

POTENTIAL OF ISLAMIC FINANCE IN GROWTH OF PAKISTAN ECONOMY

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Abstract

After the global financial crises of 2008 USA, UK, EUOROPE, SPAIN, GREECE, JAPAN was efficiently ruined. Bankers and financial institutions adopted a system that was free from interest (RIBA) and uncertainties (GARAR) and followed the principles of Shariah. According to Shariah fixed or floating payment of interest or fees known as RIBA or usury is strictly prohibited in Islam. As per the ayah of QURANone should not take interest, those who strictly follows the Shariah principles will be successful here and thereafter. On the 10th of March 2003 Islamic financial services board had started their operations, which promotes Islamic financial services by issuing prudential standards and guiding principles for banking, insurances, and capital sectors. As far as it has been verified that Islamic financing has an alternative to the

conventional financial system. It's an important component of the global financial architecture. In 2010 it had been identified that the Islamic financial industry will be successful if it follows the Islamic principles sternly. Malaysia was the one who strictly followed Islamic financial system and they are still successful in their pursuit. Successful products of the Islamic financial industry are Sukuk Islamic Bonds and Takaful & Fund Management. At the end of 2010 Sukuk market was estimated to be worth \$143 billion and at the end of 2012 Islamic financial assets reached at \$1.6 trillion. Today Islamic finance has a next step of development if it's strictly followed by their regulators or Islamic financial institutions. Several research papers have confirmed that Islamic financing is different from conventional banking or not. There are too many researches followed by different financial centers or institutions like Islamic financial services board, world summit conference, and Kaula Lumpur conference.

Keywords: Islamic finance, Economic growth, Shariah complaint, Banking, Pakistan

INTRODUCTION

The basic concepts and objectives are common to any banking system, whether it is conventional or Islamic. The difference lies in the methodology adopted to achieve these objectives. Conventional banking aims to meet these objectives through the use of interest-based contracts while Islamic banking achieves these objectives through trade-based contracts. This similarity of objectives and difference in methodology of conventional and Islamic finance defines the regulatory framework required for the Islamic banking system. Similarity of objectives implies that a major portion of the regulatory Framework would be the same for both the systems. However, the difference in methodology to achieve the objectives requires amendments to existing regulatory system according to the Shariah principles. This is a more pragmatic approach that helps avoid the tendency of unnecessarily reinventing the wheel. Moreover; it gave Islamic banking a great advantage to get maximum leverage out of already existing and well-tested regulatory framework of the conventional banking. In Pakistan, Islamic banking emerged as a response to both religious and economic needs. Efforts for economy wide elimination of RIBA started during the 1970s and most of the significant and practical steps were taken in 1980s. The initiative to re-introduce Islamic Banking in Pakistan was launched back in 2001 when the government decided to promote Islamic banking in a gradual manner and as a parallel and compatible system that is in line with best international practices. Following the decision of the government to shift to interest free economy in a phased manner without causing any disruptions the effort was envisaged to be based on a market driven and

flexible approach. Furthermore, it aims at building a broad based financial system in the country to enable all segments of the population to access financial services. In this context SBP worked on a three divided strategy for promotion of Islamic banking which are:

- Allow new full fledged Islamic banks in the private sector.
- Allow the conventional banks to set up Islamic banking subsidiaries.
- Allow the existing conventional banks to open Stand-alone Islamic banking branches.

Historical Background

As compared to the past experienced new approach provides flexibility to the IBIs as regard to products, instruments and Shariah compliance methodology. This new initiative has witnessed a very encouraging response. As at the end of the year 2003 only one bank operated as a full-fledged Islamic bank and three conventional banks were operating Islamic banking branches. Currently there are 12 full fledged licensed Islamic Banks (IBs) and 17 conventional banks have licenses to operate dedicated Islamic banking branches (IBBs). Islam was the basis of creation of an independent state within the undivided Indo-Pak Sub- Continent. All Constitutions of Pakistan have incorporated within the principles of policy, the elimination of Riba as an important objective of the State policy. Quaid-e-Azam, the father of the nation, in his speech at the occasion of the inauguration of the State Bank of Pakistan, had expressed the desire for evolving an Islamic system of banking. The efforts and practical steps undertaken in the 1980's to Islamize the economy at the national level are considered as pioneering work in the Muslim world as these became important reference material from other countries which undertook the path towards the introduction and establishment of an Islamic banking system.

The Recent Growth in Islamic Finance

The IMF INTERNATIONAL MONETARY FUNDS estimated that there are now more than 300 Islamic financial institutions operating in more than 75 countries at the end of 2005, and the industry sector has maintained a growth rate of 15% per annum over the last 10 years. It is predicted that this growth will continue or speed up in the coming years, dependant on different regulatory practices. The main reason for the growth stems from a number of sources. Muslims worldwide are starting to opt for Shariah compliant products that were not previously available to them; the increase in oil wealth is being channeled more into such products; and due to their increasing competitiveness and ethical focus, Islamic products are attracting both Muslims and non- Muslims. With Islam as the fastest growing religion in the world, and being the second largest religious group in the UK, USA, PAKISTAN and France, Islamic Finance are certainly not about to go away any time soon.

Common Instrument Offered by Islamic Finance

The main instruments are:

Shariah compliant Current and Saving Accounts: In the absence of interest, there needs to be some incentive to gain a customer and this is done through a profit sharing exercise whereby at the end of the year, banks allocate profit to the account holders, which may be equivalent to, but not the same as, a conventional saving rate. Also, since an overdraft facility would amount to charging interest, banks may offer interest free loans (Quard- Hassan) to customers on specific request.

Murabaha (Cost-plus sale): Murabaha essentially is undertaking a trade with a markup and is used for short-term financing, similar in form to purchase finance. An example would be a bank purchasing a tangible asset of some sort from a supplier with the resale based on the cost plus an agreed markup. This is most often used to finance property, since the bank would not be allowed to charge interest on any loan. Once such a debt covenant is in place between a bank and the customer, repayments can begin until a completion point where the asset is transferred to the customer. There is no interest rate risk which is essentially covered within the markup percentage, identified at the outset.

Ijara (Leasing): Ijara is a leasing contract whereby one party leases an asset for a specific amount of time and cost from another party, usually a bank. The bank would bear all the risk and a portion of the installment payment goes towards the final purchase of the asset at the time of transfer of assets. This can also be set up as a lease-purchase contract for the term of the asset's specified lifetime.

Musharaka (Equity Participation): There is very little difference between this and a joint venture agreement. The parties involved contribute in varying degrees of assets, technical expertise, etc. and agree to a percentage of the returns as well as the risk. All parties must invest a certain amount of capital. In the case of purchasing a property under this sort of arrangement, it is purchased by both the bank and the customer together, and the repayments made are partly rent and partly a buyback.

Mudaraba (Partnership Financing): Mudaraba is very similar to Musharaka and is a trustee type finance contract under which one party provides the labor while the other provides the capital.

Istinaa (Commissioned Manufacture): Istinaa is the solution for the manufacture of goods since speculation prevents the selling of something that one does not yet own. With a promise to produce a specific product that can be made under certain agreed specifications at a determined price and on a fixed date, an Istinaa contract is established. Specifically, in this case, the risk taken is by a bank that would commission the manufacture and sell it on to a customer at a reasonable profit for undertaking this risk.

The main principles of Islamic Finance

- 1) The prohibition of taking or receiving interest at excessive rates (RIBA), but this does not prevent a rate of return on investment.
- 2) Risk in any transaction must be shared between at least two parties so that the provider of capital and the entrepreneur share the business risk in return for a share in profit.
- 3) The prohibition of speculative behavior (Gharar) is not allowed, meaning that gambling (Maysir) and extreme uncertainty or risk is prohibited and thus contractual obligations and disclosure of information are a sacred duty. This also restricts traditional derivatives.
- 4) Money is seen as potential capital and thus only takes the form of actual capital when it is used in a productive capacity. Other investment guidelines restrict the following:
- 5) Investment in companies whose total debt divided by trailing 12 month average market capital is greater than 33%.
 - Investment in companies whose sum of cash and interest-bearing activities divided by irregular 12 month average market capital is greater than 33%.
 - Investment in companies whose account receivables divided by total assets is greater than 33% (sometimes 45%).
 - Investments that violate the rules of Shariah, advised against by Shariahboards, and are generally non-ethical meaning that investment in businesses related to alcohol, beef related products, conventional financial services, entertainment (gambling and casinos, hotels, cinema, pornography, music)

Evolution

Its rapid evolution is particularly evident in four dimensions of its development.

- Firstly, today Islamic finance is viewed as a competitive form of financial intermediation. The total assets of the Islamic finance system have surpassed \$1 trillion, a fivefold increase over their magnitude just five years ago in 2008. According to ISLAMIC FINANCE COUNTRY INDEX IFCI, Islamic finance is now growing financial segments in the world, with an estimated annual growth of 20 percent.
- Secondly, through the more development of Islamic finance markets, the scope of Islamic finance business has been expanded to include private equity, project finance, the issuance of sukuk bonds, and the fund and wealth management activities.
- Thirdly, a significant evolution in the regulatory and legal framework of Islamic finance, which is shaped by the distinct features of Islamic finance transactions.

- Fourthly, the international dimension of Islamic finance has rapidly gained significance as it becomes the most important part of the international financial system and as it becomes the greater global financial integration. The expansion of Islamic finance network among markets of various regions will contribute towards a more efficient allocation of financial resources across borders and thus contribute to foster the global growth prospects.

Halal Research Council Expands its International Network 25th February 2013

To meet the needs of awareness & promotion of Halal Industry Worldwide, the Halal Research Council adds five new strategic partners to its network by signing any agreements with them in January 2013, so that, the concept of Halal and Halal food requirements to be fulfilled effectively. Halal Research council's new strategic partners include Islamic Development & Research Academy (Belgium), a Kenya bureau of Halal certification (Kenya), Halal Tech (Iran), Rangoon Consultancy (Pakistan) and Islamic Information & Documentation Center (Austria). The purpose behind strategic partnership is to take the international Halal industry with confidence for the promoting Pakistan's Halal market & industries. It should be noted that world's Halal product is worth 2.3 trillion Dollars. As Pakistan is an agricultural country and due to its excellent livestock and 100% Halal products, it has an opportunity to be introduced as a Halal products leader, through which its foreign exchange can be increased by minimizing the trade deficit of Pakistan. According to M. Zubair Mughal- Chief Executive Officer of Halal Research Council that "Allah Almighty has given Pakistan a unique status in the world" because of its strong Shariah principles. Pakistan is the only country where 100% Halal products are available and due to this Pakistan's Halal industry has achieved a memorable position in the world market. By taking its full advantage, now the Halal research council can Export Pakistani products with the Halal logo to world's 2.3 trillion Dollars worth markets. The Halal Research Council has played a prominent role in the promotion of Halal industry. In the continuation of its services and taking a step forward, it will be arranging a conference on "Halal Tourism" in the near future. So that Muslims from different countries can get the understanding and awareness about the Halal Tourism industry. He also said that the Halal Research Council is the only institution of Pakistan, whose Halal services are simultaneously available in 20 countries. He stated that Halal Research Council's strategic partnership network comprises on institutions from America, Bangladesh, Mauritius, Kyrgyzstan, Italy, Philippines, Brazil, Germany, India and Pakistan. This year they had welcomed institutions from four new countries, i.e. Kenya, Australia, Belgium and Iran; which is an honor for Pakistan. The main aim of this strategic

partnership is to promote the online Distance Learning Program on Halal Industry. So that, Professionals of Halal and Food Industries get benefit from this diploma.

Research Question

Does Islamic finance have a potential in the growth of Pakistan economy?

Significance of the Study

This research would provide a brief review of how Islamic finance help to grow the economy of Pakistan with a case studies and different articles. It will also tell if there would be a positive impact on economy through this. Further, it would provide a sense of courage and motivation to employees of those banks who are going to be adopting Islamic financing. This report will provide them a detailed analysis of how to be productive in their field of work so that they can be retained and stay in the bank.

Scope and Limitations/Delimitation

The population for this study would be all males and females, belonging to the banks, especially MEEZAN BANK, ALBARAKAH BANK, DUBAI ISLAMIC BANK, AND BURJ BANK. The study focuses on the growth of Pakistan economy throughout the Islamic banking system during the era of 2009 till 2013 and onwards. The limitations relate to the sample area for the study, which is confined to Karachi, and due to the time, cost and transportation. Second, only four above Islamic banks are considered.

LITERATURE REVIEW

MUHAMMAD ARIF (2013) in his research article of "Islamic banking" concluded that that Islamic banking is not a negligible. He identified that Islamic banks are here to stay and there are signs that they will continue to grow and expand. He said that one may find in Islamic banking some innovative ideas which could add more variety to the existing financial network. He stated that one main unique point about Islamic finance is that it is basically concerned about the viability of the projects and the profitability of the operation but not the size of the collateral. Those projects which turned down by conventional banks for lack of collateral would be financed by the Islamic bank on profit sharing basis. He said that it is especially in the sense that Islamic banks can play a catalytic role in inspiring economic development. In many developing countries, of course, development banks are supposed to perform this function. Islamic banks are expected to be more enterprising than their conventional equivalent. In practice, however, Islamic banks have been concentrating on short-term trade finance, which is the least risk.

AMIT KHANDELVAL (2013) in his research of “Islamic finance today and tomorrow” identified that “The basic principle of Islamic banking is the prohibition of RIBA (usury, or interest). He clarifies that Islam not only prohibits dealing in interest but also in liquor, pork, gambling, pornography and anything else that Shariah (Islamic law) deems haram (unlawful). He stated that Islamic banking is an instrument for the development of an Islamic economic order. Some of the salient features of this order include: While permitting the individual the right to seek his economic well being, Islam makes a clear distinction between what is halal (lawful) and what is haram (forbidden) in pursuit of such economic activity. According to him in broad terms, Islam forbids all forms of economic activity that are morally or socially injurious. While acknowledging the individual's right to ownership of legitimately acquired wealth, Islam makes it obligatory for the individual to spend his wealth judiciously and not to hoard it, keep it idle or to squander it. While allowing an individual to retain any surplus wealth, Islam seeks to reduce the margin of the surplus for the well being of the community as a whole, in particular the destitute and deprived sections of society by participation in the process of zakat. While making allowance for the ways of human nature and yet not yielding to the consequences of its worst propensities, Islam seeks to prevent the accumulation of wealth in a few hands to the detriment of society as a whole, by its laws of inheritance. Viewed as a whole, the economic system envisaged by Islam aims at social justice without inhibiting individual enterprise beyond the point where it becomes not only collectively injurious but also individually self-destructive.

DR SAQUIB (2013) while addressing in Islamabad about “the immense potential in Islamic microfinance” he stated that AKHUWAT was based on the model of MUWAKHAT (brotherhood) established by our beloved HOLY PROPHET (PBUH) between the Muslim immigrants from MECCA and their hosts, the natives of MADINA. He said that 12 years ago AKHUWAT had so far lent around Rs 3.6 billion to over 260,000 families in 105 cities all over Pakistan from small business. So All these loans were interest free and were given to ‘economically active poor’ along with entrepreneurial training and motivation to continue the cycle of mutual help on the basis of Islamic brotherhood that’s why AKHUWAT has been able to attain a return rate of 99.83% without any coercion. He emphasized by Commenting on Shariah regulation framework of Islamic economic institutions, he said that it should be re-thought. “Unless experts in modern economics sit with Islamic scholars in these advisory boards, Islamic banking and financial options would remain limited in scope and restricted in operation. Innovative models in compliance with Shariah have to be evolved for reliance and sustainability”.

SALMAN SHIEKH (2010) in his article of “introducing and practiced Islamic finance and banking” stated that the money is only invested in Shariah compliant assets. The bank utilizes

the money to invest in Ijarah, Murabaha, Diminishing Musharakah, Salam, Istisna etc. The Weightage is assigned to each category of investment that is stated to the customer at the outset. Profit is declared at the start of the month for the previous month based on the weightage previously announced. Profit is paid out of the actual Gross Income. In the last few years, Islamic finance industry experts have developed Shariah Compliant instruments for managing liquidity. Some of them are as follows: a. Bai Salam in Bill Discounting. b. Murabaha in Usance Bill Discounting. c. Running Musharakah. d. Tijara for Short Term Liquidity Management. E. Treasury Financing/Investments by way of Pool Management mechanism. F. Treasury Investments/Financings by way of Short Term Investment through Commodity Murabaha using Tawarruq. G. Shariah Compliant Asset Backed Securitization like Sukuk. h. Development of Islamic Benchmark i.e. Islamic T-Bill is underway which will deepen and integrate the financial markets comprising Islamic Financial Institutions. Islamic Finance is catering to the needs of all investors. Islamic finance apart from being Shariah Compliant also has ample potential to attract investors solely from the business point of view as well. He indicated that Islamic Finance is growing in multiple dimensions and is now spreading in other financial sectors like insurance, structured finance, project finance, mutual funds, syndicated finance, investment banking, etc. He also verified that Islamic Finance is now able to provide one stop solution to its customers. Shariah compliance also ensures Corporate Social Responsibility (CSR) and ethical compliance. Islamic banks do not conduct business with companies producing tobacco, alcohol or engaged in the business of gambling, casino, nightclubs, prostitution etc.

LAURENCE NEVILLE (2010) in his article of "Islamic finance" verified that Islamic finance has not been immune from the travail of the international financial system. He stated that the collapse of real estate firm in Dubai world and its rescue by neighboring emirate Abu Dhabi demonstrated that Islamic finance was just as disposed to excessive leverage, tentative real estate development and lack of financial transparency as conventional financial markets. He concluded that Islamic finance had good financial crises, in 2009 according to (IFSL) International Financial Services London the global market for Islamic financial services estimated shariah compliant assets to have been broadly flat on 2008's level \$ 951 billion, and sukuk market bounced back in 2009. he stated that according to Duncan McKenzie the director of economics IFSL's noted that financial problems at Dubai World have created uncertainty and brought concerns about settlement of sukuk defaults into focus.

TAREK S.ZAHER AND M.KABIR HASSAN (2008) in their survey of "Islamic finance and banking" identified that there has been a large scale growth in Islamic finance and banking In Muslim countries and around the world during the last twenty years. They concluded that the growth is influenced by various factors, including the introduction of broad macroeconomics and

structural reforms in the financial system, the liberalization of capital movements, privatization, the global integration of financial markets, and the introduction of innovative and new Islamic products. They also introduce Islamic financial instruments in order to compare them to existing Western financial instruments and discuss the legal problems that investors in the instruments may encounter.

USMANI MUHAMMAD (2007) in his article of “interest not allowed in Islam” stated that the RIBA is any excess benefit derived on a loan over and above the principal was prohibited 14th centuries ago, but the issue has been settled in 2007 that interest in all forms must not be allowed in Islam. He stated that any kind of money over an excess over profit against the payment of the loan is strictly prohibited in Islam. He concluded that one must not to give and take interest on money because according to Shariah ALLAH PAAK doesn't like them and doesn't forgive them and the one who involved in the interest he/she doesn't deserve to be a Muslim. Their sins don't get forgiveness here and thereafter.

IRENE BJORKLUND AND LISBETH LUNDSTROM (2005) from Lebanon in their research of “Islamic banking is an investment and financing system” said that it expands globally identified that the banking system has been established as an old while Islamic banks have only been established for some 30 years. They concluded that the Islamic system is founded on ethical values and emphasizes the well-being society as a whole. In their research they identified that the system is not based on interest, because it is prohibited in Islam. Islamic banks offer various kinds of accounts and a range of financing alternatives all complying with the Islamic law and Shariah. To work according to Shariah is crucial for the banks and their activities are controlled by a special religious supervisory board working within the bank.

SIDDIQUI (2002) in his research article has been identified by “criticizing interest” that in conventional banking borrower may suffer a loss, so this interest based lending obliges him/her to repay the principal plus compound interest. Thus, borrowers may reap huge profits, and the lender gets only the stipulated rate of interest which may turn out in a small profit. The result is in inefficient allocation of society's resources and increases the inequality in the distribution of income and wealth as it guarantees a continuous increase in the monies lent out, by the wealthy, and puts the burden of bearing the losses on the entrepreneur.

IQBAL AND MIRAKHOR (1987) also contains extremely interesting empirical observations, although these are confined to the experience of Iran and Pakistan, both of which have attempted to Islamize the entire banking system on a comprehensive basis. They emphasized that Iran switched to Islamic banking in August 1983 with a three-year transition period. The Iranian system allows banks to accept current and savings deposits without having to pay any return, but it permits the banks to offer incentives such as variable prizes or bonuses

in cash or kind on these deposits. Term deposits (both short-term and long-term) earn a rate of return based on the bank's profits and on the deposit maturity. According to them No empirical evidence is as yet available on the interesting question as to whether interest or a profit-share provides the most effective incentive to depositors for the mobilization of private saving. Where Islamic and conventional bank survive side by side, central bank control of bank interest rates is liable to be circumvented by shifts of funds to the Islamic banks.

RESEARCH METHDOLOGY

Research Design

This research is tentative in nature. The main purpose of choosing a tentative style is to dig out the reasons and issues behind this act. I would conduct some online interviews with the top executives and employees of some banks to get to know the entire way of how the Islamic finance process is conducted, the synergies which were involved in it and the strategy in mind by using this process.

Research Instruments

The instruments for this research would be substantial interviews with the Islamic bank manager by an intended appointment and questionnaire and case study of different scholars. I would also conduct online discussions with different bankers and financial institutions on linked in that how they felt before and after the using of Islamic banking. What changes do they see? Has the environment changed or not. Also, a structured questionnaire shall be used which consists of seventeen items (closed ended).

Respondent of the Study

The study would be focusing on population of PAKISTAN, total N=150. The study focuses on the four main Islamic banks of PAKISTAN which are as follows. MEEZAN BANK, DUBAI ISLAMIC BANK, ALBARAKAH BANK, BURJ BANK.

Sources of Secondary Data

The secondary sources of data consulted include textbooks, academic and scholarly journals, academic hypothesis, newspaper, magazine, internet articles and U.S. government congressional report. The following sources widely consulted during the writing process. They include Handbook of Islamic Banking by Hassan, M. K. & Lewis, M. K., Edited version (2007), published in U.K; a recent study of Islamic Finance in North America by Blake Goud (2009), Published by Yasser Media Publications, from journal of business studies a research scholar

Salman Ali & Faryal Furrugh by superior university Lahore (2013) and a Master thesis submitted to Georgetown University in U.S. by Victoria B.A. (2009) on Islamic Finance in the United States. Harvard Business School Reviews, Islamic Financial Services Board, International Journal Of Economies, Malaysian Journal Of Research & Economies, Guide Book Of Meezan Bank, Dubai Islamic Bank and Handbook on Introduction to Islamic Finance by Muhammad TaqiUsmani (1998), Published in Pakistan, world summit conference 2011.

Hypotheses

Improper Implementation of Islamic Banking Practices and Principles:

H0: Improper implementation of Islamic banking practices and principle has an insignificant impact on Islamic financing.

H1: Improper implementation of Islamic banking practices and principles has significant impact on Islamic financing.

Conventional Banks Established and Old:

H0: Conventional banks established and old insignificant impact on Islamic financing.

H2: Conventional banks established and old has significant impact on Islamic financing.

Islamic Roots and Religious Factors:

H0: Islamic roots and religious factors” have an insignificant impact on Islamic financing.

H3: Islamic roots and religious factors have significant impact on Islamic financing.

Reduced Risk:

H0: Reduced risk has an insignificant impact on Islamic financing.

H4: Reduced risk has significant impact on Islamic financing.

Interest Free Loans:

H0: Interest free loans have insignificant impact on Islamic financing.

H5: Interest free loans have significant impact on Islamic financing.

Business Development, Profitability, Liquidity and Solvency:

H0: Business development, profitability, liquidity and solvency have insignificant impact on Islamic financing.

H6: Business development, profitability, liquidity and solvency have significant impact on Islamic financing.

Intact Factors (Exchange Rates, Fiscal Policies and Foreign Debt):

H0: Untouched factors (exchange rates, fiscal policies and foreign debt) have insignificant impact on Islamic financing

H7: Untouched factors (exchange rates, fiscal policies and foreign debt) have significant impact on Islamic financing.

Data Analysis Approach

The data will be analyzed according to the responses from different people, BANKERS and FINANCIAL INSTITUTIONS, through bar charts or by some other statistical tools.

ANALYSIS AND FINDINGS

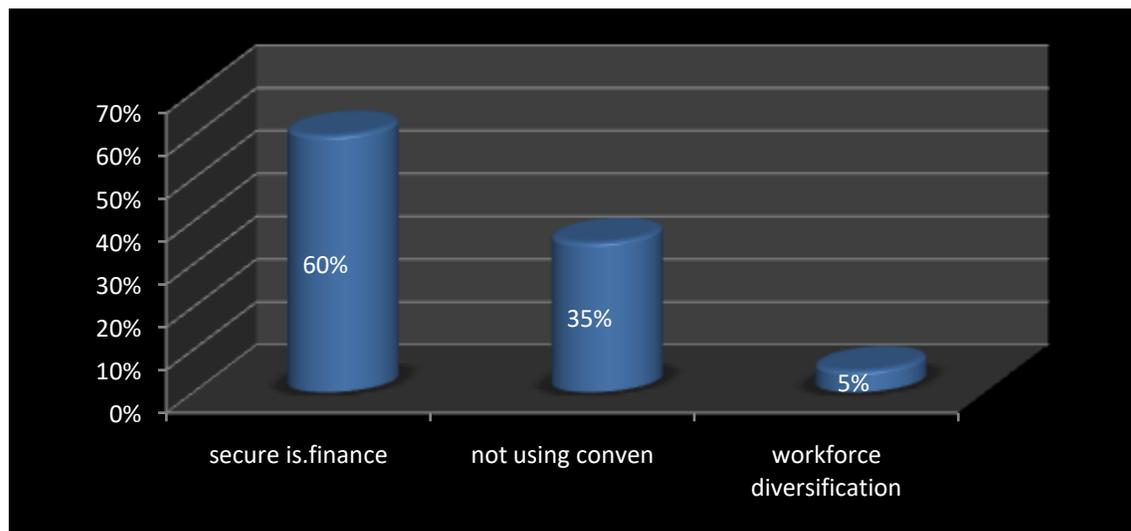
Respondents' Demographic Profile

The demographics of the respondents are classified into name, age, gender, profession and monthly income. Male are 43.7% and female are 56.2%. The major age group of the respondents is between 18-29 years old (53.1%). This is followed by the age groups of 30-49 years old (31.2%) and 50-69 years old (12.5%). The least age group of the respondents is 70 and above which is accounted for 3.1%. A large majority of the respondents are students (46.8%). About 21.8% are teachers, 9.3% are businessmen, 6.2% are housewives and 3.1% comprises of architects, owner design studio, banker, doctor and finance executive. The majority of the monthly income of the respondents is 80,000 or more which accounted for 43.7%. This is followed by the income less than 20,000 (31.2%) and income less than or equal to 40,000 which comprised of 25%.

Descriptive Statistics

1. What lessons learned from the recent U.S financial crisis of 2008?

- Adopt secure Islamic financing.
- Not using conventional banking any more.
- Workforce diversification.



ANALYSIS:

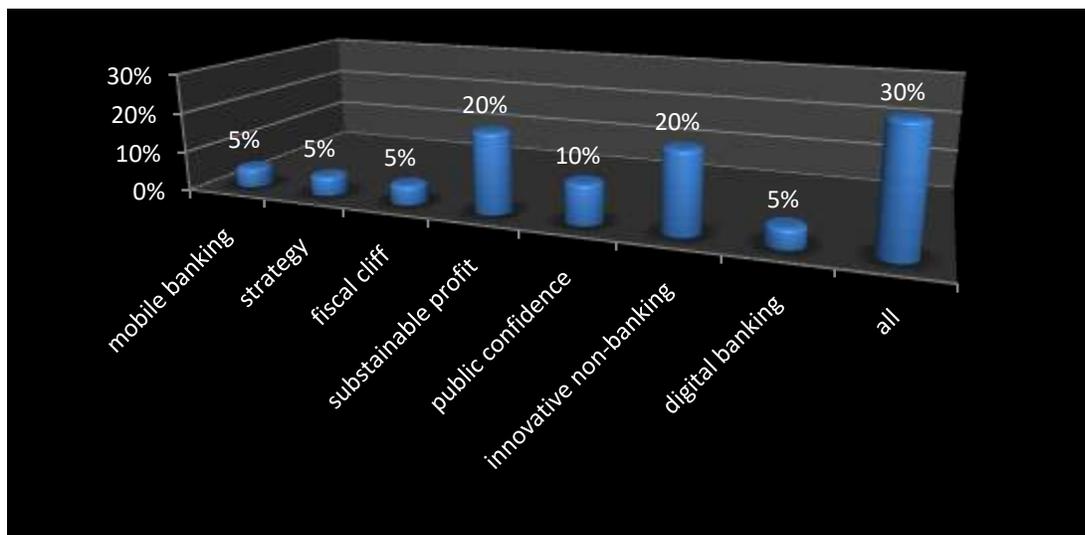
Through this research it has been verified that through a financial crises lesson learned as 60% people prefer a system which is secured enough that is not other than Islamic finance, 35% people prefer not to use conventional banking any more, and only 5% say workforce diversification is the best for avert the global financial crises.

RESULT:

Workforce diversification is not the right defense for the financial crises, because similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, sex, and sexual orientation is not meaningful at the time of trim instead not use of conventional banking is not the true motive rather the true and major indemnity is to adopt secure Islamic finance which is free from any impairment.

2. What growth prospects and challenges faced in the wake of recent financial crisis?

- Integrate mobile banking as a regular delivery channel.
- Developing a strategy around social media.
- Dealing with the economic aftermath of the “fiscal cliff,” whichever way it turns out.
- Sustainable profitability in an environment of low interest rates.
- Restoring public confidence in the industry.
- How to deal with aggressive and innovative non-bank competitors.
- Implementing fully digital banking transparency in costs, compliance and prices.
- All.



ANALYSIS:

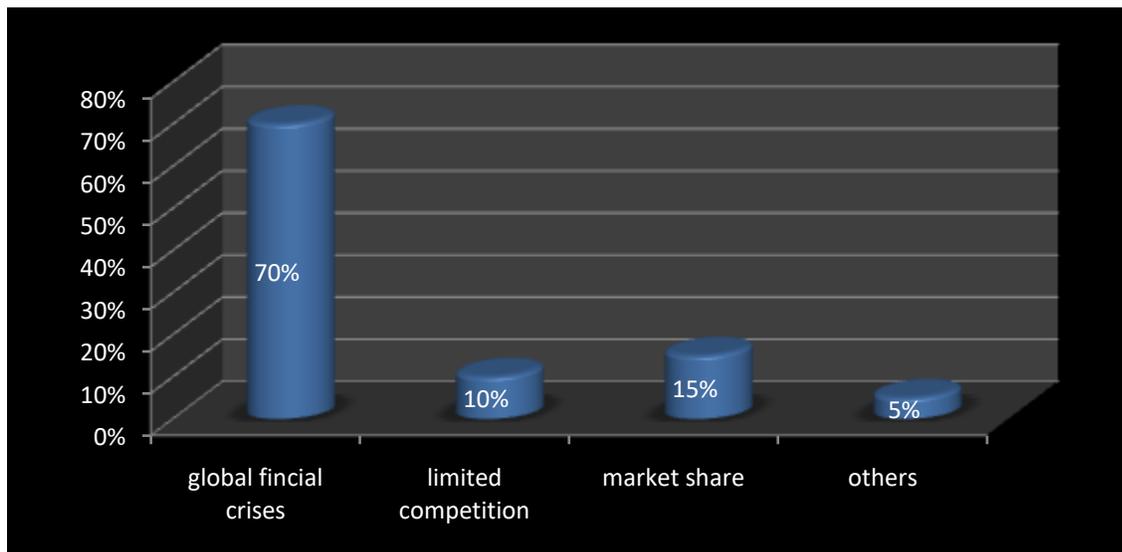
Through the analysis it is obvious that through global financial crises countries facing many challenges in which sustainable profit, innovative banking gets most affected.

RESULT:

Respondent's rate is higher for all the aspect of challenges, because most likely all factors are arising due to global financial crises some are good like How to come to a new level of growth and sustainable profitability in an environment of low interest rates, implementing fully digital banking transparency in costs, compliance and prices. Anyhow countries economy would be flourished after dealing with all the challenges in the future.

3. What is the primary reason for ISLAMIC FINANCING?

- Global financial crises
- Limited competition
- Market share
- Others_____



ANALYSIS:

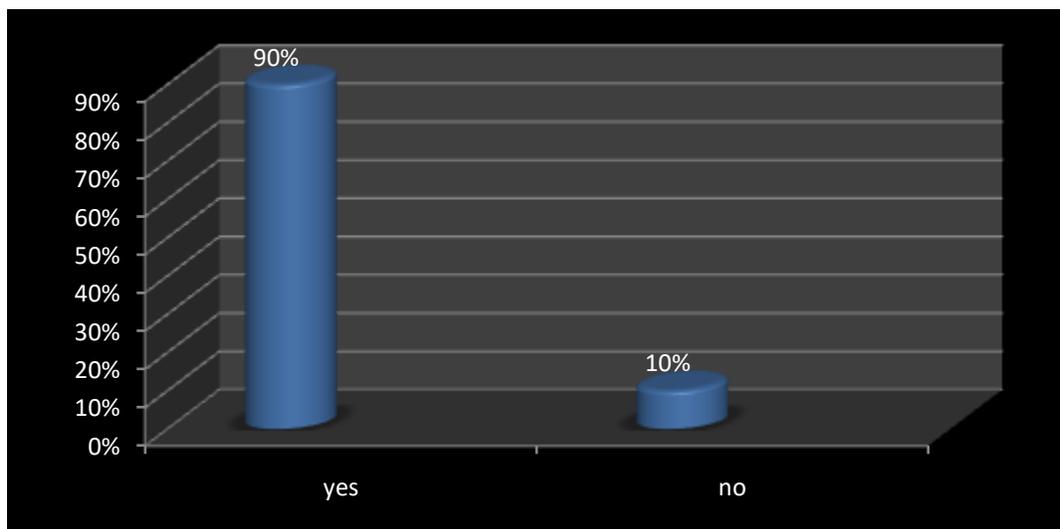
From analysis it has been verifies that global financial crises is the primary reason for the Islamic finance. 70% say global financial crises, 15% say increase the market share, 10 % say due to limited competition, 5 % prefer may be other reason as well to establish the Islamic system like in Islamic countries they like to adopt a system which is free from any impairment and also in the norms of Islam.

RESULT:

Most of the respondents indicated that Islamic finance is the foremost reason of the global financial crises, because Islamic finance and its system finally integrated rapidly into an international financial system. It forced the developing nations to reduce the conflicts between Muslims and the west in an innovative way.

4. Do you think Islamic financing is beneficial for Pakistan?

- Yes
- No

**ANALYSIS:**

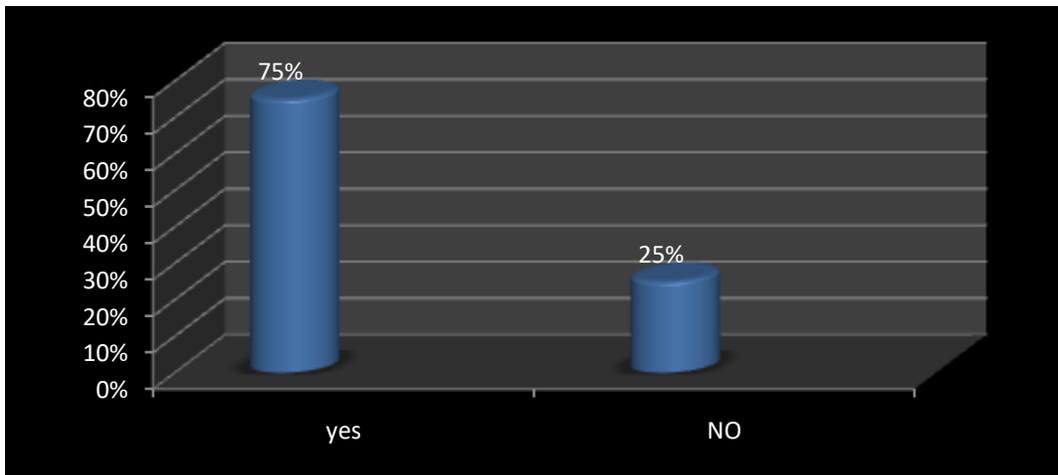
90% Respondents indicated that Islamic finance is beneficial for Pakistan, 10 % says no.

RESULT:

However Pakistan moved down by one position to number 8. Despite the fall, the country has a huge potential for growth. Pakistan has 7.8% of its banking assets under the management of Islamic banks. Islamic banks hold 8.4% of the deposits in the banking sector, and their share in financing and investments provided by all banks reached 7.4% by the end of 2011. A conservative estimate of demand for Islamic financial services is about 20% of the total. This shows how significant the potential is for growth in Islamic banking and finance in Pakistan.

5. Do you think Islamic financing has improved Pakistan's economy?

- Yes
- No



ANALYSIS:

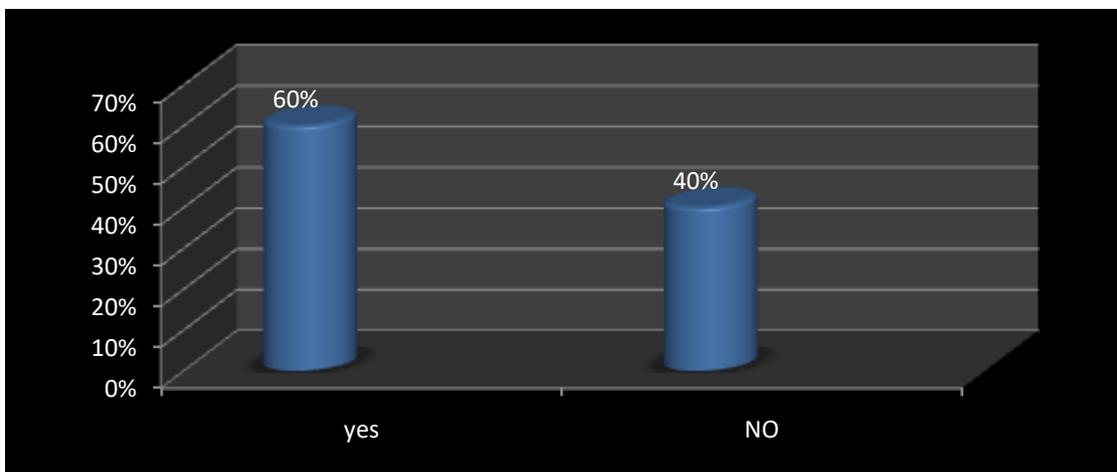
75% respondents indicated that Islamic financing has improved Pakistan's economy while 25% says no.

RESULT:

In Pakistan ISLAMIZATION program has gained a very good response and the masses are showing their great confidence in the Islamic transactions. In Pakistan perhaps it was the world biggest MURABAHA facility designed and transacted in the world on the RIBA free financial system by keeping all SHARIAH rulings and further supervised by leading scholars of the world. The great example is in the energy sector biggest power generation unit, HUBCO was financed under the financing mode of IJARAH WAA ISTISNA.

6. Was there an enthusiastic team managing the Islamic financing process?

- Yes
- No



ANALYSIS:

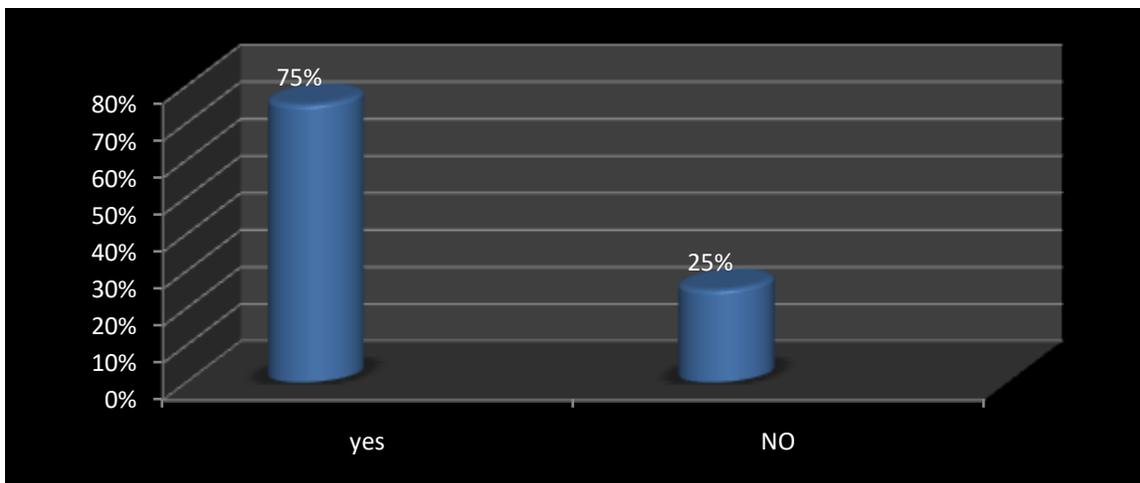
60% agreed that the teams which are involved in Islamic finances are so much keen, while 40% against it.

RESULT:

60% people say that yes there was a dedicated team who was solving the quarries of the employees and who worked towards the successful completion of this Islamic finance process. On the other hand 40% people say that there was not any kind of team who can solve the problems. And when I was interviewing with them I get to know that these are those people who does not want change. They only like the things they are in they resist change.

7. Is there a difference between the previous and existing work environment of bank?

- Yes
- No



ANALYSIS:

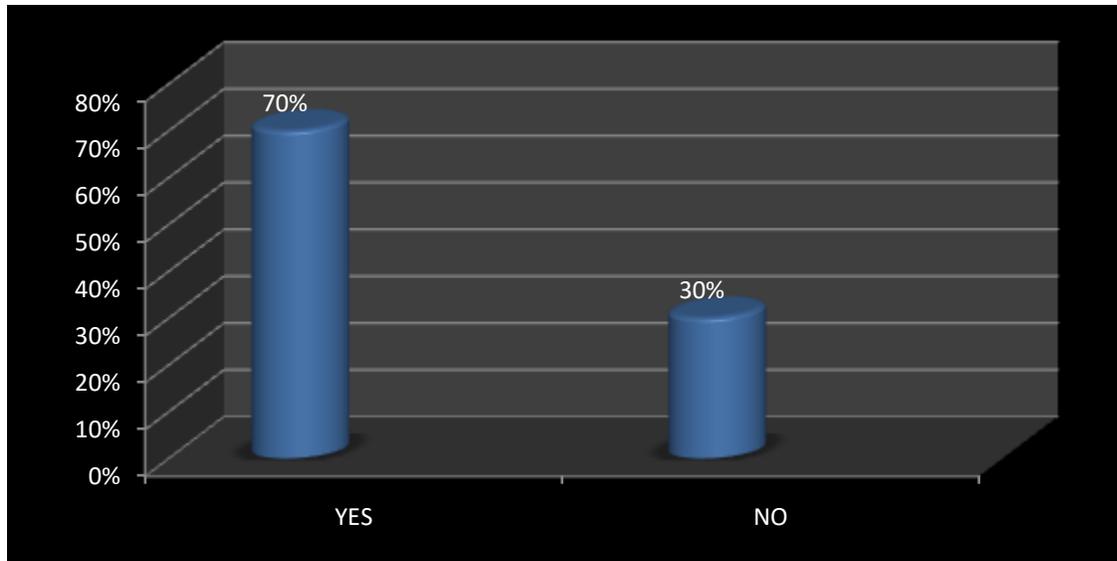
75% respondents indicated that yes there is a difference in previous and existing work environment. And 25% say no there is not so much difference in the work environment.

RESULT:

25% of the employees say that there was no major change in working environment. As it is difficult for the employees to adjust in the new culture as they are working for the company for so many years. Whereas 75% says that there was a change in working environment because there is more work load, more responsibility and they have to report to the new management

8. Do you think Islamic financing has a positive impact on banking sector?

- Yes
- No



ANALYSIS:

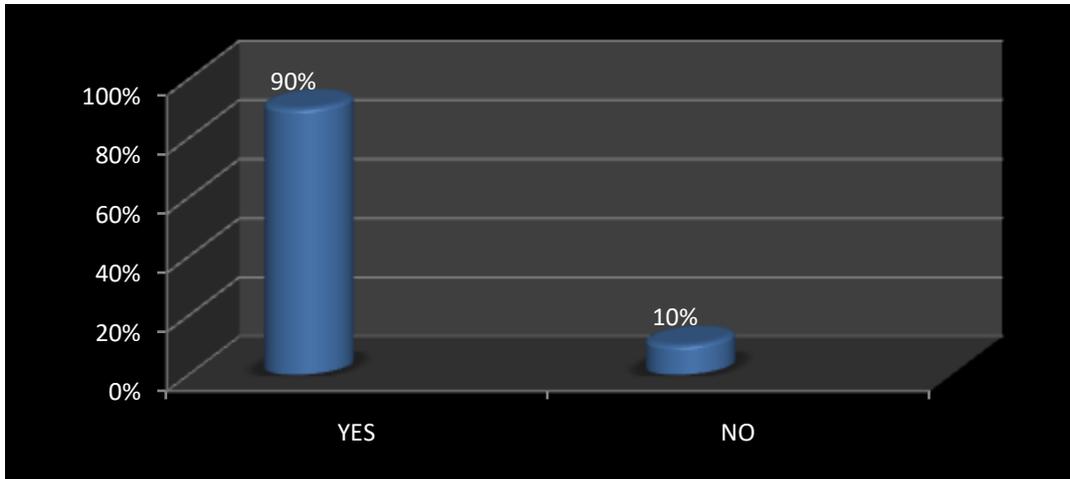
According to the research it has been approved that 70% respondents agreed that yes Islamic finance has a positive impact in Pakistan, while 30% against it they prefer conventional banking over Islamic banking.

RESULT:

According to the respondents The Acting Governor of the State Bank of Pakistan said that the Islamic finance industry has great potential and that it should not blindly follow the conventional financial industry. The preceding discussion makes it clear that Islamic banking is not a negligible or merely temporary phenomenon. Islamic banks are here to stay and there are signs that they will continue to grow and expand. Even if one does not subscribe to the Islamic injunction against the institution of interest, one may find in Islamic banking some innovative ideas which could add more variety to the existing financial network.

9. Does Islamic financing be a substitute of conventional banking in Pakistan?

- Yes
- No



ANALYSIS:

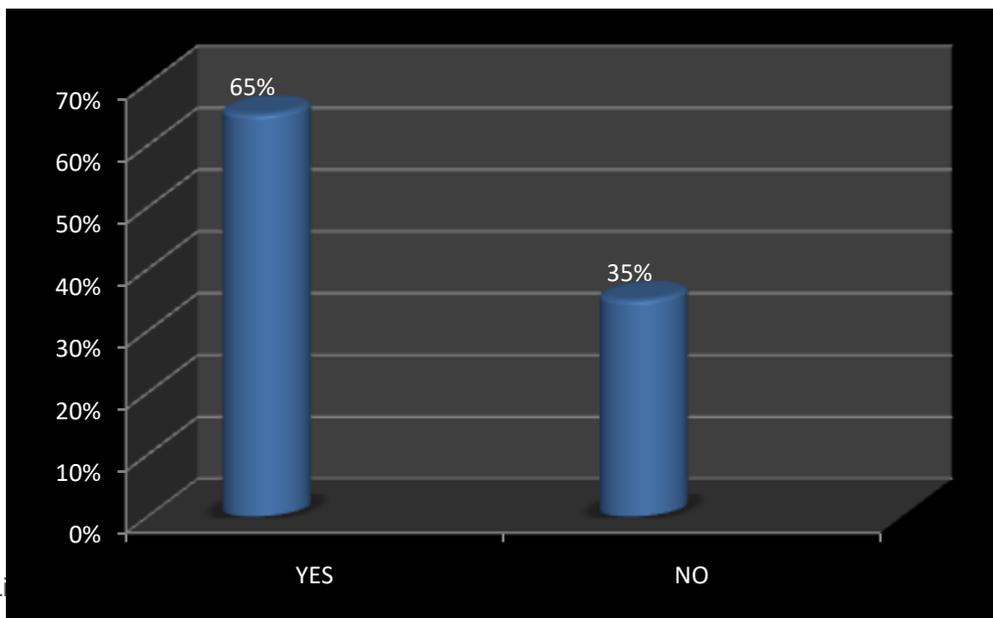
90% respondents indicated that yes it is a substitute of conventional banking, while 10 % say no.

RESULT:

With a size of US\$1.35 trillion (according to Global Islamic Finance Report 2012) and annual growth rate of more than 20 percent, the Islamic financial industry now comprises 430 Islamic banks and around 191 conventional banks Having Islamic banking windows operating in more than 75 countries. Thus the relative resilience and stability of the industry during the financial crisis and its flexibility and responsiveness to changing business needs has helped the industry to establish itself as a viable financial system.

10. Is SUKUK bonds are reliable for the customers and for the financial institutions?

- Yes
- No



ANALYSIS:

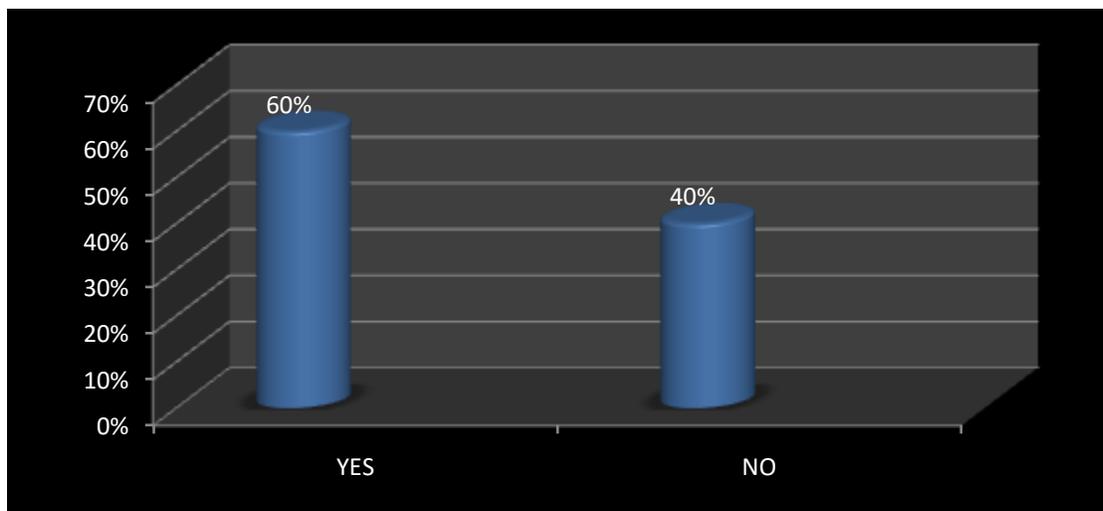
65% respondents would prefer SUKUK Bonds while 35 % would not prefer SUKUK bonds.

RESULT:

SUKUK is the Arabic name for financial certificates that are the Islamic equivalent of bonds. However, fixed-income, interest-bearing bonds are not permissible in Islam. Hence, SUKUK are securities that comply with the Islamic law SHARIAH and its investment principles, which prohibit the charging or paying of interest. To improve transparency and bring standardization in ISLAMIC BANKS profit distribution and pool management practices, Pakistan have developed a comprehensive profit distribution and pool management framework in consultation with the industry.

11. Is funds management prospers the economy?

- Yes
- No



ANALYSIS:

60% respondents say that funds management must foster the economy, while 40% against it. It has been verified that Islamic investment equity funds market is one of the fastest-growing sectors within the Islamic financial system. Currently, there are approximately 100 Islamic equity funds worldwide. The total assets managed through these funds currently exceed US\$5 billion and is growing by 12–15% per annum. Despite these successes, this market has seen a record of poor marketing as emphasis is on products and not on addressing the needs of investors. Over the last few years, quite a number of funds have closed down. Most of the funds tend to

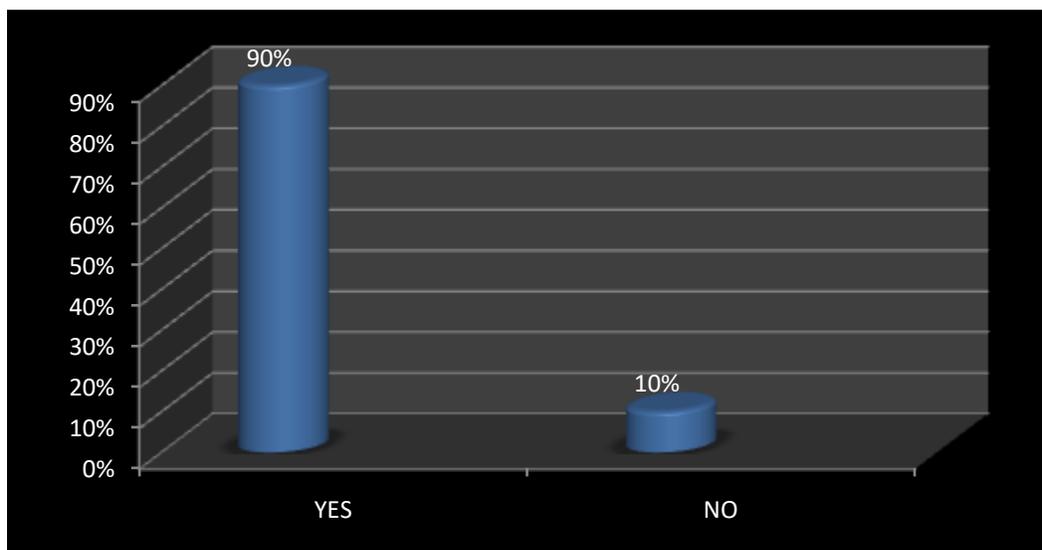
target high net worth individuals and corporate institutions, with minimum investments ranging from US\$50,000 to as high as US\$1 million. Target markets for Islamic funds vary; some cater for their local markets, e.g., Malaysia and Gulf-based investment funds.

RESULT:

The Board of Directors' of MEEZAN BANK Limited in its meeting held at Karachi on February 19, 2013 approved the financial statements of the Bank for the year ended December 31, 2012. Vice Chairman of the Board MR ABDULLATEEF also attended the meeting. In this meeting they concluded that The Bank has achieved significant growth in all business segments during 2012. Despite the monetary easing by SBP, the Bank earned Profit-after-tax of Rs. 3.5 billion in 2012 compared to Rs. 3.4 billion recorded last year. The Earnings Per Share (EPS) increased to Rs. 3.88 from Rs. 3.75 for 2011. The Board recommended issue of 11% Bonus Shares for the year 2012. The Bonus issue will increase the Bank's paid up capital to Rs. 10 billion and the Bank will meet SBP's minimum capital requirement for 2013 of Rs. 10 billion a year in advance. MEEZAN BANK has also been consistently recognized as the best Islamic Bank in Pakistan by various local and international institutions over the past several years, which resemblance that through this Pakistan economy will be flourished.

12. Improper Implementation of Islamic Banking Practices and Principles are the basic reason for the failure of Islamic financing?

- Yes
- No



ANALYSIS:

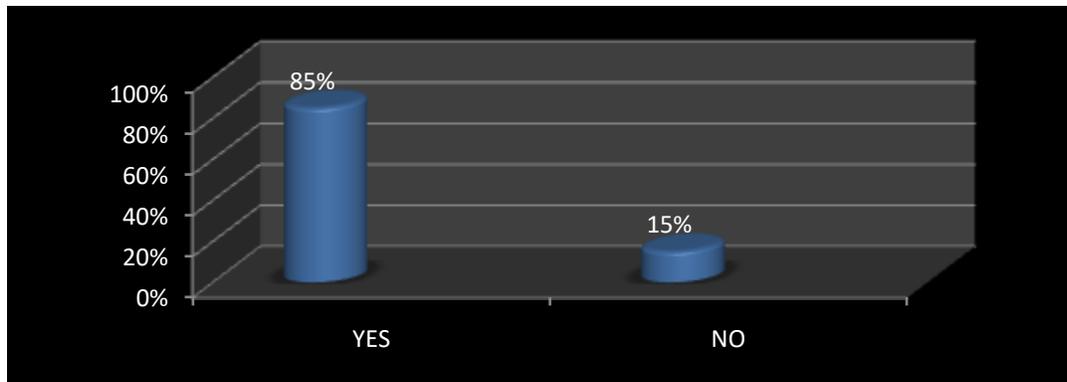
90% agree with the statement that yes there is no proper implementation of Islamic finance causes failure of Islamic system, while 10% deny from the above statement.

RESULT:

The article (BENG SOON CHONG, 2009) explains that there is improper implementation of SHARIAH principles in Islamic banking. It is statistically proved through the sample that too that, the Islamic banks aren't following the SHARIAH laws in their practices. Islamic banks and banking institutions that offer Islamic banking products and services (IBS banks) are required to establish a SHARIAH Supervisory Board (SSB) to advise them and to ensure that the operations and activities of the banking institutions comply with SHARIAH principles. On the other hand, there are also those who believe that no form of banking that involves interest payments can ever comply with the SHARIAH.

13. In the coming years, Islamic finance could account for a substantial share of financial services in several countries?

- Yes
- No



ANALYSIS:

85% Agreed with the statement that yes over the up-coming years Islamic finance would cater the tremendous share in several other countries as well, while 15% deny with the statement , they are those who are involved in interest, they like to give and take interest. They don't have a fear of GOD.

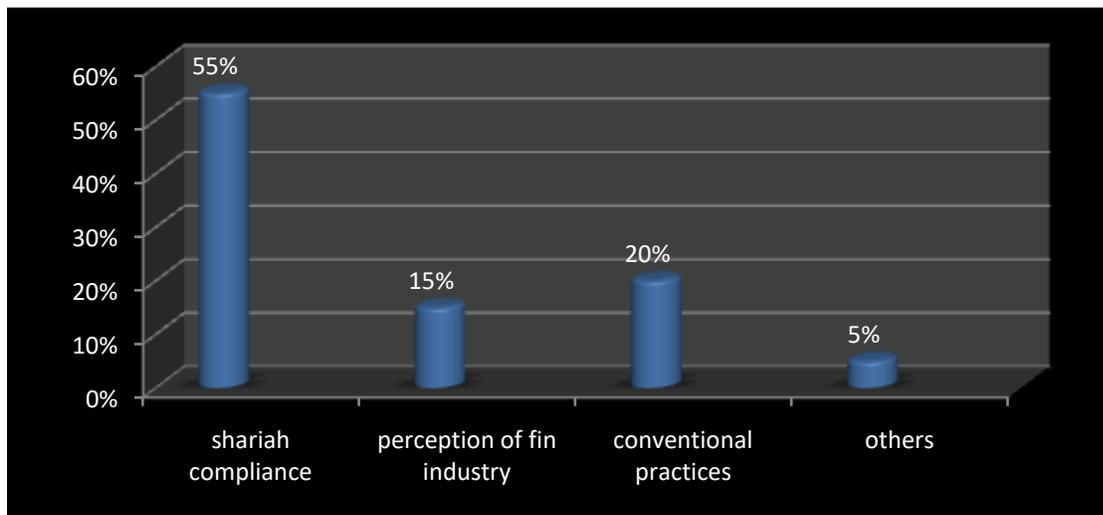
RESULT:

Today Citibank is known as the world's largest Islamic financial institution. The bank manager signed billions for short and medium terms financing under Islamic mode of financing.

Getting positive response from the business sector, the bank established City Islamic Investment Bank in Bahrain. In London, Union Bank of Switzerland, Dutch Banking Group ING and Nat West launched Interest Free financial operations. Beside Europe, social banking has already entered the United States of America. Trade financing under MURABAHA mode of financing is becoming common in USA and in Latin America. Over a period of time, financial institutions, like IMF recognized the concept and modalities of the Islamic financial system. It is also encouraging that the results of Islamic financial system, accepted by the conventional financial institutions. They began their research and study on the Islamic concept of banking. Some of the non-Islamic financial institutes have prepared papers on Social Banking and introduced; separate departments for Islamic finance in their organizations. Banks like ABN AMRO, Citibank, Arab Banking Corporation, Standard Chartered Bank Ltd, and ANZ Grind lays, HSBC and Kleinwort Benson have realized the value and importance of the concept.

14. Although Islamic banking faces multi challenges however one is very vital for its existence?

- SHARIAH compliance.
- Perception of financial industry.
- Conventional practices.
- Others



ANALYSIS:

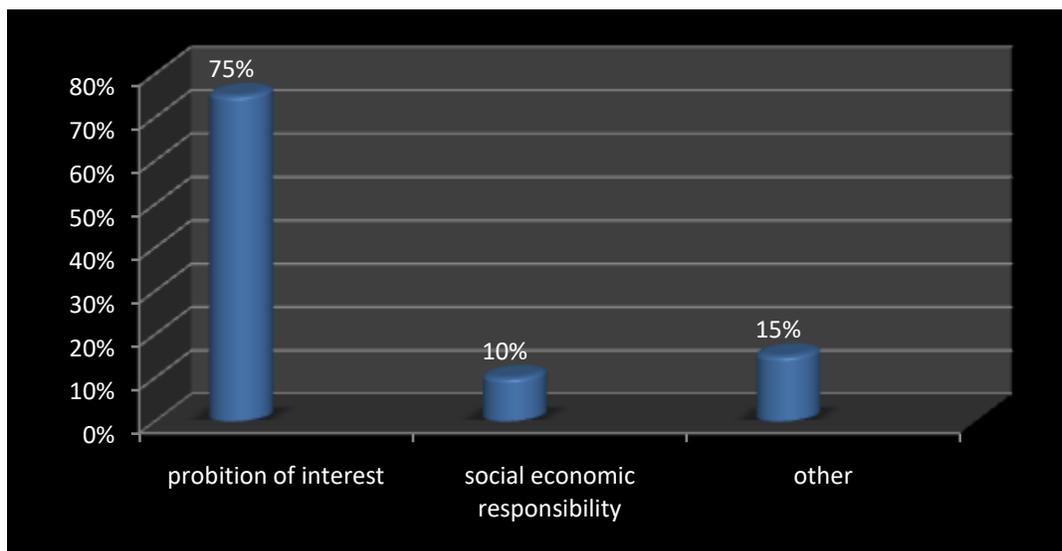
55% Respondents favored in SHARIAH compliance, 20% say conventional practices are the main challenge for Islamic finance, 15% say there could be a different perception regarding conventional and Islamic finances, while few 5% say there could be other reasons as well.

RESULT:

Security and Exchange Commission of Pakistan (SECP) announced Takaful rules in 2012, an opportunity for insurance under SHARIAH Conventional insurance companies can open window operations of Takaful by taking benefit from Takaful rules 2012. The Takaful industry will progress rapidly at national level under these rules, said Muhammad ZUBAIR MUGHAL, Chief Executive Officer of ALHUDA Centre of Islamic Banking and Economics, while talking to media. Asian development bank provides grant to promote Islamic banking in Pakistan. The Asian Development Bank (ADB) has provided a \$750,000 grant to promote Islamic banking in Indonesia, Pakistan, Bangladesh and AFGHANISTAN. Apart from Government's efforts to launch SHARIAH compliant SLR securities, SBP will need to launch SHARIAH compliant Treasury Bills along the lines of other central banks which have a range of short term securities based on sales and purchase contracts that are tradable in the secondary market and launch SUKUK cum IJARAH instrument proposed by the Central bank-Islamic Industry. Islamic repos would also need to be structured. To facilitate the issuance of these types of instruments, amendments will be required in SBP Act as well as setting aside of specific assets of public sector by the Government.

15. Islamic banking as a financial institution has always been proclaimed to be different from conventional banking systems. This is mainly due to?

- Prohibition of interest.
- Emphasis on achieving social economic responsibility in society.
- Other.



ANALYSIS:

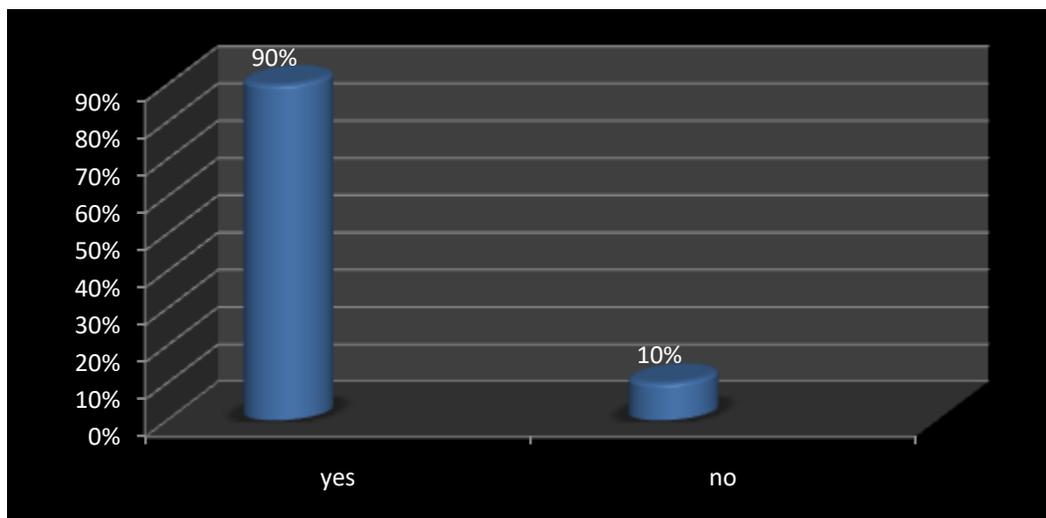
75% agree with the statement that probation of RIBA is the main difference of conventional and Islamic finance, 15% say there could be several other reason as well. While a few of 10% say social economic responsibility in society is the big difference between both banking.

RESULT:

It has been verified by the respondents that Islamic banking has the same purpose as conventional banking, to make money for the banking institute by lending out capital. But that is not the sole purpose either. Adherence to Islamic law and ensuring fair play is also at the core of Islamic banking. Because Islam forbids simply lending out money at interest RIBA Islamic rules on transactions (known as FIQH AL-MUAMALAT) have been created to prevent this perceived evil. Second, there is a Trust gap between the borrowers, depositors, investors and managers. As Social Capital has dissipated fast in our society, the virtues espoused by our religion such as Truth, Honesty, Fair play have also become rare commodities. The transaction costs of Islamic Finance would have been much lower compared to other forms if Trust had prevailed, Islamic values were practiced in true spirit and obligations assumed by each party were carried out according to the commitments made by them. The State Bank of Pakistan has reported that the non performing financing by Islamic Banks (IBs) has continued to rise while return on assets and return on equity has witnessed a decline.

16. Western financial crisis could have been prevented, or at least alleviated, by adherence to Islamic banking principles.

- Yes
- No



ANALYSIS:

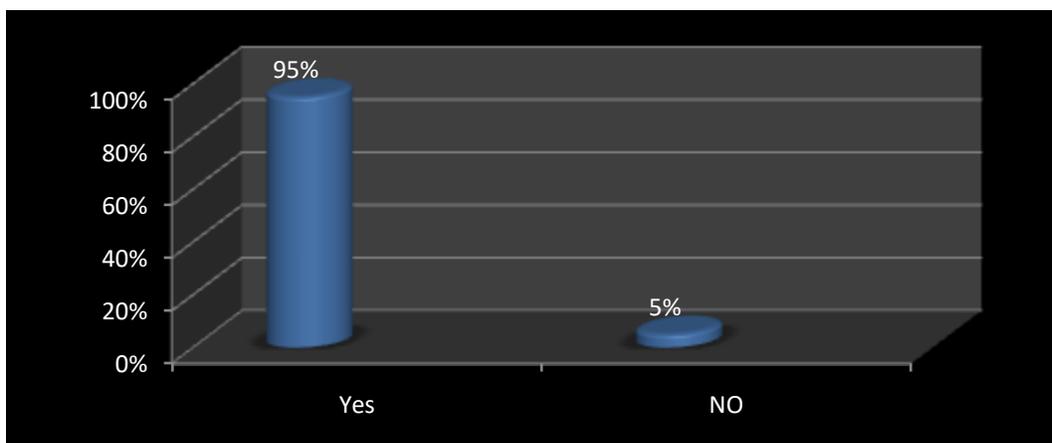
90% respondents say yes financial crises alleviated by adopting Islamic banking principles, while a few 10% deny with the statement, they are those who are involved in interest RIBA.

RESULT:

Islamic finance has entered a bright new stage of development, emerging after the global financial crisis as a more equitable and efficient alternative to the Western approach. Interest in Islamic finance (IF) began in the 1970s, mainly due to the accumulated petro-dollars in Arab countries. In a rather pragmatic approach, it was thought in the West that respecting Islamic principles regarding finance would attract wealthy Arab investors. The second major turning point in IF took place after the Sept. 11 attack on the US. It was declared at that time that Muslims were guilty unless they proved themselves innocent, and as a reaction to this uncertainty and discrimination, IF escaped from the West. The amount of capital which fled the West was over \$200 billion. Moreover, as the epicenter of global economic growth shifted to Asia, IF concentrated its focus on these emerging and dynamic markets. The last, but most critical, stage has already started due to the collapse of the conventional finance system based on interest. Regardless of the religious values associated with IF, some people sought IF as merely a more efficient, equitable and even sustainable form of finance. Because interest-based transactions are prohibited, Islam encourages business and trade activities that generate fair and legitimate profit. In IF, there is therefore always a close link between financial flow and Productivity. This intrinsic property of IF contributes towards insulating it from the potential risks resulting from excess leverage and speculative financial activities.

17. A rise in Islamic faithfulness, and a growing middle class in Muslim countries, Islamic financing of the financial services market is expected to continue to grow at record breaking levels?

- Yes
- No



ANALYSIS:

95% say yes, while a few of 5% say no.

RESULT:

It has been observed and verified with this research that Islamic finance is growing rapidly, and there financial market is expected to continue to grow at record breaking levels.

Acceptance or Rejection of Hypotheses

H1: Improper implementation of Islamic banking practices and principles has significant impact on Islamic financing.

After the analysis of the data through questionnaires, I conclude that respondents mostly said those improper implementations are the main cause of failure of Islamic system, so we accept our hypothesis.

H2: Conventional banks established and old has significant impact on Islamic financing.

After the result of the study is gathered, it is concluded that conventional banks established an old and its practices in Pakistan has a significant impact of Islamic financing. So, we accept our hypothesis.

H3: Islamic roots and religious factors have significant impact on Islamic financing.

We accept our hypothesis that Islam and religious factors have significant impact on Islamic financing.

H4: Reduced risk has significant impact on Islamic financing.

After the analysis, it is concluded that due to prohibition of Interest rates people don't like to invest in Islamic financing, they are the ones who are deceitful. They don't have a fear of ALLAH PAAK and the day of resurrection. So, we accept our hypothesis.

H5: Interest free loans have significant impact on Islamic financing.

Through analysis, it is evident that interest free loans have a significant impact on Islamic financing. So, we accept our hypothesis.

H6: Business development, profitability, and solvency have significant impact on Islamic financing.

Result show that the business development, profitability and solvency don't have a significant impact on Islamic financing. So, we reject our hypothesis.

H7: Untouched factors (exchange rates, fiscal policies and foreign debt) have significant impact on Islamic financing.

After the conduct of analysis, it is concluded that exchange rates, economic policies and foreign debt have significant impact of Islamic financing it has been proved after the recent global financial crises of US 2008. So, we accept our thesis.

Summary of Findings

It has been verified through this research that Pakistan has a great potential in Islamic banking. Pakistan economy will be flourished in the upcoming years by adopting Islamic banking at a glance. After the global financial crises, everyone wants to adopt a secure Islamic financing, which is free from any impairment. There were many challenges after global financial crises in which mobile banking was very weird. Sustainable profitability in an environment of low interest rates was also a big issue; restoring public confidence in the industry was again a big challenge. The research identified that the Islamic finance is the foremost reason of the financial crises, through Islamic finance the conflicts reduced between Muslims and the west in an innovative way. Pakistan moves down to number 8 but despite all, the fact of the fall Pakistan has a huge potential for growth in near future. It has been verified that Islamic finance has gained a good response, in energy sector biggest power generation unit HUBCO was financed under the mode of ijarahwaaistisna. The majority of the respondents are in favor that the teams which are involved in Islamic banking are very keen. Thus the teams working in Islamic environment are very responsible because they have more workload in the sense of Shariah compliant. Through the findings, it has been identified that Islamic banks are here to stay and there are signs that they will continue to grow and expand in the upcoming years. According to global Islamic finance report 2012 it has been verifies that Islamic window has tremendously increased their size about \$ 1.35 trillion with the annual growth rate of more than 20 %. However, fixed income, interest bearing bonds are not permissible in Islam that's why sukuk are more reliable bonds according to this research. Because sukuk are the bonds that comply with Islamic law that prohibits the charging or paying of interest. It has been verified that Islamic investment equity funds market is one of the fastest-growing sectors within the Islamic financial system. Currently, there are approximately 100 Islamic equity funds worldwide. The total assets managed through these funds currently exceed US\$5 billion and is growing by 12–15% per annum. The research found that the improper implementation of Islamic financing causes failure of the Islamic system.

CONCLUSION

The Islamic financing industry is growing each year in Pakistan. It is important for Islamic banks to provide excellent quality services to customers. The industry is growing over the years because the Pakistani way of life has changed; many women are having jobs in banks. The environment of Islamic banks is magnificent. The vital aspect of Islamic financing is to do a financing in the law of Islamic principles and Shariah compliant. In any service industry true and dedicated employer and customers are the main source of revenue. So, it is necessary to satisfy the employers and customers which make them loyal to the industry. The easiest method for Islamic banks to identify themselves in the mind of customers is through Shariah compliant.

This research is descriptive in nature. The method used in this report is an interview with the bank manager, questionnaire, emerald articles, websites, books, magazines, different scholars' articles and newspapers. The respondent's personal profiles are related to name, gender, age, occupation and income. Most of them are bankers, students, teachers and businessmen.

The research showed that the majority of respondents emphasizes on Shariah compliant. However, this doesn't mean that we should consider shariah compliant is only the road to success, but there are other attributes also which are included in the working environment, sukuk bonds, asset and fund management, service quality, no longer conventional practices, proper implementation of the Islamic system and much more with regard to the law of Islam. In previous studies, some researchers have also found out that improper implementation is more assisting in customer satisfaction and finding their weak point and improving them.

This research says that Shariah compliance is the most important attribute which includes proper implementation of the Islamic system. People are eager to adopt a secure financing, which is none other than Islamic financing. If the Shariah compliance aspect will be well, maintained, customer will always patronize the bank and will spread positive word of mouth about Islamic banks, this will develop their long term profits that will thrive the Pakistan economy. This study explains that Islamic financing is most important to accommodate the Pakistani economy at a true glance. In the upcoming years, it will be worth a million and overwhelm the Pakistan's economy.

RECOMMENDATIONS

- As proper implementation is very important to foster the Islamic system, so they must have to develop a proper implementation of the Islamic system in the country.
- Islamic banks must pay more attention to educate and empower their service workforce to make an experience an unforgettable one for customers and employers.

- Pakistani Islamic banks need to upgrade their terms and policies to provide the best services as will always provide financial result in the long run.
- People's expectation about Islamic banks is higher than the conventional banks. For this, higher amount should be spent on establishing and maintaining high quality standards.
- Islamic bank's loyalty is one of the most fundamental survival tools for Islamic banks. So, the bank operators must understand the influence of both the customer's level of satisfaction and bank's image on customer's loyalty.
- Programs to improve service quality should include problems of customers, recruitment and training of service employees and their appraisal system.
- Islamic banks must organize campaigns for the awareness of proper Islamic system in the different cities of Pakistan.
- Marketers need to uplift the image of Pakistani Islamic banks in the minds of consumers. For this, they should consider corporate social responsibility and create environmental friendly products.
- Banks managers must timely understand the customer's expectation and improve their service quality accordingly. As expectation about Islamic financing system change from person to person and from culture to culture and it is difficult to track customer's complex behavior.
- Dissatisfied customers are most dangerous for Islamic banks as they may promote negative word of mouth for other customers who may not return to the Islamic banks for further visit and this may result in enormous financial losses for the Islamic banks. In extreme cases, the bank may run out business. So, managers must track dissatisfied customers and they should focus on loyal customers on how to retain them while attracting new customers too. Thus, this will foster the Pakistan's economy.

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APPENDIX: GLOSSARY

ISLAMIC BANKING BRANCHES (IBBS)
INTERNATIONAL MONETARY FUNDS (IMF)
INTEREST FREE LOANS (QUARD- HASSAN)
SUKUK (ISLAMIC NOTE)
TAKAFUL (MUTUAL INSURANCE)
ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOFFI)
SMALL AND MEDIUM ENTERPRISE (SME)
DIRECT FOREIGN INVESTMENT (DFI)
NATIONAL INSTITUTE OF BANKING AND FINANCE (NIBAF)
ISLAMIC FINANCE COUNTRY INDEX (IFCI)
CENTRE OF ISLAMIC BANKING AND ECONOMIES (CIBE)
SHARIAH (ISLAMIC LAW)
HARAM (UNLAWFUL)
MUWAKHAT (BROTHERHOOD)
SHARIAH SUPERVISORY BOARD (SSB)
SECURITY AND EXCHANGE COMMISSION OF PAKISTAN (SECP)
THE ASIAN DEVELOPMENT BANK (ADB)
AL-WADIAH (SAFE KEEPING)
BAI'MUJAJAL (DEFERRED PAYMENT SALE)
BAI'SALAM (PRE PAID PURCHASE)
BAITUL MAL (TREASURY)
FIQH (JURISPRUDENCE)
HADITH (PROPHET'S COMMENTARY ON QUR'AN)
HAJJ (PILGRIMAGE)
HALAL (LAWFUL)
HARAM (UNLAWFUL)
IJARA (LEASING)
IMAN (FAITH)
MITHL (LIKE)
MUDARABA (PROFIT-SHARING)
MUDARIB (ENTREPRENEUR-BORROWER)
MUQARADA (MUDARABA)
MURABAHA (COST-PLUS OR MARK-UP)
MUSHARAKA (EQUITY)
RABBUL-MAL (OWNER OF CAPITAL)
RIBA (INTEREST)
SHIRKA (MUSHARAKA)