focuses on shareholders and their wealth while ignoring the paradigm of socio-economic justice. In the modern system, investors are assured that whatever the result of their investment they will get a pre-fixed amount as return on investment; this is not true especially in current highly volatile financial markets (Lewis and Algaoud, (2001) and *Iqbal & Llewellyn, 2002*).

Moreover, there are certain transactions or trading activities which are scrutinize-able on ethical grounds as well as on economic bases in Islamic system. These include gambling and sale of alcohol, etc. and have both social and economic implications (Al-Salem, 2008).

On the contrary, the model of Islamic banking and Finance is based on the concept of profit / loss sharing, thereby bringing a more justifiable, acceptable and beneficial way of doing business (Rahman, 2010). This Islamic system avoids the chances of enjoying the benefits by one party on the loss of the other party. Moreover, the Islamic banking system is based on the prohibition of *Riba* or Usury. Although this prohibition is also mentioned in the Old Testament, however, is widely practiced in the capitalistic economic structure. In recent times, the world wide practicing of the capitalistic economic system, the use of interest is a norm in the banking system around the world (Rahman, 2010).

According to Khan and Bhatti (2008), the basic idea of investment is to share profit and loss on the investment and there is no pre-fixing of the return on investment. However, banks' investment in those ventures which are more reliable by pooling the investment and profit / loss is shared of banks' entire portfolio of assets. To reduce the risk of loss in Islamic investment ventures, it is made sure by the Islamic Financial Service Board (IFSB) by suggesting ways to alleviating the impending risks.

### **Present scenario: Growth and resilience in the financial crisis**

According to Parekh, Benaissa and Wiegand (2005), if we look closely on the performance of the Islamic banking system, it is growing at tremendous pace and is a profitable venture in many parts of the world. For this reason, if current players have to carry on their business, they must not only bring their deep-seated banking skills up to competitive levels but also overcome a handful of challenges specific to Islamic banks. Parekh *et al* (2005) propounded that following three factors are impacting the operational performance of *Shariah* acquiescent banks:

#### **A. shape of the Market**

Factors which affect profitability of these banks include customers' characteristics portfolio, e.g. average assets holdings and the demand for particular products such as savings accounts and loans as well as labour costs and competition. In Qatar, for example, the high demand for and limited supply of loans for corporate sector and infrastructure projects created an opportunistic environment for banks, both Islamic and conventional banks.

## B. Business shape

Conventionally, focus is paid to retail customers than corporate customers. Now the situation is that in respect of Islamic banks who adapted retail banking business model vigorously performed much better than the banks with corporate banking model. For example, the Saudi Arabian bank Al –Rajhi concentrated more on retail and small business customers and gained an above average return on assets. Same is the case with Kuwait Finance House.

## C. Stipulation for Islamic banking

Different demand levels persist in different markets by different consumers for Islamic products. For example, they may be looking for certain preferred source, e.g. *pure play or hybrid*, or they may be willing to compromise performance for lower prices, or it may be the case that they are willing to accept poorer service as a trade-off for Shariah compliant products. For example, if we look at the non interest-bearing accounts, in Saudi Arabia these stood at a level of about 75% of consumer deposits and 50% of all bank deposits and show a cost advantage over their counter parts outside Saudi Arabia. On the other hand, in neighbouring UAE, the level of non interest-bearing deposits stood only at <25% of all bank deposits.

However, it is argued that some Islamic banks charges fees in the name of transaction costs, according to Al-Salem (2008) and some Muslim scholars are against the charging of fees. If, fees are not charged by banks then they become a charity organisation instead of a bank. Moreover, there is also a problem in the practice of Islamic banking. It is the application of accounting conventions into it, as put forward by Khan and Bhatti (2008). Since, Islamic banking model differs from conventional banking model, therefore, this application process pose a major problem. Therefore, to fulfil legal obligation of disclosures for investors, there is a need for some proper rules to address the issue of application of accounting convention to Islamic banking model.

## Islamic Banking System in the current Credit Crisis

According to a recent working paper written by Hasan and Dridi (2010) for the International Monetary Fund (IMF), “...that IBs have been affected differently than CBs. Factors related to IBs’ business model helped limit the adverse impact on profitability in 2008, while weaknesses in risk management practices in some IBs led to a larger decline in profitability in 2009 compared to CBs. IBs’ credit and asset growth performed better than did that of CBs in 2008-09, contributing to financial and economic stability. External rating agencies’ re-assessment of IBs’ risk was generally more favourable.”

Moreover, in another survey conducted by the IMF in October 2010, it is revealed that during the current global financial crises, Islamic banks performed better, on average, as compared to conventional banks. Further, Islamic banks charged dissimilarly as compared to conventional banks, most importantly, it came to light that more stringent *regulatory and supervisory challenges need to be addressed*.

**In the recent economic crises, Islamic banks appeared to be invulnerable. Just before January 2009 the ‘Islamic Dow Jones’ lost by some percentage, while original stock market index was lost in value by a third. Despite severe financial crisis cause mayhem around the world, there has been an increase both in the reserves & assets and customers & deposits of the Islamic banks.** According to Abdullah Turkistani, Director of an Islamic economic research centre in Saudi Arabia, recent economic dilemma has an effect on nearly each financial institution, including Islamic banks, however, he added that *“If you want to see the negative effects to Islamic banking, it is almost negligible compared to what happened to other bank.”* Moreover, according to Professor Hans Visser *“The economy would become much more rigid. Greater economic openness has brought enhanced growth but also greater volatility, stronger fluctuations. If you have free markets, you must accept that things go wrong every once in a while.”*(Laurens Nijzink, Radio Netherlands).

Present economic and financial indicators are suggesting that Islamic banking model in performing much better and steady than the conventional banking model. The simple reason for this success is derived from the fact that Islamic banking model is based on trading for real assets which are less risky and more certain. However, Islamic banking model is still in its infancy from the operational point of view. If conventional banking skills and tools are coupled with the application of Shariah principles then it may be possible that it may prosper in future.

### **3. Data Collection and Methodology**

Keeping in view objective of the study, the study concerned is based on a number of data collected and analyzed from bona fide various sources such as state bank, books, newspapers, trade journals, government agencies, trade associations, industry news Journals and other databases online. The aim of the research paper is to capture the background data and intricacy of the subject in order to learn from the data that future lies in IB.

Not far from the topical epoch, a lot of writers such as Sparks (1995), Shackleton (1996a,b), Clarke and Rimmer (1997) and Wrigley (2000) are buoyant to perform additional research in an effort to discover additionally some very important new findings of the subject under study. Furthermore, sensible research supply the opening to explore ensuing outlook and views, in reply to understanding and familiarity gained and lessons learnt. This approach has been obtaining superior support from within the literature as is put forward by Shackleton (1996a, b), Sparks (1996), and Palmer(2002a, b).

#### **3.1 Reasons for the selection of Islamic Banking and Finance**

The main reason for the selection of this study is that, firstly, in the last few decades, especially after the financial crisis in the 2009-2009, it was felt globally that there should be some sort solution to the problem of the downward spiraling of the economic situation. In this situation, the question arises on the ability of the Islamic banking model to provide an alternative to the recurring financial crisis as it is primarily based on non interest-bearing transactions and savings. The answer to this question is inherent in recent economic crises when the conventional banks around the world are under performing and giving severely worse results if compared with the performance of the Islamic banking system (IMF, 2010).

Secondly, capital creation and value preservation are one of the greatest challenges facing Muslims and the Islamic world as a whole. In this regard, there is a need to focus on longer term issues of Islamic capital accumulation and its contribution to the development of Muslim societies, including those in the West. Many of these societies remain poor, yet there is much positive experience to learn from. Wealth creation results from savings and investment, but this is most likely to be successful if the institutions created to harness and deploy funds share the values of the societies they serve. The growing Islamic banking movement has become a global financial force, and it has the proven ability to harness funds that might otherwise be under-utilized. There is successful experience shows that observance to religious principles can fetch social progress and that moral financing is good business logic.

#### **3.2 Conduct of the research**

I will steer this analysis as a 'practical approach' rather than focusing on theoretical aspects in detail, although theoretical aspects will be taken into account as a base for my analysis or where to clarify the situation or the explanation to the subject matter. More emphasis will be placed, where applicable and necessary, to give a comparison to or an example from the conventional banking system to clarify the context or subject matter, as without any comparison the intended purpose of clarifying the contextual content will be difficult. Due to the complexities involved in the gathering of the primary data, reliance will heavily be placed on using the secondary data to explain the topic under research.

There are various forms of secondary data available on the subject. It includes data to be gathered from journal and articles written by both professional and academic experts, newspapers, magazines which may be specific to the research or general magazines, web sites of world renowned and banks and other financial and economic institutions, e.g. IMF, World Bank, WTO. A lot more data will be collected from the internet.

The data collected will be a combination of both qualitative and quantitative information to clarify the subject matter, since both kinds of data have their advantages and disadvantages (Silverman, 2004).

## Conclusion & Recommendations for Future Growth

### Forecast

1. In the next five years, 1200 branches of Islamic Banks are visualized to be opened. The hope is that IBIs will be 12% of total banking industry in due course of time.
2. By 2013, total of Islamic Banking industry is forecasted as Rs. 1 trillion.
3. Determined efforts are needed by all of us to push forward the process of Islamic Banking in Pakistan and taper off conventional banking and water down its impact.

### Challenges

We visualize the following future challenges:

1. Suggestions offered throughout this paper be given proper attention for implementation to ensure a sound foundation of IBIs in Pakistan.
2. *Differentiated products* be developed. Some Islamic Banks have taken correct initiatives in this respect. This areas needs to be logistically well cushioned with demonstrated results.
3. Islamic Banks must shown growth with profitability. The top management must evolve the process to translate the above challenges.
4. 15,000 people are needed in the next five years to equip Islamic Banks. In this respect, Universities in Pakistan must respond to this challenge. Curricula must be changed in management education. Higher Education Commission should provide motivation in this respect for Universities to positively respond.
5. *Shariah compliant* financial services be expanded. Awareness be created in this respect and logistics be developed as cushion to achieve the above objective.
6. The scope of services for users may be extended to such areas as micro finance, agriculture and small & medium enterprises. This will widen the base of socio-economic development in our country and will address to the two vital issues in our country namely, promotion of self-employment opportunities and alleviation of poverty.

The study work is performed using from a mixtures of authentic sources (books, newspapers, trade journals, etc) and other sources from the internet. An attempt will be made to analyze and interpret and evaluate the data in a coherent way to 'sort out things' using a 'hand-on approach'. Moreover, data consists of both of qualitative and quantitative in nature to support arguments and analyses where required or necessary.

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### Annexure:

#### Growth of Islamic Banking and Finance in Pakistan

##### **Growth of Islamic Banks: Some Important Indicators (December 2003- to June 2011)**

Year	Total Assets		Deposits		Net financing investment	
	Total Rs.b	Share of IBIs %	Total Rs.b	Share of IBIs %	Total Rs.b	Share of IBIs %
(December)						
2003	13	1	8	1	10	1
2004	44	2	30	1	30	1
2005	71	2	50	2	48	2
2006	119	3	84	3	73	2
2007	206	4	147	4	138	4
2008	276	5	202	5	186	4
2009	366	6	283	6	226	5
2010 (June)	411	6.1	330	6.4	236	4.6
2011 (June)	560	7.3	452	7.6	420	7.0

Source: Extracted from: *Islamic Banking Bulletin*, Karachi: State Bank of Pakistan, June 2011

The following conclusions emerge from the above table:

- 1) IBIs represent 7.3% of banking industry.
- 2) IBIs share of deposit was 7.6% and the share in net financing investment was 7.0% of banking industry.
- 3) Shares of all the three indicators have been registering a steady rise. This argues well for the IBIs for the future.

### Islamic Banking (Branch Network in Pakistan)

Sr. No	Particulars	No. of Branches Islamic Banks	Percentage
<b>A:</b>	1. Meezan Bank Ltd	232	
	2. Al Baraka Islamic Bank	87	
	3. Bank Islami Pakistan	70	
	4. Dubai Islamic Bank	66	
	5. Dawood Islamic Bank Ltd	42	
	<b>Sub-Total</b>	<b>497</b>	<b>62%</b>
<b>B:</b>	<b>Islamic Branches of Conventional Banks</b>		
	1. Bank Alfalah Ltd	80	
	2. Faysal Bank Ltd	37	
	3. Askari Bank Ltd	29	
	4. Habib Bank Ltd	22	
	5. Bank of Khyber	21	
	6. Others	64*	
	<b>Sub-Total</b>	<b>253</b>	<b>32%</b>
<b>C:</b>	<b>Sub-Branches of IBIs</b>		
	1. Bank Islami Pakistan Ltd	32	
	2. Dawood Islamic	08	
	3. Others Banks	09**	
	<b>Sub-Total</b>	<b>49</b>	<b>6%</b>
	<b>Total</b>	<b>799</b>	<b>100%</b>

Source: Extracted from: State Bank of Pakistan, Islamic Banking Bulletin, Karachi, June 2011 Annexure, P. 24

### Growth of Islamic Banks Branches December 2003 to June 2011

Year (December)	Number	Base Index	Number of Times
2003	17	100	1
2004	48	300	3
2005	70	412	4
2006	150	882	9
2007	289	1,700	17
2008	515	3,029	30
2009	651	3,829	38
2010 (June)	<b>667</b>	<b>3,924</b>	<b>39</b>
2011 (June)	<b>799</b>	<b>4,582</b>	<b>47</b>

### IBIs Financing Products June 30, 2011

S. No.	Products	Rs.b	%
1	Murabaha	90	45
2	Diminishing Musharaka	63	32
3	Ijarah	23	12
	Sub-Total	<b>176</b>	<b>89</b>
4	Others (Istisna: Salam, Musharaka, Mudarba)	23.2	11
	Total	<b>199.2</b>	<b>100</b>

**IBIs: Earnings and Profitability  
As On June 30, 2011**

Indicators	IBIs %	Industry %
<b>A: INCOME</b>		
Net Income to Total Assets (RAA)	1.60	1.40
Return on Equity (ROE)	16.50	14.40
Net Interest Income to Gross Income	82.60	75.90
Trade & Fix Gains (Losses) to Gross Income	5.30	7.60
<b>B: EXPENSES</b>		
Operating Expenses to Gross Income	60.90	51.00
Personnel Expenses to Operating Expenses	36.10	37.20
<b>C: SPREAD</b>		
Spread between Financing and Deposit Rate	8.80	6.90

It is apparent from the above Table that IBIs have performed better than the banking industry based on the following three indicators:

- 1) Net income to total assets (ROA).
- 2) Return on equity (ROE).
- 3) Net Interest Income to Gross Income.

However, income earned from trade and foreign exchange to gross income is lower. This potential needs to be tapped and the source of income needs to be expanded.

**Selected Performance Indicators: IBIs & Banking Industry  
As on June 30, 2011**

Sr. No	Particulars	IBIs	Industry %
1	<b>Capital</b>		
	Capital to Total Assets	9.2	9.4
2	<b>ASSETS QUALITY RATIO</b>		
	NPFs to Financing	7.50	15.30
	Net NPFs to Net Financing	3.20	5.50
	Provisions to NPFs	60.00	67.90
	Net NPFs to total Capital	14.30	26.60

**SPSS AND E-VIEWS RESULTS****UNIT ROOT 1<sup>ST</sup> DIFFERENCE**

Null Hypothesis: D(DASSETS) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic based on SIC, MAXLAG=1)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.377655	0.0160
Test critical values: 1% level	-4.803492	
5% level	-3.403313	
10% level	-2.841819	

**COMMENTS:-**

Here, from the calculation we can see the variable asset has become stationary at first difference form....

**1<sup>ST</sup> DIFFERENCE**

Null Hypothesis: D(DDEPOSITS) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic based on SIC, MAXLAG=1)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.116546	0.0072
Test critical values: 1% level	-4.803492	
5% level	-3.403313	
10% level	-2.841819	

**Comments:-**

Here, we can see that our variable has become stationary at first difference form.... form.

So, We have to take its first difference form.

**FIRST DIFFERENCE**

Null Hypothesis: D(DINVESTMENT) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic based on SIC, MAXLAG=1)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.357387	0.0529
Test critical values: 1% level	-4.803492	
5% level	-3.403313	
10% level	-2.841819	

**Comments:--**

Here, the variable investment has become stationary due to its first difference form.

**UNIT ROOT TEST**

VARIABLE	AUGMENT IN DICKY FULLER (LEVEL FROM)	AUGMENTIN DICKY FULLER (1 <sup>ST</sup> DIFFERENCE FORM)	AUGMENTIN DICKY FULLER (2 <sup>ND</sup> DIFFERENCE FORM)
ASSETS	0.4264	0.0160	
DEPOSITS	0.3896	0.0072	
INVESTMENT	0.1529	0.0529	

**ERROR CORRECTION MODEL**

Dependent Variable: D(GROWTH)

Method: Least Squares

Date: 06/04/12 Time: 12:26

Sample (adjusted): 2004 2011

Included observations: 8 after adjustments

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C	37.09947	NA	NA	NA
D(DASSETS)	-37.32827	NA	NA	NA
D(DDEPOSITS)	36.90765	NA	NA	NA
D(DINVESTMENT)	3.645045	NA	NA	NA
GROWTH(-1)	-0.390235	NA	NA	NA
DASSETS(-1)	-75.59715	NA	NA	NA
DDEPOSITS(-1)	64.65281	NA	NA	NA
DINVESTMENT(-1)	11.01085	NA	NA	NA
R-squared	1.000000	Mean dependent var	4.375000	
S.D. dependent var	2.503569	Akaike info criterion	-46.55253	
Sum squared resid	3.84E-22	Schwarz criterion	-46.47309	
Log likelihood	194.2101	Durbin-Watson stat	3.002609	

**GRANGER CAUSALITY TEST**

Pairwise Granger Causality Tests

Date: 06/04/12 Time: 12:32

Sample: 2003 2011

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Probability
DINVESTMENT does not Granger Cause GROWTH	7	1.80678	0.35628 (A)
GROWTH does not Granger Cause DINVESTMENT		7.58861	0.11643
DDEPOSITS does not Granger Cause GROWTH	7	0.86374	0.53655 (A)
GROWTH does not Granger Cause DDEPOSITS		0.93187	0.51763
DASSETS does not Granger Cause GROWTH	7	1.25135	0.44418 (A)
GROWTH does not Granger Cause DASSETS		1.49234	0.40123
DDEPOSITS does not Granger Cause DINVESTMENT	7	0.98348	0.50417 (A)
DINVESTMENT does not Granger Cause DDEPOSITS		0.22812	0.81425
DASSETS does not Granger Cause DINVESTMENT	7	0.84978	0.54060 (A)
DINVESTMENT does not Granger Cause DASSETS		0.35470	0.73817
DASSETS does not Granger Cause DDEPOSITS	7	0.77350	0.56386 (A)
DDEPOSITS does not Granger Cause DASSETS		1.20526	0.45346