

Factors Influencing the Growth of Islamic Banks



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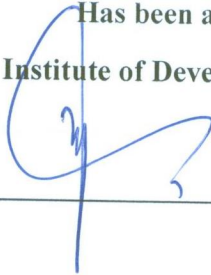
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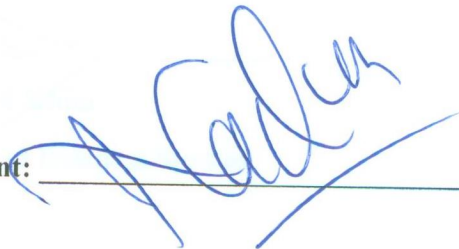


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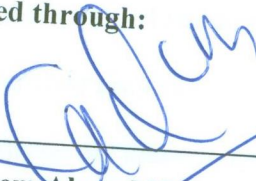


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I would like to dedicate my thesis to my Parents because their prayers and encouragement let me to complete my research work on time.

DECLARATION

I declare that this research work is my own effort, the material is properly identified and source of information is reliable, referenced completely and it is acknowledged according to the guideline which is provided to do this research work.

ABSTRACT

Islamic Banking is famous and encouraging in Pakistan like all other Muslim and non-Muslim countries since January. Financial stability has always been a great conventional concern for the banking authorities all over the world. Same is the case with Islamic Banking 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 in comparison with conventional banks, especially in the Islamic countries in the last 30 years and on ward. Now there are all most 200 Islamic banks providing Shariah Complains Banking in more than 70 Muslim and non-Muslim 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.

TABLE OF CONTENTS

CHAPTER 01	1
INTRODUCTION	1
1.1 INTRODUCTION.....	1
1.2 DEFINITION OF TERMS:.....	4
1.2.1 ISLAMIC BANKING.....	4
1.2.2 OTHER DEFINITIONS	5
1.3 PURPOSE OF THE STUDY	5
1.4 RESEARCH SIGNIFICANCE	5
1.5 PROBLEM STATEMENT	5
1.6 RESEARCH OBJECTIVE.....	6
1.7 LIMITATION OF STUDY	6
CHAPTER 02	7
LITERATURE REVIEW	7
2.1 Introduction	7
2.2 Islamic banking in Pakistan.....	11
2.3 Knowledge and attitude towards Islamic banking in Pakistan.....	12
2.4 Basis and principles of Islamic Banking.....	12
2.5 Problems and Issues	13
2.5.1 Taxation Issues.....	13
2.5.2 Financial Reporting and Accounting Standards	13
2.5.3 Islamic Export Refinancing Scheme.....	15
2.5.4 Lack of Expertise	15
2.5.5 Net Work Problem	15
2.5.6 Lack of Awareness.....	16

2.5.7	Other Initiative	17
CHAPTER 03		18
RESEARCH METHODOLOGY		18
3.1	Research Methodology.....	18
3.2	Research Models	18
3.3	Data Collection.....	18
3.4	Variable Explanation.....	19
3.5	Variable, their Proxies and Symbols	19
3.6	Empirical Results	20
3.7	Descriptive and Pearson Correlation Statistics	20
3.8	Descriptive Statistics	21
3.9	Pearson Correlation Coefficients	21
3.10	Regression Statistics.....	22
3.11	Regression Results	22
3.12	Remarks.....	23
CHAPTER 4		25
ISLAMIC FINANCIAL INSTITUTIONS IN PAKISTAN		25
4.1	Growth.....	25
4.2	Shariah Compliance Development.....	26
4.4	Market Share	27
4.5	Micro Finance	28
4.6	Agriculture	29
CHAPTER 5		30
CONCLUSION AND RECOMMENDATION		30
5.1	Conclusion.....	30
5.2	Recommendation.....	31
REFERENCES.....		33

ANNEXURE-A:36

CHAPTER 01

INTRODUCTION

1.1 Introduction

Banks are most important industry that is used to run the economy of any country that is same like as blood circulation in human body. If blood circulation is good in the body, the body physically strong and fit same as like with banking industry which is helpful in running of the economy of any country if banking system is good so economy of that country would be strong and good. Basics of all banking system are same either it is commercial banks or Islamic banks. The difference occurs in the methods that are adopted by both Islamic banks and commercial banks for doing there business. The objective of both banks is same to earn the profit but the difference is in their rules and relations that are made to run both Islamic financial institutions system and conventional financial institutions system.

Main objective of conventional financial institutions is to earn more interest (Earing) for achieving their financial objectives for this purpose they use interest based contract system. While Islamic banking system uses trade base contract system to achieve their financial objectives (Profit Earing) or targets.

According to Holy Book;

“But Allah has acceptable trading, and prohibited riba’
(Al-Baqarah: 275)”

Goals of conventional financial institutions and Islamic financial institutions are parallel but their methods are different that elaborates their regulatory structure used for Islamic financial institutions and conventional financial institutions. Correlation of purpose that elaborates that most of frame work regulation methods is

same. Main change in the conventional financial institutions and Islamic financial institutions is due to methodology. Methodology is used to accomplish the purpose of Islamic financial institutions according Shariah compliance. Shariah compliance is very useful approach that helps to used necessary reforms in the wheel.

Shariah compliance approach gives more benefits to achieve maximum leverage to Islamic banks other than those that already exist in market and working under the conventional financial institutions framework. Islamic financial institutions in a country meet both Islamic and economic demands. In 1970 works started on prohibition of Riba in economy, number of beneficial steps are taken in the mid of 10980s. The steps that are taken in the middle of 1980s are beneficial in the evaluation of Pakistan's Islamic banking. Shariah compliance is the most appropriate and best model that is practice as compare to all models that are used all over the world. It is an appropriate approach used that identified the issues and its solutions that are beneficial for the Islamic banking system in country. Shariah compliance is a flexible approach that provides help in adopting and evaluating this approach in Islamic banking system.

This approach gives a great experience in formulating the SBP present strategies to reintroduce and re-launched the strategies with the name of Islamic financial associations of the country. This Islamic financial institutions strategy is re-introduced in 2001 in Pakistan, when the government analysis the importance of Islamic re-launched and promotes Islamic re-launching within the country. Shariah compliance is the best approach that is used internationally successfully.

Government took some decision that converts interest based approach to interest free approach without disturbing the economy and market with flexibility. This thing feels to build board based financial system that covers all segments of

finances. For achieving their purpose state bank of Pakistan build three kinds of strategies for the advertisement of Islamic financial institutions.

- ❖ Start new Islamic financial institutions in commercial banking industry
- ❖ Give permission to private banks includes Islamic banking subsidiaries to their banking network
- ❖ Gives the permission to private banks to open fully Islamic branches of banks open in the whole country

After these permissions this is the time to change all the laws and instruction and starting of Islamic financial institutions in the Pakistan. New method that is currently used it is flexible method that learned from past experience of the banking sector, All the flexibilities occurs due to Shariah compliance methods. Result of using this approach is very aggressive that grows rapidly.

In the end of 2003 one branch of Islamic financial institutions operated within the country and three commercial banks provides Islamic banking services. In the current year more over 20 conventional banks that are provided complete Islamic product and services. Most of private banks have lenience to provide Islamic product and services. Ten larger bank of Pakistan provides Islamic product and services in Pakistan. Assets of Islamic banks are more over 613 billion Pakistani Rupess in June 2017thats market share 35% of whole industry. Total deposits worth in market is 25.%. There are 800 branches in more than 150 cities of the Pakistan.

The Islamic banking industry from last couple of years trying to arrange multiple financial products and services for all type of customers and contributing a huge role in the development of economy of Pakistan. It is determined that Islamic banking institutions have a great financial strength in Pakistan. FDI in Pakistani Islamic financial institutions is playing a separate role in progress of banking industry.

SBP started new strategies to which help hence and regulate procedure with special sharia compliance standard that followed by across the world. The objectives is to compare our Islamic financial system with the international standards to get the unique place and confident of stock holders. By using international standard that will not only help to create good financial image of country but also attract many foreign investors towards the Pakistan. Pakistani Islamic banking institutions are very highly concern of Shariah compliance activities. At the end of June, 2017 data describe asset based advancing of Islamic financial institutions increases with the more assets and deposit development. Profit is showing an improvement in the results with compare to last years. The F&I portfolio of Islamic financial institutions touch rupees 670 billion in June, 2017. This is 11.1% higher than the last year with refer to market share financing and investment, assets and deposits shows 15.1% , 14.2 and 13.2% in last year. In 2014-16 there have 328 new braches started Shariah compliance banking activities in Pakistan. Now SBP issued Islamic banking bulletin which describe that Islamic financial industry achieved large share of 12% with compare to Islamic banking strategic 2014-16. Deposit of Islamic banks increases to 838 billion as compare to 506 billion in last year.

1.2 Definition of Terms:

1.2.1 Islamic Banking

Islamic banking defines as the procedure of financial services that's follow the basic principles of Shariah rules. The principles consist on the moral and ethical values. Islamic banking institutions have their own ways of doing financial transactions. It is known as the application of Islamic economical concepts of doing business. The main source of Shariah is Quran and Hadith (PBUH).

1.2.2 Other Definitions

All other conventional banks that they are not full fledged Islamic banks but want to make subsidiaries of Islamic banks inside of their branches to provide Islamic product and services. Same as the Islamic banks their target customers would be Muslim community, so they can open window for Islamic operations.

1.3 Purpose of the Study

Focus of study is to estimate the growth of Islamic financial institutions in the country and highlight all factors which are contributing in the development of Islamic financial institutions within the Pakistan. This study highlights growth in market share deposits and investments. Main purpose of the study is to determine the factor influencing the development of Islamic financial institutions in Pakistan.

1.4 Research Significance

Banks are most important industry that is used to run the economy of any country that is same like as blood circulation in human body. If blood circulation is good in the body will be physically strong and fit same as like with banking industry. Islamic banks follow the Shariah compliance activities and conventional banks do not bound to follow the Shariah rules. That's way the Islamic banks are growing well day by day. It is very important to consider that the strong banking sector contribute more role in the betterment of economy. The banking sector have a great impact on the development of economy of any country

1.5 Problem Statement

The problem statement defines that the main them and purpose of study. This study is made to identify the all main factors which may have some relation with the independent variable. In this study this is discuss that although the Islamic financial

system and convention system consider as same way of doing business but it is different by nature. For the purpose of identifying relation of the dependent variable and independent variable the Asset Investigation model is used.

1.6 Research Objective

Objective of research is to consider the difference in IB and conventional banking also explains the factors influencing the growth of Islamic financial institution of Pakistan.

1.7 Limitation of Study

Following limitations were application for this study

- ❖ Limited time period
- ❖ Process of collection of data
- ❖ Use the secondary data for analysis
- ❖ Result may not be occur according to situation
- ❖ Limited sample size

CHAPTER 02

LITERATURE REVIEW

2.1 Introduction

Islamic Financial Institution is becoming famous day by day. As explained by 24 Islamic and convention Financial Institutions in Pakistan and their annual return since 2014-16, their performance is far better and good (SBP Quarterly, 2016).

Islamic Financial Institutions and Islamic Financial System becomes very popular in last two decade .It because of numerous contributory factors which made Islamic banking reliable for people include ding the liberalization of financial regulations. Globalization of financial markets, revolution in technology, rebirth of Islamic products and services, innovation of new Islamic concepts of products, and the last one is growing Islamic presence in west as well (Hassan and Lewis ,2007).

Innovation in lots of Islamic products and services proved helpful for clerics and economist to devise newer products in banking as well as insurance which were taken extremely controversial. Islamic as such as no contribute volume of their assets but its assets can b estimate between 250USD to 800USD.there are almost 300 Islamic Financial Institutions in world's most famous of them are Islamic windows of convention Islamic Financial Institutions (IMF Survey Magazine, 2010). Shariah compliance funds in Pakistan exceed over 40% of overall markets. For specific countries Islamic banking proved fruitful then conventional banks (IMF Survey Magazine, 2010). However it is also seen that the economic crises comes it was worse for Islamic Financial Institutions has compared to conventional banking. The concept of Islamic economies prominently started to grow in financial literature during half of the 20th century. Islamic scholars from India and Pakistan were influenced from the Arab scholars because they prominent in exceptional work on this subject to promote

Islamic financial system (El-Gamal, 2006). Islamic banking or financial structure is based on the prohibition of interest and riba allowing trading activities. Unlike convention banking it does not influence from capitalist and socialist economic structure (Ayub), 2007).

Islamic Financial Institutions have seen considerable increases both in scope and volume in financial performance and activities and its models attract a notable awareness around the country. Islamic scholar and economist are busy writing on these subjects since last 2 decades. This includes religious exposition on Islamic rules and regulation for Islamic products and services (Homoud,Shirazi, 1990).

Several research groups knowing the core concept of Islamic banking system and their difference from conventional banking system, This described that the CB and IB is not same (Homoud,Shirazi, 1990).

The matter of fact is that Islamic Financial Institutions have no clear narration in Muslim and non-Muslim world to understand the concept of Islamic banking and information related to finance available from various sources (Hassan and Lewis, 2007).

Modern Islamic financial system based upon interest where as Islamic economic system and subsequently Islamic banking and financial system is based on moral and ethical values and floor (Iqbal & Llewellyn, 2002). The polices of conventional and modern Financial system aims to target profits in spite of moral and ethical perspuective.one system thus believes on socio economic justice while later focus is on shareholder and their wealth [(Al-Salem), 2008]. A modern financial system, investors are assured of safety to their wealth in case of highly volatile financial crises (Rahman, 2010).

Islamic Financial Institutions have restriction limits over certain trading methods which are based on legal grounds and economic bases (Rahman, 2010). This forbids gambling and sale of alcohol which have both social and economic implications (Rahman, 2010).

Islamic finance and banking system has based on concept of profits and loss sharing. Modern finance lacks this ethics which make Islamic banking more justifiable (Muhammad Taqi Usmani,(1998) and beneficial way of doing business for prosperous society (Ayub Muhammad 2014). This concept avoids loss of one party with enjoying the benefits of other party. Every kind of Interest is prohibited in Islam. This prohibition is practical in the capitalistic economic structure (Haron, 1996b; Nawaz & Bardai, 2017).

In Islamic Financial Institution the concepts of Riba and Usury were also prohibited (Muhammad Taqi Usmani,1998). But the usage of interest is a *nomos* in banking industry in over all concern of world (Haron, 1996b; Nawaz & Bardai, 2017).

The basic ideas of investment is to share profits and loss on the investment in Islamic Financial Institution there is no prefixing of the return on investment (Haron, 1996b; Nawaz & Bardai, 2017).It depend on the profit and loss in shared banks in portfolio of assets. Islamic Financial Institutions service board (Rashid, Hassan, & Ahmad, 2009), IFSB make it sure by suggesting ways to improving the impeding and reduced the risk of loss in Islamic investments ventures. In Pakistan Islamic Financial Institutions is fulfilling criteria's of both religious and economic financial needs of people to provide the basic Islamic financial product and services. Evolution of Islamic finance system in Pakistan started in mid 80s. Efforts were previously started by elimination of Interest during 90s (Abdullah et al., 2012). Most significant and

practical steps were taken by authorities of Pakistan in the development and improvement of Islamic financial system in country (IMF Survey Magazine, 2010).

The effect of finance system on Muslim world is well recoded produced and services offered by Islamic Financial Institutions (IMF Survey Magazine, 2010).

In 2001 the Govt of Pakistan decided to encourage Islamic banking system in Pakistan by process of reintroducing this concept again in the economies of country (Hassan and Lewis, 2007). The growth of Islamic financial system is because of its 2 factors one is the religious factor which not allowed to anyone to do unethical thing with any one or other is the concept of justice to everyone in the process of Islamic financial system the investment is on sharing losses so it consider both the parties as the partner of profit and loss (El-Gamal, 2006).

The Islamic Financial Institutions offers many of products in bases of gain and loss sharing in the banking services (El-Gamal, 2006).

There is confirming that the Islam is a religious of Pakistan so this is main reason for the development of Islamic banking in Pakistan. This System based on the principals of Islam. But the most customers in Pakistan used the both ways of banking (Dr.Noor Ahmed Memon, 2007).

As the large number of customer have their accounts in conventional banks. This shows that the Islamic Financial Institutions are not fully satisfied the needs of customers they did not fulfil the requirements of their financial needs which require by customer (Khattak, 2010).

There is misunderstanding of the Muslim customer that they want to invest money for the purpose of safety and increment in their investments with out of Riba (Khattak, 2010).

By the huge number of banks in the banking industry the competition of new products and services is increases by day by day (Dr.Noor Ahmed Memon ,2007).

2.2 Islamic banking in Pakistan

At the time of separation in 1947, banking system of subcontinent is also separated. At this time Pakistan was having great need to establish new institutions to run the country's economy likes as counties to maintain a position in world. Banks and other institutions that are helpful in the development of economy of country. Banking institution made in 1948, first bank that is made in Pakistan is SBP. The banking industry grows rapidly in 1984. Major concept of Islamic banking system and commercial banking system is not same as their way of working is so much different, commercial banks works on interest based while Islamic banks not work on Shariah compliance.

Meezan bank has started their operation in 2002 in Pakistan as a 1st full-fledged Islamic institution. Islamic banks have started their Islamic branches that are designed according to Shariah rules and regulation. Habib bank was the first commercial bank that stated their Islamic window of Islamic banking to provide Islamic product and services in Pakistan. Later after Meezan, Bank Islami, UBL standard chartered made with the passage of time to give Islamic services in their banking services. These are commercial banks now open their Islamic branches in all over the country under the Shariah rules and regulation under supervision of Shariah board. All the Islamic rules must follow by these banks to provide the Islamic product

and services. In all banks working system only 17% banks are separated that is working according to Shariah rules in the country. Standard charter bank and fyasal Bank is the subsidiary bank that are separate to all banks.

2.3 Knowledge and attitude towards Islamic banking in Pakistan

Islamic banking and Riba are two different ideas in the banking system regarding to growth and development of baking sector. Riba interest is absolutely prohibited in Islamic banking system. In Islamic world and Islamic banking three forbidden item that are run by Shariah requirements and Shariah rules relation between Islamic and commercial banks and services basis in the country. In All Muslim and non-Muslim countries there are 200 Islamic banks providing Islamic product and services. Total worth of their assets 565 billion dollars their growth rate is 15 % . in Islamic Financial Institution. In present days Islamic banking system grow rapidly. Islamic banking system made successful day by day in Pakistan. The Number of potential customer is also increases.

This study shows the economic condition of banks financial services, interest rates, assets expansions, volume of services, deposits and their reserves in Pakistan.

2.4 Basis and principles of Islamic Banking

The Islamic based society and their teaching and considerations had made case of this social economic political agricultural life of the people. Islamic banks are trust and pay direct payment of the compensation on the present from claiming the usury in the Islam. A tradition of the commercial banks had been done with the system deposits in this separate system Islamic banking. The way of doing banking in Islamic way must follow the Shariah rules and regulation.

Islamic countries totally prevent the extra payment on the original amount which is called interest. Islamic banking the charge on the extra amount on the money is no allowed. In our Shariah law compiled on the preventing of extra payment renting money is fixed for the term which is based on the Shariah. The concept of partnership is the basis and accounts in Islamic banking. The factor of risk is very much considered in Islamic banking.

2.5 Problems and Issues

2.5.1 Taxation Issues

The big issue for the Islamic financial institutions is that the procedure of taxation. There is no proper documented procedure to calculate the tax for Islamic product .As there is difference in the products of Islamic financial institutions and conventional financial institutions. The procedure of tax is same for both ways of banking which is not good for Islamic financial institutions because Islamic banks did not provided their services like convention. The profit ratio is difference for both ways of banking because of their way of charging their remuneration method in Banking. The way of accounting is big factors could be consider in this step because process of recoding transaction in both banks is difference and maintain of books also different.

2.5.2 Financial Reporting and Accounting Standards

As there are many issues it have been discussed in past there are other regulatory issues that have been face by the Islamic financial institution system in the Islamic banking system have been compared with the conventional financial institutions consists of:

- There are some reports that are to be standards for the International for the financial purpose that ranked banking forms of transaction.
- The 1962 ordinance that have been described for banking that have been the described in the issues.
- There are various accomplishments for the ongoing the system in the securities for the rules and the regulation in the supervision for the banking department. State Bank of Pakistan regulations prudential for the banking for the system.

There are recently for the guidelines for the Shariah fulfillment of the Islamic banking institution for the financial reporting the standards for the Government of Pakistan for these standards for their modes in the areas in which had not covered in the annual separate reporting these ordinance in year of 1984 that have been done in the areas of these standards for the Islamic Banking institution in the commission of used of stock through its exchanging in the separate under standards modes and the areas branches and there banking branches from there are areas in the modes of the separate of Islamic modes of financial standards and the regulation for the covered in the separate annual reports with the Islamic banking for the conventional financial institutions system must prepare separate. Financial statement of Islamic banking system for the conventional financial institutions system operations and there disclosure of the forms in the cash of Islamic statement of operations in the separate institution in the changing the committee and banking branches there standards in there modes in the areas investments for the scholarships for the accountants that have been done the accomplishment of the standards in the rules and regulation in its prescribed in the representatives scholars regarding the regulatory and there services

2.5.3 Islamic Export Refinancing Scheme

Islamic banks have an issue of refinancing in their procedure. As many banks have many types of schemes to invest money in banks. After the time of maturity of any contract there is no predefined scheme in Islamic financial institutions to refinance these funds and get the maximum advantage from these funds. SBP is trying to maintain a structure to develop a mechanism which helps those customers who want to avail this facility of refinancing their funds in the same banks. This will also help banks to maintain a suitable reserve to run their operations, save the time of the customer to get the knowledge of new schemes and products of financing.

2.5.4 Lack of Expertise

Lack of expertise in Islamic financial institutions is very common. Employees working in Islamic financial institutions do not have as much expertise in all types of skills. It seems that many customers are never satisfied with the dealing of employees in Islamic financial institutions. They do not have proper knowledge of Islamic products to make an understanding to their customers. The main reasons behind this are that they did not have a proper study of Islamic finance and banking; they have a lack of Islamic banking knowledge. They did not develop the product and policies for the customers. The Shairah board of every bank emphasizes on this issue that give proper training to their new or old employees about the Islamic products and services provided by the Islamic financial institutions. Through this they can not only satisfy their customer but increase business.

2.5.5 Net Work Problem

The other problem which has been coming across in Islamic Financial Institutions in Pakistan is the lack of branch network. The number of branches are very

small in the country which could not properly provided product and services. SBP Launched new polices for this purpose to increases the number of branches in country to cover the all area of Pakistan. Due to the current situation of specific number of branches in country the Islamic Financial Institutions are losing large number of potential customer in banking sector which use conventional banking instead of Islamic banking. Conventional banks took advantage of this and created their Islamic Financial Institutions in all over the Pakistan to cover the customer by providing them Islamic product and services. In the felid of consumer finance product and microfinance product the conventional banks also started their services. Islamic Financial Institutions needs to open a large number of branches in all over the Pakistan to cover the potential customer across the country.

2.5.6 Lack of Awareness

The big issue with Islamic banking is that the deficiency of awareness in general customer. Many of customers feel like the same the conventional way of banking and Islamic way of banking. They understand that there is only the difference of name in both ways of banking otherwise this is same the Islamic way of banking and conventional way of banking. The Basic earing for both is same the conventional banker consider it as the Interest and in Islamic banking this known as the profit on the trade because Islamic Financial Institutions deals in the trade or contracts. This is very important to aware the customer that this is actually not same there is an lots of difference in conventional banking and Islamic. This difference is not only on basses of interest but lots of differences is to be considering in both banking system.

2.5.7 Other Initiative

SBP took large number of initiative to promote Islamic Banking in Pakistan. They develop new project to facilities not only bankers but also to customer. SBP is very concern about the proper knowledge of Islamic banking in Pakistan that's way they launched a new project to started degree in Islamic finance, Diploma in Islamic banking and finance. The main objective of all these projected is to maintain a skill in the banker to provide basic Islamic banking services to customer with full knowledge of Islamic banking.

CHAPTER 03

RESEARCH METHODOLOGY

3.1 Research Methodology

The results in the thesis for the research methodology is reasonable and the acceptable for the based the same and at least in the forbidden availability and their uses of the preceding studies in the context of the sources including the books as well as the Journal that have been the publications of the completion.

3.2 Research Models

For the purpose of identify the factors that are related worth the topic following middle is prepared. Through this it is will determine that the growth factor in country.

Model Name: Growth in Islamic Banks (GIIB)

$$GIIB = \alpha + Y1\beta1 + Y2\beta2 + Y3\beta3 + Y4\beta4 + Y5\beta5 + \epsilon$$

3.3 Data Collection

The sample and data collection is collect in this topic from the Islamic financial institutions of Pakistan from the period consist of 2014-16. The financial reports and all other relevant documents were collet from their sites and SBP for the purpose of analysis the data and official stes for the trade and fiancé is also consider for the collection of data in this subject to complete analysis. The financial information of the banks is used to measure the limit and measurements for control factors. This examination work utilized information accumulation direct from the financial reports of the banks however at voluntary dimension.

3.4 Variable Explanation

Growth is important to the shareholders and all other stakeholder which may reduce the development of financial sector in the country.

GIIB are the big ratio used to measure financial position. Financial performance described the growth of any business in country so the factors which directly influencing the growth of Islamic banks in Pakistan is GIIB through which the growth can be estimated. There have been various of these system that have been introduced in the banks in one side of the growth and their repair and the stakeholders in the regards of its issues of the respective of the stake holders in the focuses on the unfavorable conditions for that losses which are favorable conditions and their growth in the stake holders in the sudden changes their conditions that are favorable conditions for the economic conditions.

3.5 Variable, their Proxies and Symbols

Symbols	Variables	Proxies
GIIB	Growth in Islamic Banks	Net-Operating Income/Total Assets
Explanatory Variables		
Y ₁	Bank's Size	Logarithm of Total The Assets
Y ₂	Gearing Ratio	Total The Debts/Equity
Y ₃	NPLs Ratio	Non-Performing Loans/Total Loans
Y ₄	Capital and Asset managements	EBIT/Total Assets
Y ₅	Operating Efficiency	Total Operating Expenses/Total Assets
Y ₆	Capital Adequacy	Tier 1 Capital + Tier 2 Capital / Risk Weighted Assets

3.6 Empirical Results

The results comes out from these analysis of the Islamic banking system that have been done in the growth and the Islamic banks that have been the long term relationship for better operation ability for doing the long term statistics. They have been the size the debt of the NPL ratios that have the adequacy of the mismanagement for the effect of various impotent performance factors of the bank.

The growth of Islamic financial institution with the size of the bank, asset management, NPLs Ratio, capital adequacy ratio and operating efficiency due to the relation of these variables with growth at bottom to upgrade. These variables cover the overall important things of any banks because the performance of banks is directly affected by these variables and these variables play an unique role in the development or growth in the Islamic financial institution.

3.7 Descriptive and Pearson Correlation Statistics

Descriptive statistics of all variables. The mean of variables shows the arithmetical average of variables which are considered in the analysis as a compile model, the standard deviation explain the variability or diversity in the model. A low standard deviation point in the model is extremely close to the meanwhile higher values of standard deviation points that the data set is broadening out over a sizeable range of values.

There has been discussed to all the mentioned to exploratory and their helpful manner that has been arithmetic mentioned that have been above the variables standards that have been the inclined the significant the deviation and there has been the randomly not only to the variables that have been the following the details that given to the explanatory shows that hefty values that have been the range of the

correlation and the significant values. There have been the deviation and the small correlation and the mean while the value of the correlation data and sets to the exports broaden the data the broaden out.

3.8 Descriptive Statistics

Descriptive Statistics	Mean	Std. Deviation
GIIB	0.00135	0.012058
It depends on the size of the bank	4.285743	2.076435
Debt Equity Ratio	0.974652	0.126789
Asset Management	0.000752	0.087349
NPLs Ratio	0.028769	0.030974
Capital Adequacy Ratio	0.242438	0.109653
Operating Efficiency	0.057294	0.010874

*Correlation is significant at 0.001 level (Significance value<0.001)

**Correlation is significant at 0.10 level (Significance value<0.10)

3.9 Pearson Correlation Coefficients

Pearson Correlation Coefficients

	Bank's	Gearing	Asset	NPLs	Capital	Operating
	Size	Proportion	Management	Proportion	Sufficiency	Efficiency
Bank's Size	1	0.515**	0.110	0.289**	0.322	0.518
Gearing Ratio		1	0.589	0.309	-0.425	-0.042
Asset management			1	-0.114**	-0.388**	-0.566
NPLs Ratio				1	0.046**	0.331
Capital Adequacy					1	0.538*
Operating Efficiency						1

3.10 Regression Statistics

Dependent Variable: GIIB

Method: Least Squares

Sample: 2014M01 2016M12

No. Of Observations: 24

Durbin-Watson Test: Standard Errors & Covariance

Coefficients

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.0000	.007		-.012	.991
Bank's Size	0.0000	.002	-.002	-.010	.992
Gearing Ratio	0.0030	.001	.501	2.421	.027
Asset management	0.3050	.255	.208	1.196	.248
NPLs Ratio	-0.2260	.096	-.258	-2.354	.031
Capital Adequacy	0.0650	.018	.552	3.547	.002
Operating Efficiency	-0.7650	.175	-.758	-4.364	.000
R-squared		0.849	Mean dependent	-0.002339	
Adjusted R-squared		0.796	S.D. dependent		0.19415
Sum squared		0.002	F-statistic		15.953
Durbin-Watson stat		1.961	(F-statistic)		0.0000

3.11 Regression Results

The relation of debt equity ratio and Islamic banks Growth is positive and the coefficient is statistically significant at the 5 % level. The value of coefficients of Banks size AM and NPLs ratio are statistically insignificant.

The analysis of these regulations has been done on the scenarios as well as their statistics. This indicates whether relation happened depend upon the variables of the model in the explanatory variables. Significance of the test and shows the overall performance models and their results in the conditions and the changing the overall performance and the model of the access of the return that the assets that have been

given to the statistic and their responsibilities and test that indicates the different and various absentee of the different ratios and their values therefore the separate the solution had been come to now.

The profit is statically rises in the Islamic banking than the conformist banking the rise in ratio is 0% to 5% specification in all respective and their return had been increased in their statistics in their respective statistics return and their assets.

3.12 Remarks

The analysis given the details of the statistics that shows some development and growth of Islamic Banking that are totally based Islamic rules and regulations. Shows directly relationship of the growth variables of Islamic banking sectors in the country. The various statistics had been evaluated in the specific fiscal years that show the great increase in the demand of the Islamic banking activities. This topic also defines the benefits and the advantages of the Islamic banking system and their consequence to improve the economic sector. The Growth of the Islamic baking increased greatly due to the interest of the people in the country. The study established the consequences of bank-specific determinant of Growth in Islamic banks of Pakistan. The data analysis based on the data over the period of 2014-2016 that shows the long run relationship all explanatory variables with Growth.

The analysis shows that the result of combination of variables and their relation with the growth of Islamic banks in Pakistan. The data is collected from the spam of 2014-16 to determine the growth of Islamic banks in Pakistan.

For completion the aim the model id develop which known as the GIIB and explain the relationship of GR and CAR shows a positive relation and are statistically significant at the 5% significance level. The role of AM is explaining a positive and

significant level. The banks size a negative or insignificant relation in the model due to some issues as explain or some banks getting losses in their operation due to not customer satisfaction. Due to the very high level of Prudential Regulation of SBP in Pakistan the CA is be positive in model which is an good sing for banking industry. The loan performance in Islamic banks is not suitable shows by the NPL ratio which explain insignificant level.

CHAPTER 4

ISLAMIC FINANCIAL INSTITUTIONS IN PAKISTAN

4.1 Growth

Quaid e Azam was very concern of Islamic banking and highly supportive. He wants to develop efficient Islamic financial system in the country. Main aim of SBP has to mitigate the interest from Pakistan financial system. At the time of 1970 Islamic financial system was established but at mid in 1980-90s it becomes common in whole world. Total worth of Islamic financial institution is 500 million Dollars; it increases 11 - 15 percent. Islamic financial institution is working well as compare to other Muslim states. From Jan, 1981 it becomes very popular in country. From last 30 years Islamic banking is making its recognition in the world. Now there are 200 Islamic financial institutions which are providing the Shariah complaint P&S in whole world.

For checking the growth of Islamic financial institution we used AID model. Results show the Islamic financial institution growing successfully in Pakistan and become famous day by day. As the Pakistan is a muslim country so this is a solid platform for Islamic banking. In 2000 state bank issues 1st fully Islamic financial institution in the country. The growth of Islamic financial institutions is estimated by that conventional financial institutions working as a Islamic banking operations. Conventional banks also full fledge Islamic branches to provide Islamic P&S. SBP also create suitable atmosphere for the conventional financial institutions to provide Islamic P&S.

Pakistan is going to strong interest free financial system the SBP also establish the strategies to develop easily complete Islamic financial institutions and issued prudential regulations as per Shariah perspective. It could be determined under the

concentration on all these points the Islamic financial institutions within in country is going well with all perspective.

4.2 Shariah Compliance Development

The current position Islamic financial institutions of country are due to efforts of SBP. The SBP put together not only with respect to experience learn from the past Islamic financial institutions of Pakistan and additionally to encounter of different nations develop strategies for the Islamic financial system which help to improve every financial sector of the country. Essential contract in SBP present arrangement with respect to the Islamic saving money is the procedure by SBP through the presentation of Islamic banking system. Shariah consistence is the major part of financing. Reliability of Islamic financial institutions not just relay upon the financial strength but also on the true Shariah compliance activities. Under the present methodology for advancement and improvement of Islamic banking, SBP develop reasonable and good framework that help in the development in Shariah complaint framework.

4.3 State Bank of Pakistan Shariah complaint structure setup by SBP consists of following major points.

- ❖ Shariah complaint board at SBP
- ❖ Shariah advisor to each bank
- ❖ Every bank has their own model of financing according to Shariah compliance in Islamic financial institutions.
- ❖ Shariah compliance advisors platform
- ❖ Shariah compliance investigation to insure the basics of sharia standards.

Every Islamic financial institution supposed to deal their activities according to Shariah compliance consultant. To run procedure progressively and important for the economic situation SBP sharia board has mention specific criteria and standard for sharia consultant of Islamic financial institutions.

It is determined that sharia advisor will not hold any official position in the related organization with the exception of filling in as sharia advisor of Islamic common assets of Islamic banking institution. Shariah advisors of Islamic financial institutions are not allowed to have any significant enthusiasm for getting to worker a few sorts of association like companies. These requirement specific criteria for sharia leaders confirm fairness in assessment standards minimizing in ambiguity situation and expectances of new deals of Shariah consultants in the fields of financial system.

4.4 Market Share

Total Market share and total Assets&Deposits of Islamic financial institutions is to 13% and 14.8% respectively as per the Islamic banking bulletin issued by SBP on yearly basis. Assets of Islamic banking industry shows healthy growth of 22% or Rs. 447 Billion to reach Rs, 2.48 trillion by end of the year with compare to conventional banking. 1st Islamic financial institution license was issued on 31st, Jan, 2002 from that day Islamic banking institution has continuously going towards the impressive growth and developing in the financial sector of Pakistan. At the time of 2003 there was 1st bank giving the complete Islamic financial services and 2 conventional Islamic financial institutions were providing Islamic financial services in country. Total assets of Islamic Islamic financial institutions have MS of about .5percent and at that time only seventeen branches in countries was working.

Now a days number of complete Islamic financial institutions providing all range of Islamic products or many conventional banks as well providing Islamic product and services. Islamic banking institution are now can offer at least 75percent of products with compare to conventional financial institutions but Islamic financial institutions may lack in consumer banking products like consumer loans and credits card still is a big task for Islamic financial institutions. Another issue which comes on corporate level the working capital loans is also a challenge for Islamic banking institutions. Islamic financial institutions have a 4.2percent MS in financing. The conventional banks have multi range of these products. Islamic banks should consider it a priority level.

4.5 Micro Finance

SBP is considering more important element to facilitate micro finance customers. SBP consider the ordinary micro fiancé and give more importance to develop new strategies for the purpose of adding the unique perspective of Islamic banking. It is the first step of SBP that issued new rules and regulations for offering Islamic micro finance services in Pakistan.

According to these rules different type of micro finance loans given to the customers by Islamic banking institutions.

Following step are taken from SBP to improve micro fiancé in Islamic banks

- ❖ established pure and full fledge Islamic micro finance banks in Pakistan
- ❖ providing micro fiancé guide lines and policies to the Islamic banks
- ❖ develop strategies for conventional banks to provide Islamic micro fiancé services

For this purpose SBP develop a strong regulations and frame worked to facilities both banks and customers. This is also considering that before the development of any product take the consent of both Shariah advisors and representatives of the banks. As per reported micro finance maintain 5 million borrower by year 2015-16 that become around of 4-5% of the borrower use Islamic micro fiancé services.

SBP strategies in Islamic micro fiancé going progressively as Islamic banks extent to new territories subsequent to combining their situations in all segments of life like corporate and individual.

4.6 Agriculture

Pakistan is agri based country so Islamic financial institutions are very important to develop new strategies for agriculture loans in Pakistan. The SBP develop a strategy for Islamic banking institution to establish specific policies for agriculture loans. New Islamic banking products to launch to facilitate agriculture based customers. The one product is SALAM known as the agriculture based loan which provide the agricultural based finance facilities to customers, but this is not enough to meet the requirements of the customer. SBP making new ways to facilitate agriculture based financing in Pakistan.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Current position of Islamic banking is due to great performance of SBP. The result described that how SBP took steps to introduce Islamic financial institutions within the country. Strategies of SBP are for improvement of all relevant financial sector of Pakistan. SBP wants to develop the Islamic financial institutions in Pakistan on very high rank as a banking system with compare TO conventional bank because of Sharaih compliance banking services. SBP regulates its frame work which support Islamic financial system. All strategies show SBP is now taking its efforts to very high level which determine the development of Islamic financial institutions in the country. Data analyss consist on the data over the period from 2014-16 that described the relation of all explanatory variables with growth of Islamic financial institutions. This shows that entire Islamic banking has positively increases in Pakistan in any manners and has needed to give concentration to this. This is confirming that Islamic banking is having a high effect on the expansion of economic industry. Bing a Muslim state many individuals want to do their transition via Islamic banking because it is without interest banking and interest is not allowed in Islam. The result shows statistical multi vitiare regression model that describe the relationship of grain g ratio capital adequacy ratio shows a positive relation and significant level. Asset management is a significant and positive relation with proxy. Size of the bank shows negative and insignificant relation in model due to the lake of branch network. Capital adequacy shows significant level in this model due to the strength of prudential regulation of SBP. The NPL is having the negative relation in model. Results show that Islamic financial institutions are growing in Pakistan as compare to conventional

financial institutions. As per SBP recommendation Islamic banking have a bright future in Pakistan.

5.2 Recommendation

Recommendation concern to the topic has the following points

- ❖ The lack of awareness in knowledge of customers about the basic difference in Islamic financial institutions and Conventional financial institutions .Customer feels that this is same way of doing banking activities. This is need to aware the customer that there is big difference in Islamic way of banking and conventional way banking.
- ❖ If Islamic financial institutions increase their market share and business so Islamic banking need to ensure the employee training in their Islamic financial institution for this purpose Islamic banks develop strategic training program for their employees.
- ❖ Islamic banks needs to increase the network of branches in all across the Pakistan they should make new branches in all over the Pakistan. The lake of branch network of Islamic financial institutions with compare to conventional financial institutions is due to the conventional banking is older than Islamic banking.
- ❖ Range of financial product provided by Islamic banks is very specific and small so the need to develop strategies to increase the product which fulfill the need of all type of customer through this they will increase their number of customer.
- ❖ The conventional banks in Pakistan have their own bench mark known as KIBOR. Islamic banking depending on KIBOR which is not good they have to

develop their own bench mark which should be only for Islamic banking system.

- ❖ An opportunity for Islamic banking to focus on consumer banking products.
- ❖ Islamic banking institution should be very convenient provide financial advice to customers, must provide high level of confidentiality and offer quick and efficient transitions to meet the competition.
- ❖ Islamic banks need to offer good financing product and services for every type of customers' individuals, entrepreneurs and industrialist.

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ANNEXURE-A:

YEAR WISE ENTRY OF ISLAMIC BANKS

2005-06

1. Meezan Bank
2. Bank of Khyber
3. MCB Bank
4. Bank Alfalah

2007-08

1. Albaraka Islamic Bank
2. Habib Bank AG Zurich
3. Standard Chartered
4. Metropolitan Bank
5. Soneri Bank

2009-10

1. Habib Bank
2. Bank Al Habib

2011-12

1. Dubai Islamic Bank
2. Bank Islami Pakistan
3. ABN Amro N.V. (Now RBS Bank)
4. Askari Bank Ltd.
5. National Bank
6. United Bank Ltd.

2013 on

1. Emirates Global Islamic
2. Dawood Islamic Bank