

Islamic Banking and Finance Review



ISLAMIC BANKING IN PAKISTAN: CHALLENGES AND OPPORTUNITIES A PERFORMANCE BASED ANALYSIS

M. Mahmood Shah Khan

Director
Institute of Islamic Banking
University of Management &
Technology (UMT)

Farrukh Ijaz

Student – MS Finance
School of Business and Economics,
UMT
farrukh-ijaz@hotmail.com

Research Paper Information:

To cite this article



Khan, Mahmood Shah, & Ijaz, Farrukh. (2014). Islamic banking in Pakistan: Challenges and opportunities – A performance based analysis. *Islamic Banking and Finance Review*, 1(1), 49–70.
[Crossref](#)

Access this article online



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Article



<https://doi.org/10.32350/ibfr.2014.01.04>

Contact Information



INSTITUTE OF ISLAMIC BANKING (IIB)
UNIVERSITY OF MANAGEMENT AND TECHNOLOGY



C-II, Johar Town, Lahore



+92-42-3521-2801-10 (Ext – 3418)

Volume 1 1435-H/ 2014

ISSN (E): 2413-2977

ISSN (P): 2221-5239

Journal

<https://doi.org/10.32350/ibfr>

Issue

<https://doi.org/10.32350/ibfr.2014.01>

Journal



This is an Open Access Journal

Published By

Institute of Islamic Banking
University of Management and
Technology (UMT)



<https://iib.umt.edu.pk/ibfr/home.aspx>



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M. Mahmood Shah Khan

Director

Institute of Islamic Banking

University of Management & Technology (UMT)

and

Farrukh Ijaz

Student - MS Finance

School of Business and Economics

University of Management & Technology (UMT)

farrukh-ijaz@hotmail.com

Abstract

This study is being coxed on performance measurement of Islamic Banking sector of Pakistan. The study has intended to show that Islamic banking sector of Pakistan may work at its optimal level if the altogether separate banking regulatory framework is introduced parallel to the conventional. The secondary data based study has been conducted to measure the performance of the Islamic banks while considering various performance based parameters. The parameters have included productive, operational, allocative, distributive, and stabilization efficiency of Islamic Banks. The study only takes the data of the banks to be analyzed for the performance measurement, which are working as full-fledged Islamic banks in Pakistan. This research may help the State Bank of Pakistan (SBP) and policy makers to redesign their Islamic Banking priorities and take initiative to address those particular areas where its attention is actually needed to attract and sustain the level of Islamic Baking in the country. Most of the operational issues of Islamic banking leading to its sustainability and growth will be brought under discussion. First comprehensive study will be conducted on operational issues of Islamic Banking, uncovering the real exposure of future direction.

Key Words: Islamic Banking, Operational Performance Measurement, Financial Performance Parameters.



Khan, Mahmood Shah & Ijaz, Farrukh (2014). Islamic Banking in Pakistan: Challenges and Opportunities – A Performance Based Analysis. *Islamic Banking and Finance Review*, 1(1), 49-70. ISSN 2221-5239. © 2014



Introduction

Many organizations within the sphere are re-structuring their business performance and operational methods in an essential and fundamental way. These organizations are exploring to integrate their search for cost-effective development with the promise of environmental protection and social responsibility for present and future generations with the sustainable business development concept. Based on this new phenomenon, many companies and financial institutions are trying to do changes that are significantly important in their policies, business structure, commitments, short and long term strategically framework.

The financial sector in Pakistan is going through a fast-paced, dynamic, vibrant, challenging and competitive environment within the last decade at National and International level. The introduction of Islamic Banking has incredibly changed the view point of both Conventional and Islamic economists and the predictions are there that the products being offered by this new financial system are among the most increasingly used in the upcoming years. In today's era, Islamic Banks are functional in almost all regions of the world. These Islamic Banks considered being the safest, feasible and practical substitute of the so called conventional banking system.

Performance measurement is an important tool to measure the development, growth and long term vision of any organization or sector. The performance measurement methods are used to know about an organization or institution capability, efficiency and effectiveness over the number of years; so that lenders, borrowers, investors and stakeholders have a better picture of that particular institute. Performance measurement of financial institutions provides depositors a bird eye view of its performance in terms of operations, productivity, stable efficiency and profitability. Through which depositors get knowledge in which bank they should deposit their funds and deposits. It also guides bankers that in which sector they should invest the savings and deposits of people and what possible potential sectors are there, generating revenues in the long term. The State Bank of Pakistan (SBP) is also getting guidance for its regulation drives through such performance measurement indicators.

This research is done to measure the Pakistan Islamic banking sector performance by applying banking efficiency model in five different proportions. The five proportions are operational efficiency, productive efficiency, stabilization efficiency, distributive efficiency and allocative efficiency. To measure the productive efficiency dimension, further five more tests are used, namely, project efficiency test, profit maximization test, investment opportunity utilization test, loan recovery test and test of elasticity of loan financing. Sarker (1998) in his study of performance measurement of Islamic banks working in Bangladesh used this banking efficiency model with above mentioned five dimensions and same model and dimensions are replicated in context of Pakistan.

Pakistani Islamic Banking System – Brief History

In the early era, a bank was considered to be an institution which is used to offer deposit and saving services to its clients. Today, these depository institutions are performing numerous roles and functions to provide their customers variety of services, business loans and investment products. In Pakistan, both conventional banks and Islamic banks are assisting and providing their customers with such time saving and investment services. The Islamic banking is a new and one of the evolving fields in global economic market, especially in the Pakistan financial market. The development of banking sector in Pakistan has also been praise worthy during the last ten years. According to one of the



published report of State Bank of Pakistan (SBP), the growth rate of Islamic banks in terms of structure and size is of 27% per annum (Islamic Banking Department SBP, 2013)

	Industry Growth		Growth %age		IB Industry Share	
	Jun-12	Jun-13	Jun-12	Jun-13	Jun-12	Jun-13
Total Assets	711	903	26.9%	27.0%	8.2%	9.0%
Deposits	603	771	33.3%	28.0%	8.9%	9.9%
Financing and Investment	543	700	29.2%	28.9%	7.9%	8.8%
Total IB Institutions	17	19	-	-	-	-

Source: Quarterly Unaudited Accounts

The Constitution of the Islamic Republic of Pakistan article 38(f) emphasis that the nation should reduce and eliminate the interest based transactions as soon as possible from the financial system (The Constitution Act, 1973). The Islamic financial system in Pakistan started in the late 1977. At that time three countries were trying to implement Islamic financial system in Pakistan but that was an uphill task to introduce this new financial system, so they start initially in subordinate tasks (Performance of Pakistan Islamic Banking, 2008). In this time period, lots of thing has learnt by personnel who make the policy at that time and reapply their learning from 1977 in 1990s. Also at that time period the aim of SBP was to uphold the Islamic banks analogous to conventional banking system in stable manner under the Islamic banking policy in December 2001. For that purpose, on 15th September, 2003; the SBP established Islamic Banking Department for the promotion & development of Shariah compliant Islamic banking system in the country.

In that era, many licenses issued by the SBP with the very first license issued to Al-Meezan Investment bank parallel to the conventional banking system. This bank was among the first operative Islamic investment bank in Pakistan, and later on SBP issue license to Al-Meezan Investment bank to act as full fledged Islamic bank of the country. Besides that, SBP also allowed conventional banks to open Shariah based banks to offer Islamic banking products. Today after 10 years, there are 13 conventional banks with a network of more than 970 Islamic branches and 5 certified Islamic banks (Meezan Bank Limited, Al-Baraka Bank Limited, Bank Islami Limited, Burj Bank Limited, and Dubai Islamic Bank Limited) are operating in the Pakistan (Islamic Banking Department SBP, 2013). Besides that, the top five major conventional banks are also facilitating their customers with Shariah approved Islamic products and financing activities. The network of branches of both conventional banks Islamic window operations and Islamic banks comprise of more than 1,110 branches in over 52 cities of the Pakistan and AJK (Islamic Banking Department SBP, 2013).

Islamic Banks in Pakistan

Meezan Bank Limited: Meezan Bank Limited is a publicly listed company incorporated on January 27, 1997 and started operations as an investment bank in August, 1997. Meezan bank has the honor of being the country's first full-fledged Islamic commercial banking license by the SBP.



Bank Islami Pakistan Limited: The SBP issued a No Objection Certificate (NOC) in no time on August 19, 2004 and Bank Islami Pakistan Limited, the second full-fledge Islamic Commercial Bank in Pakistan, was incorporated on October 18, 2004 in Pakistan. The bank is the first to receive the Islamic banking license under the Islamic Banking policy of 2003 on March 31, 2005. The bank envisioned to focus primarily on wealth management as the core area of business in addition to Shariah compliant retail products.

Al Baraka Bank (Pakistan) Limited: Al Baraka Bank (Pakistan) Limited has the honor of being the pioneer of Islamic banking in Pakistan. The bank is merger of Al Baraka Islamic Bank Bahrain and Emirates Global Islamic Bank Pakistan. Over the years, the bank has successfully developed and maintained its identity as one of the leading providers of a host of banking products and services in strict compliance with Shariah principles.

Dubai Islamic Bank Pakistan Limited: Dubai Islamic Bank Pakistan Limited (DIBPL) commenced operations in 2006. Since then, DIBPL has undertaken major initiatives to expand its branch network across the country. Dubai Islamic bank launched Pakistan's first Islamic Visa Debit Card and introduced financial products covering Home Financing, Auto Financing, and Depository products.

Burj Bank Limited: Burj Bank Limited, previously called Dawood Islamic bank Limited, is a unique Islamic bank which offers the service level of an international conventional bank while presenting a diverse portfolio of Islamic products. This bank got license in 2006 and starts its operation in 2007. Burj Bank has a rich Middle Eastern background with the technical support.

Snapshot of Islamic Banking Market Share and Performance

The Islamic banks are offering saving and deposit competitive products targeting to all segments of the society, despite the severe competition from banks and government saving plans. SBP report shows that from the year 2002 to 2010, Islamic banks deposits increased with an annual rate of 59.6%, compared to the sector average of 16.1% during the same period. In the FY'10 Islamic Banking financial system, the number of deposit accounts increased up to Rs. 1,103,437 and amount of deposits increase up to Rs. 314,901.68, which indicates an increase of 6.7% in FY'10 of total amount of deposit in banking sector. Similarly, the number of financing accounts increased to 103,294 from 43,776 in FY'10 and financing amount value increased from 127,969 to 168,073 in FY'10, with an increment of 5% from 4.4% in FY'10. The liabilities to asset ratio increased from 3.7% to 5.2%, deposit to liabilities ratio is from 47.9% to 56.3%, financing to asset ratio to 30%, financing to deposit ratio to 53.4% and investment to deposit ratio to 19.9% in FY'10, reflecting an increase in average returns from 5.03% to 5.20% for the year 2009-10. The Islamic banking market share with respect to overall deposits of banking stands at Rs. 603 billion in FY'12, depicting 1.3% increment from the from the FY'11. Total assets of the Islamic banking sector stands to Rs. 903 billion registering annual growth of 27%, whereas the amount of deposits at 28% by end of FY'13. Investments and financing contributed in an increase amount of assets; although growth in financing (10.4%) was higher to the growth in investments (2.0%). In terms of share, assets of Islamic banks contribute more than 60% in overall Islamic banking sector assets, while the remaining proportion contributed by IBD's operating in the industry. The non-performing financing (NPF) of Islamic banking industry witnessed slight decline and was recorded Rs.19.4 billion compared to Rs 19.5 billion in previous year. Profit of the Islamic banking industry reached above Rs 4.3 billion by end June 2013 from Rs. 2.2 billion by end March 2013, though lower compared to Rs 5.9 billion profits registered during June 2012.



Literature Review

Performance measurement is very important in any sector or industry because the result of performance measurement guide the decision maker for making decisions for future. The performance principally reflects business sector outcomes and results which shows overall financial health of the sector over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders wealth and profitability. Although a complete evaluation of a firm's performance take into account many other different kind of measures but most common performance measurement used in the field of finance and statistical inference is financial ratios.

Majority of the people and scholars are of the opinion not a single Hadith or Holy Quran verse provides the idea about the formation or development of the banking system in Islam. This is true, yet these both primary sources of Shariah provide a comprehensive idea about the fundamentals for the formation of Islamic banking (UK Trade and Investment, 2013). The banking sector is essential and vital for all bankers, depositors, investors and borrowers. The Islamic banking system has incredibly changed the perception of the people of Pakistan regarding the banking system. Islamic banking is the "Riba" free financial system, which prohibits the involvement of interest bearing transactions and also works on the mutual risk and profit sharing system. Islamic banking system is not solely a business funding source but also a source of trustee firm for the Muslim community. This is the main reason for the preference to deposit the money by the Muslims with the trust worthy bank which increase the liquidness of the banks.

Islamic Banking growth and development has created significant attention in the economic and financial world in the recent era. The Islamic banking system concept is not just getting acceptance in the Muslim community but it also gets flourished in the non-Muslim western culture nations as well. According to Schmith (2007) comparative to conventional banking, the growth of Islamic financial industry is high within the Muslim world is because they need an alternative to riba based banking. But besides Muslims, this system also attracts many non-Muslims with a growth of 16 percent to 20 percent per annum. In Pakistan, the market share of the Islamic banking industry is nearly 3.2 % with a network of only 170 branches, comparative to 7,700 branches of the conventional banks with five million borrowers. Also the borrowers in conventional system (around 5,000,000) are million times more than the Islamic banking sector, which are just 23,000 in number (Akhtar, 2007). He is of the viewpoint that if Islamic banks want to compete with the conventional banks then they must improve their services and provide quality products to the customers.

In a study, done by Bader et al. (2008), they found that conventional banks are performing well in revenue generating and providing cost effective operations than Islamic banks, which solely working better in profit efficiency. They were of the opinion that there is no such big difference among both types of banking system in the utilization of their factors of production. This study finding is completely parallel to the finding of the research work of Johnes (2008) who using financial ratio analysis of both conventional and Islamic banks in Malaysia found that conventional banking system is cost effective but less profit and revenue effective. They also come to the conclusion that the efficiency in conventional banks is significantly higher comparative to the Islamic banks.

Awan (2009) is of the opinion that in Pakistan the conventional banking system is not performing well when compared to Islamic banks. In his research from 2006 to 2008 on Pakistan Islamic banking sector, he found 100% increment in market share of Islamic banking institutions from 2.5 % to 5 %. He raised the point that in coming years the major



challenge for Islamic banks is to compete with conventional banks as SBP has granted permission to them to open Islamic branches and windows in parallel to their interest based banking system.

The customers are more pleased with the performance and efficiency of conventional banks comparatively to Islamic banks (Khattak & Kashif Ur, 2010). The major reason of this could be that the most of the people are not aware about the concept and the products being offered by this Islamic banking system (Imran, Samad, & Masood, 2011). Also, the scope of products being offered by the Islamic banks is limited and not highly efficient as conventional banks do (Iqbal et al., 1999).

In a study done by Jaffar & Manarvi (2011), they found that the performance of Islamic banks is better comparative to conventional banking system. They applied CAMEL methodology to compare the performance of 5 Islamic banks with 5 conventional banks. Their study found that Islamic banks performed better than conventional banks in terms of adequate capital while conventional banks did well in terms of management quality. Moreover, in terms of profitability and liquidity there was no major difference between both banks, which were similar to the findings of Samad (2004).

Most of the researches done on the performance measurement of Islamic and conventional banks disclose that majorities of Islamic banking customers prefer the system largely owing to its perceived compliance with Shariah. El-Hawary, Grais, & Iqbal (2004) in a study found that 67% of Islamic banking customers also use conventional banks parallel to Islamic banking system. Religion is important to the Pakistani banking customer, but they do not seem to be agnostic to service quality either. Islamic banks are insures more stable financial sector than the conventional banks (Khan & Bhatti, 2008). By the other study, in Tunisia it is verified that Islamic banking system showed excellent performing sector by supporting financial sector. In Iran there is another study which shows mixed result both in favor of Islamic bank and in conventional banks that they support and stabilized monetary system (Yousefi et al., 1997).

An earlier study was conducted to evaluate the performance of Islamic banking in Pakistan as it had captured only 2 percent market shares in only three year period. In this study, the performance evaluation has been done in 1999-2006 of Islamic banks. For this purpose, study evaluates the banking sector in four dimensions such as profitability, liquidity, risk and solvency and customer growth. The study used mean, standard deviation, T-test and F-test for the analysis and the data been collected from annual reports of the banks. The study reveals that Islamic bank is less profitable as compared to conventional banking system and Islamic products are also not popular in the system. (Rashid, 2007)

Iqbal & Molyneux (2005) in their book entitled "Thirty years of Islamic banking" explains and elaborate the performance of Islamic banking sector over the last thirty years on the dimensions like theoretical, empirical and legal aspects. The book analyzes the performance of Islamic banks under different dimensions to explain the characteristics of Islamic banking, to elaborate the problems that Islamic banking sector is facing and also to highlight areas where some further research is to be needed such as the ownership arrangements, pellucidity and corporate governance of Islamic banks. Iqbal & Molyneux (2005) was of the view that despite of getting massive success in last thirty years this sector has lots of potential and should have to achieve many more milestones.

Sarker (1997) measures the Bangladesh Islamic banking efficiency in five different dimensions by using banking efficiency model. The dimensions were productivity, operational, stabilization, distributive and allocative. The study also



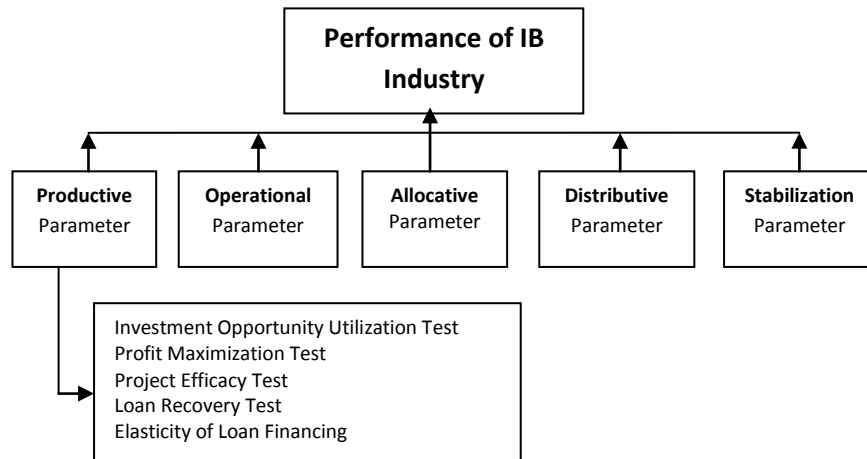
measures the productive efficiency in further five tests and then elaborates some problems and recommends the future policy for Islamic banking sector of Bangladesh.

Research Methodology

In this study secondary data is used. The qualitative data is in the form of research journals, articles and literature on the Islamic Banking sector is collected from the electronic database, while quantitative data in the shape of financial figures were taken from the annual reports of Islamic Banks, credit and accounts department of these banks as well as from the reports “SBP Banking Surveillance Department Quarterly Performance Review of the banking System 2012” and “SBP Banking Surveillance Department Financial Soundness Indicators (FSIs) 2012” published on the website of SBP. Apart from this, where ever required, Karachi Stock Exchange (KSE) published information is also used.

The financial data duration is expanded over the 5 years period from 2006 to 2010 and the sample consists of 5 Islamic Banks from the Pakistan financial system, namely Meezan Bank Limited, Emirates Global Islamic Bank, Dubai Islamic Bank, Al-Baraka Islamic Bank, Bank Islami and Burj Islamic Bank Limited from the population size of 18 banks of Pakistan banking sector. The reason for selecting the sample size is that these banks are operating as full fledged banks; irrespective of banks that are providing just stand alone window operations of Islamic Banking. In order to analyze performance of Islamic Banking sector various performance based parameters has been used. The parameters will include productive, operational, allocative, distributive, and stabilization efficiency of Islamic Banks. These five efficiency test criteria are called Banking Efficiency Model. We applied five more test to measure the Productive Efficiency which is Investment Opportunity Utilization Test, Profit Maximization Test, Project Efficacy Test, Loan Recovery Test and Test of Elasticity of Loan Financing. This Banking Efficiency Model has been used by (Abdul Sarker, 1998) for performance evaluation of Islamic banks operating in Bangladesh in 1998. We apply these five efficiency test criteria of Banking Efficiency Model and conclude with a best bank rating. Descriptive statistics and Ratio analysis are carried out with the use of MS Excel and SPSS.

Research Model





Performance Analysis of Islamic Banks

Analysis of the performance is very important for every sector or industry because it guide the policy maker about their decision making and guide to take corrective measure if any lapses are there in the policy and work accordingly. In order to measure the financial performance of the Islamic banking sector of Pakistan for the time duration of FY 2007-2012 of the 5 full fledged Islamic banks, first it is important to study the descriptive statistics of the financial ratios which are used as an explanatory variables to measure the major impact on the return on investment (Exploratory variable) taken in the study. The performance of Islamic banking is measured in five areas by using **Banking Efficiency Model**.

1. Productive Efficiency of the Islamic Banks

Investment Opportunity Utilization Test

Investment opportunity utilization of the banking system is determined by fund utilization ratio, per employees deposit mobilization and per employee fund utilization. The ratio of fund utilization explains the organization's fund advances to the loanable funds available. The fund utilization ratio of Bank Islami is higher comparative to other Islamic banks in 2006, whereas in financial year 2007 Burj Bank utilization ratio doubled the industry average. Similarly, in 2008 and 2009, Burj bank of Pakistan contributes more in employee's advances with respect to the other banks. From the FY'10 to FY'12 almost all banks are near to the industry averaged benchmark fund utilization ratio of 103.24% as shown in the below table.

Fund Utilization Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Al-Baraka Islamic Bank	97.54	98.94	101.49	100.20	99.80	99.39	98.08
Bank Islami	145.29	110.41	109.55	83.72	99.48	98.73	99.80
Meezan Bank	98.00	102.00	101.00	99.00	98.00	98.00	99.00
Dubai Islamic Bank	-	98.00	102.00	102.00	104.00	102.87	103.00
Burj Bank	-	205.74	160.47	143.12	111.04	118.48	106.22

Per employee deposit mobilization ratio is calculated by dividing the total deposits by the total number of employees in a calendar year. The Al-Baraka Islamic bank Pakistan enjoys the highest mobilization of employee deposits ratio from FY'06 to FY'11, accounting from amount Rs 45,168 to Rs. 37,536 respectively. Meezan bank limited contributing stable amount of mobilization for the last 7 years. The per employee deposit mobilization for Dubai Islamic bank limited has gone double in number in 2010 from the financial results of the year 2007. The deposit mobilization ratio per employee for all banks except Burj Islamic bank is above Rs. 30,000, managing to stable with the industry average amount.

Per Employee Deposit Mobilization (in Rs. '000')							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Al-Baraka Islamic Bank	45,168	46,606	40,299	42,872	37,310	37,536	31,991
Bank Islami	7,534	17,645	10,503	19,026	28,358	30,353	38,966
Meezan Bank	24,802	24,754	22,155	26,791	29,447	34,700	38,708
Dubai Islamic Bank	-	16,244	30,821	28,435	31,732	27,494	30,540
Burj Bank	-	32,458	23,01	15,110	26,714	24,806	23,494



The ratio of per employee fund utilization explains the organization's fund advances that are being employed by their employees over a specific period of time. Per employee fund utilization rate of Al-Baraka Islamic bank is highest in Islamic banking sector of Pakistan for the financial years 2008-11. Dubai Islamic bank is second highest among Islamic banking sector of Pakistan, but in 2012 it has the highest fund utilization amount allocation to employees. This ratio is equally shared at the below level between the Burj bank limited and Dubai Islamic bank limited, whereas the Meezan bank of Pakistan enjoys the highest rank in comparative to other Islamic banks in the FY'12.

Per Employee Fund Utilization							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Al-Baraka Islamic Bank	50,095	49,673	45,295	47,252	39,316	38,361	32,364
Bank Islami	11,254	19,620	11,733	16,017	28,472	30,443	39,872
Meezan Bank	27,369	26,495	23,770	28,718	30,003	35,771	41,238
Dubai Islamic Bank	-	15,946	31,400	29,275	34,081	29,835	32,500
Burj Bank	-	66,779	37,303	25,115	30,338	30,036	27,099

Profit Maximization Test

Profit maximization is the ultimate goal of all stakeholders and organizations. To measure the profit maximization of the Islamic banking sector, following five indicators are used; Cost - Income ratio, Income - Expenditure ratio, Profit - Expenditure ratio, Profit - Loanable Fund ratio and Profit - Employed Fund ratio. Cost – Income ratio tells us about the firm's fraction of total costs to total income. This means that how much an organization generating with respect to its costs of doing business. The overall cost-income ratio of Meezan bank limited, Dubai Islamic bank limited and Bank Islami limited is well managed. The ratio is dramatically increased for Burj bank of Pakistan from 23% in 2007 to 72.00% in 2012. Al-Baraka bank maintained an average cost income level of 73.45% over the under studied years.

Cost-Income Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	54.14	53.61	45.40	49.20	53.75	48.06	52.13
Al-Baraka Islamic Bank	74.13	73.00	75.57	79.86	75.43	74.65	75.35
Bank Islami	18.66	50.47	49.67	56.14	54.06	52.40	58.69
Dubai Islamic Bank	-	41.91	50.57	49.52	52.30	51.72	49.41
Burj Bank	-	23.18	47.17	57.49	57.49	59.91	72.00

Income - Expenditure ratio of Meezan bank limited in 2003 and 2004 stands out 147% and 130%, but it continually increase from the year 2004 to 2012 to almost 305% respectively. This ratio is excellent for Meezan bank limited. The trend of income-expenditure ratio for Al-Baraka Islamic bank is totally opposite to the Meezan bank limited, where this ratio shown a decline over the years from 424% to 137% from the year 2006 to 2010. Dubai Islamic bank and Bank Islami show the similar pattern with an averaging 194.34% of income-expenditure ratio in 2010. Overall the ratio is well maintained to industry benchmarked average in the year 2012.



Income-Expenditure Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	263.12	259.20	250.75	292.10	270.98	294.36	304.58
Al-Baraka Islamic Bank	424.04	445.08	308.12	360.53	137.84	347.74	298.26
Bank Islami	62.78	117.91	142.05	123.27	198.38	248.35	262.10
Dubai Islamic Bank	-	77.01	151.53	209.68	193.02	195.66	197.58
Burj Bank	-	149.94	197.02	165.00	123.91	192.16	224.39

The profit to expenditure ratio of the whole Islamic banking industry seems to be not favorable in the year 2009 and 2010, while it grows and show some profitability in the last two years. As the industry going through the initial phase of emergence its performance with respect to profit to expenditure is declined over the years. This doesn't mean the industry is in poor condition to challenge the conventional system of banking. The decline was seen due to massive increase in expenditures local transportation and car running and service charges but profit does not increase with the same ratio therefore increase is lesser as compared to previous year's. As we can see from the latest FY 2012-13 facts and figures of SBP that the Islamic financial industry is growing in size and deposits, comparative to the previous year findings.

Profit-Expenditure Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	58.79	54.60	22.90	29.65	36.37	55.36	48.93
Al-Baraka Islamic Bank	54.90	73.19	-12.77	-39.72	-65.17	21.30	-30.57
Bank Islami	-5.24	-7.25	-5.12	-27.73	2.43	18.50	18.02
Dubai Islamic Bank	-	-25.39	-10.12	13.04	0.38	8.05	12.02
Burj Bank	-	30.63	7.54	-42.66	-52.52	77.04	62.84

Profit – Loanable Fund ratio shows some what a similar pattern like of Profit – Expenditure ratio. The ratio decrease in 2008 from the early years due to lesser increase in profit during the year but loanable fund is increase massively during the year. However, the banks are now getting profits more from the past, and the ratio is showing improvement in the coming years.

Profit-Loanable Fund Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	1.56	1.69	0.84	0.94	1.20	1.89	1.41
Al-Baraka Islamic Bank	0.92	1.34	-0.36	-1.13	-2.00	0.65	0.98
Bank Islami	-0.46	-0.37	-0.42	-1.74	0.12	0.80	0.62
Dubai Islamic Bank		-2.29	-0.71	0.81	0.02	0.47	0.63
Burj Bank		1.77	0.64	3.71	4.14	4.58	2.59

Profit – Employed Fund ratio of the Islamic banks has been improved over the years except Al-Baraka Islamic bank. Al-Baraka bank shows negative trend due to the more advances employed to their employees in the years 2008-12, comparative to the industry ongoing positive average.



Profit- Employed Fund Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	1.59	1.65	0.82	0.95	1.24	1.93	1.43
Al-Baraka Islamic Bank	0.94	1.36	-0.35	-1.13	-2.00	0.65	-1.00
Bank Islamic	-0.31	-0.34	-0.38	-2.08	0.12	0.81	0.63
Dubai Islamic Bank	-	-2.33	-0.70	0.79	0.02	0.46	0.61
Burj Bank	-	0.86	0.40	2.59	3.73	3.87	2.44

Project Efficacy Test

Meezan bank is on top in this test, Al-Baraka Islamic bank secure second number in this test, Dubai Islamic bank secure third number in this test, Burj Bank secure fourth place in this test and Bank Islami Secure fifth number in this test in Islamic banking sector of Pakistan, as shown in the below table performance measurements.

Loan Recovery Test

Loan recovery test, also called bad debt ratio, is used to calculate the percentage of bad debts to the accounts receivable. It is depicted from the analysis for Meezan Bank Ltd, that its bad debt ratio has been increased from the year 2006 to 2010, and reached at its peak in the FY'10. This is similar to the ratios of Burj bank limited, Dubai Islamic bank and Al-Baraka Islamic bank. Bad Debts ratio for Bank Islami Pakistan is 0.04%, 0.27%, 1.16%, 1.04%, 0.99% in 2006,2007,2008,2009 and 2010 respectively. From the year 2010, the ratio of loan recovery keep on declining for all the banks which means banks have regulated more strict policies to recover the bad debts.

Loan Recovery Test (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	0.65	1.18	1.89	2.73	3.38	2.99	2.38
Al-Baraka Islamic Bank	1.24	1.47	1.70	3.30	3.95	-0.36	1.25
Bank Islami Pakistan	0.04	0.27	1.16	1.04	0.99	0.50	0.26
Dubai Islamic Bank Pakistan	-	0.64	1.00	1.31	1.67	1.36	1.53
Burj Bank Pakistan	-	0.03	0.07	2.38	4.87	1.02	0.42

Test of Elasticity in Loan Financing

Discussion and panel interviews with the executives and head of departments of the Islamic banking sector of Pakistan reveal this fact that mechanism is still less elastic. Not any single bank but the whole Islamic banking sector in the Pakistan is facing these problems e.g. lack of suitable modes in meeting call loan demands as well as working capital needs of the entrepreneurs. This is still less elastic because most of the customer of conventional banking to whom we approach they just ask us can you give us running finance and call loan? There is no answer to this question. Only 5 % of conventional banking customer is satisfied with us whom we are offering our products, rests are not fully satisfied with our products. So there should be any product like running finance and call loan so Islamic banking can grow massively.



Operational Efficiency of the Islamic Banks

Investment to Administrative Cost Ratio

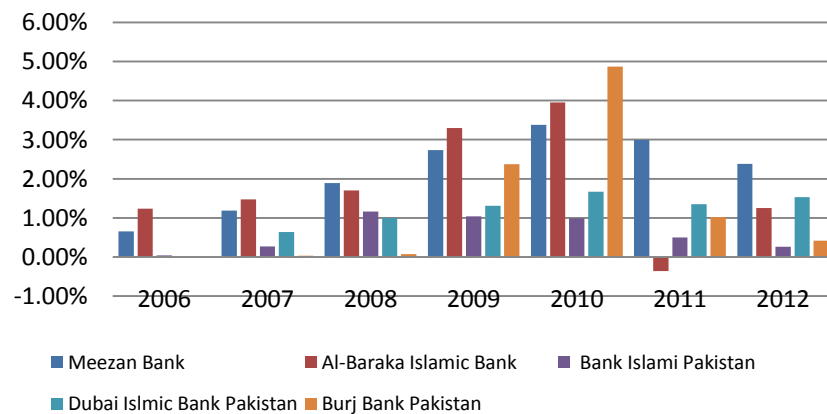
The investment to administrative cost ratio is decreased over the years for the Islamic banks except Bank Islamic Pakistan. This ratio is showing declining trend due to bad economic condition of the country and the global financial economy crisis in the 2008-09. Overall, the ratio of Al-Baraka bank and Bank Islami is better than the competitive Islamic banks in the region.

Investment to Administrative Cost Ratio (in Rs '000')							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	37.16	33.27	28.69	30.47	29.94	29.42	34.13
Al-Baraka Islamic Bank	58.72	53.97	35.99	35.42	34.45	32.93	32.15
Bank Islamic Pakistan	18.25	22.49	13.56	13.42	20.23	35.96	38.32
Dubai Islamic Bank Pakistan	-	8.83	17.84	16.70	16.10	16.73	19.86
Burj Bank Pakistan	-	35.80	18.91	16.45	14.54	20.03	25.68

Per Employee Administrative Cost

The administrative cost per employee is well managed and maintain by Meezan bank and Al-Baraka bank, averaging Rs. 1070.17; whereas Burj bank and Dubai Islamic bank employees administration cost almost doubled to the former banks. All these banks have maintained a balanced per employee administrative cost over the financial years.

Per Employee Administrative Cost (in Rs.)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	736.49	796.26	828.58	942.63	1002.20	1216.04	1208.22
Al-Baraka Islamic Bank	853.16	920.36	1258.65	1333.96	1141.14	1165.08	1006.64
Bank Islami	616.64	872.42	865.52	1193.41	1407.18	846.68	1040.39
Dubai Islamic Bank	-	1805.73	1759.97	1752.51	2116.73	1783.33	1636.68
Burj Bank	-	1865.16	1972.71	1527.12	2085.82	1499.20	1055.07





In operational efficiency test, Meezan bank is on top in whole Islamic banking sector of Pakistan. Al-Baraka Islamic Bank is on second number, Bank Islami is on third, Dubai Islamic Bank is on fourth number, and Burj Bank is on number fifth number in the whole Islamic.

Allocative Efficiency of the Islamic Banks

Meezan Bank Limited short term financing remains 4.54%, 3.01%, 0.99%, 1.97% and 3.20% of total allocation of resources in 2006, 2007, 2008, 2009 and 2010. Term financing remains 18.10%, 12.28%, 13.19%, 9.57% and 11.52% of total allocation of resources in 2006, 2007, 2008, 2009 and 2010. Trade Financing accounts 20.31%, 20.34%, 19.03%, 19.64% and 10.91% of total allocation of resources in 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010. Investment in government securities is 1.26%, 1.85%, 3.34%, 5.11%, and 11.08% of total allocation of resources in 2006, 2007, 2008, 2009, 2010. Investment in other institutions is 55.78%, 62.52%, 63.44%, 63.70% and 63.29% of allocation of resources in 2006, 2007, 2008, 2009 and 2010. Al-Baraka Islamic Bank Pakistan short term financing is 14.20%, 11.87%, 9.59%, 13.67%, and 6.21% in 2006, 2007, 2008, 2009 and 2010. Term financing is 8.76%, 10.32%, 9.99%, 8.31%, and 18.38% in 2006, 2007, 2008, 2009 and 2010. Trade Financing is 21.82%, 21.55%, 22.62%, 22.22%, and 14.82% in the respective years. Investment in government securities is nil during the years, while investment in other account 55.22%, 56.27%, 57.80%, 55.81% and 60.59% in 2006, 2007, 2008, 2009 and 2010. Bank Islami financing and investment activities are somehow same as that of the Al-Baraka Islamic bank, as shown in the table. Burj Bank is new in the Islamic banking system and has gain much share in term and trade financing activities. Short term financing is 3.16%, 3.12%, 5.12% and 4.94% in 2007, 2008, 2009 and 2010 respectively. The term financing stands 48.03%, 59.30%, 52.43% and 57.08% in 2007, 2008, 2009 and 2010. Trade Financing is 44.04%, 32.53%, 38.81% and 33.03% in 2007, 2008, 2009 and 2010 respectively. Investment in government securities is nil during the years. Dubai Islamic Bank Short Term Financing 8.86%, 12.52%, 8.44% and 10.24% in 2007, 2008, 2009 and 2010 respectively. Term Financing is 73.60%, 69.82%, 66.61 and 59.23% in 2007, 2008, 2009 and 2010 respectively. Trade Financing is 16.56%, 16.77%, 22.12% and 19.29% in 2007, 2008, 2009 and 2010 respectively. Investment in others is 0.99% and 0.89% in 2007 and 2008 respectively and nil in 2009 and 2010.

In Allocative efficiency test Dubai Islamic Bank is on top, Burj Bank is second highest in allocative efficiency test, Bank Islami is third in allocative efficiency, Al-Baraka Islamic Bank fourth highest bank in allocative efficiency test and Meezan Bank is fifth highest in allocative efficiency test in Islamic banking sector of Pakistan.

Distributive Efficiency of the Islamic Banks

Gross Profit-Income Ratio

The gross profit-income ratio is used as one indicator of a business's financial health. The higher the ratio, the more efficiently the organization is operating. The ratio of Meezan bank gradually increases from 2006-2008, but from onwards it shows downward behavior. Al-Baraka bank gross margin remains below the industry average for all the years. Bank Islami enjoys higher profit income ratio in 2006, but in the later years the ratio is equals the Islamic banking sector average profit-income ratio.



Gross Profit-Income Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	45.86	46.39	54.60	50.80	46.25	44.53	43.74
Al-Baraka Islamic Bank	25.87	27.00	24.43	20.14	24.57	19.87	22.97
Bank Islami Pakistan	81.34	49.53	50.33	43.86	45.94	39.96	38.92
Dubai Islamic Bank Pakistan	-	58.09	49.43	50.48	47.70	50.54	51.80
Burj Bank Pakistan	-	76.82	52.83	42.51	42.51	40.09	32.01

Growth in Deposit

The deposits of Al-Baraka bank had increased 4 times more comparative to the industry average of 28% in the year 2010. This was the case for Bank Islami in the year 2009. The deposit growth rate of all the banks, remain near to the industry ongoing average rate.

Growth in Deposit (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	51.30	58.44	28.67	42.86	30.64	29.72	35.52
Al-Baraka Islamic Bank	0.00	22.74	8.09	23.45	17.90	24.80	21.79
Bank Islami Pakistan	0.00	458.73	25.61	124.29	36.48	32.38	26.99
Dubai Islamic Bank Pakistan	-	0.00	57.99	9.91	12.27	22.53	37.98
Burj Bank Pakistan	-	0.00	38.08	37.41	27.25	60.97	76.60

Growth in Advances

The growth in advance, like deposit growth rate, also increases for Al-Baraka Islamic bank at its highest level. Meezan bank advances growth shows up and down trend over the under study years. It remains almost stable for the year 2006 and 2007, in the year 2008 it decreased up to 29% and again in 2009 it raised up to 43%. Bank Islami, Dubai Islamic and Burj bank advances ratio decreased tremendously over the years.

Growth in Advances (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	56.99	53.67	28.98	42.73	24.17	31.25	40.06
Al-Baraka Islamic Bank	0.00	17.95	13.98	21.06	108.33	21.04	19.76
Bank Islami Pakistan	0.00	315.89	26.19	69.04	51.88	32.24	29.56
Dubai Islamic Bank Pakistan	-	0.00	63.96	11.07	17.13	23.80	35.31
Burj Bank Pakistan	-	0.00	38.08	37.41	27.25	51.64	58.23

Financing to Deposit Ratio

Financing to deposit ratio is used to assess a bank's liquidity by dividing the banks total loans by its total deposits. The higher the ratio means the bank might not have enough liquidity to cover any unforeseen fund requirements. This ratio is higher for Dubai Islamic bank in the year 2010 and for the Burj bank limited for the years 2007-08 respectively. Bank Islami ratio in 2009 is around 38.26% indicating that the bank may not be earning as much as they could.

Financing to Deposit Ratio (in %age)							
Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	79.16	64.58	58.19	44.09	44.29	41.39	38.48
Al-Baraka Islamic Bank	71.45	75.35	80.26	68.55	58.43	47.36	45.49
Bank Islami Pakistan	54.00	40.19	53.59	38.26	44.50	48.78	42.72
Dubai Islamic Bank Pakistan	-	71.05	72.00	74.91	74.23	180.84	166.98
Burj Bank Pakistan	-	128.97	111.50	73.72	49.36	61.11	65.06



Stabilization Efficiency of the Islamic Banks

Bank Islami is on number 1st in stability according to this test one of the reason is they are very rigid in financing. Emirates Global Islamic bank is on number 2nd in stability according to this test. Dubai Islamic Bank is on number 3rd in stability according to this test. Meezan Bank is on number 4th in stability according to this test. Burj Bank is on number 5th in stability according to this test. Al-Baraka Islamic Bank is on number 6th in stability according to this test.

Bank Islami is highest in stabilization efficiency test, Emirates Global Islamic Bank is second highest in stabilization efficiency test, Dubai Islamic Bank is third highest in stabilization efficiency test, Meezan Bank is fourth highest in stabilization efficiency test, Burj Bank is fifth highest in stabilization efficiency test, Al-Baraka Islamic Bank is sixth highest in stabilization efficiency test in whole Islamic banking sector of Pakistan.

Banks/Years	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	0.65	1.18	1.89	2.73	3.38	2.99	2.38
Al-Baraka Islamic Bank	1.24	1.47	1.70	3.30	3.95	-0.36	1.25
Bank Islami Pakistan	0.04	0.27	1.16	1.04	0.99	0.99	0.50
Dubai Islamic Bank	-	-	0.64	1.00	1.31	1.67	1.35
Burj Bank	-	-	0.03	0.07	2.38	4.87	1.02

Problems of Islamic Banking Industry of Pakistan

Islamic Banking is facing hard challenges in the world as well as Islamic Banking sector of Pakistan is also facing different problem at micro and macro level of operations. First of all they face lack of short term market where they place their surplus funds. There is no such interest free mechanism for employment of fund in Islamic Banking sector. These banks also face the problem in consumer financing and as well as financing government budgets.

Secondly, risk is so high which is faced by Islamic banking sector in profit-sharing nearly altogether of the Islamic banks in Pakistan invest into a sector which gave them stable return. By way of outcome, People criticize that Islamic banking is only the change of name of conventional banking.

Thirdly, SBP does not gave them Islamic banks any kind of lawful support the Islamic banks do not have the lawful support ,the essential know-how and proficient human resources to measure, display, for the finance project audit these essentials know how and proficient human resources are required. By way of outcome, they cannot inflate despite having gigantic excess financial liquidity.

Following are the list of the issues which Islamic Banking Sector of Pakistan is facing includes:

1. Macro Operational Difficulties of the Pakistan Islamic Banking Industry

- Liquidness and Capital: There is a problem of liquidity in Islamic banking sector of Pakistan due to lack of short term money market specifically for Islamic banking sector.
- Valuation of bank Assets: The assets of the banks mentioned on financial statements usually highly risky due to chances of risk because the asset which is



mentioned on the statement can be default so the valuation of asset is another problem.

- **Financial Stability:** Financial Stability is another problem for Pakistan due to bad government policies and load shedding due to this financial stability is hurt badly in last few years. For example due to load shedding our industry will have to bear extra cost for arranging alternative source of electricity that increase the per unit cost of the industry that hurt while competing in international market so that will decrease our export so our balance of payment will be negative. On the contrary government revenue will also decrease so budget deficit will also decrease.
- **Lack of human resources for Islamic Shariah banking:** Islamic banking sector does not have qualified Islamic banking professionals. The State Bank of Pakistan do not have the essential know-how and proficient manpower to evaluate, display, value an audit the projects that are required to finance. As a result, they cannot inflate despite having gigantic excess financial liquidity.
- **Global Awareness Campaign:** There is need a of awareness campaign in international financial and non-financial sector.
- **Severe Competition in the Financial Sector:** There is a severe competition in financial sector there is more than 30 conventional banks are operating in Pakistan.
- **Economic go-slow and Political Situation of the Country:** Another big problem in Pakistan is economic slowdown and political instability in the country which hurt the banking sector very badly.
- **Defaulting Culture of the Borrowers:** Another defaulting culture of the borrowers in Pakistan is another macro problem. In current days borrowers invest their money in those sectors which ultimately end up with bad debts lack of entrepreneurs in the country is also lead to bad debts.
- **Absence of Uniformity in Operation's Processes:** Due to absence of uniform operational procedure customer are facing difficulties to understand the procedures and policies of Islamic banking sector and lack of awareness is of Islamic banking system is a big hurdle.

2. Micro Operational Difficulties of the Pakistan Islamic Banking Industry

- **Higher Cost related to Information:** This Cost increase in current era bank face difficulties while collecting the information about the financed projects.
- **Control over Cost of Funds:** Due to bad economic condition as well as severe competition bank has to pay more profit to the depositor to attract the depositor. So the cost of fund would increase.
- **Usage of Interest Rate for the Profit Margin:** Islamic banks used conventional bank interest rate for determine profit margin on Bai modes which is contradictory up to some extent and criticize by some Islamic bankers.
- **Absence financing of Islamic bank to Government:** Government does not want to take financing from Islamic banking sector based on Shariah if government support Islamic banking sector then that would be helpful for Islamic bank.
- **Islamic Banks failed to Finance Higher Profitable Projects:** Islamic banks fail to finance high returns projects because Islamic banks share profit therefore large organization prefer conventional banking sector rather than borrowing from Islamic banking sector. Conventional banking sector charge fixed mark up.



- **Sacrifice of Allocative Efficiency:** Islamic banking sector sometime allocate their resources in less productive sector which sacrifice the allocative efficiency.
- **Loss of Distributive Efficiency:** Distribution of resources is compromise by the Islamic banking sector which ultimately affects the distributive efficiency of the Islamic bank.
- **Lack of Full-fledged Shariah Audit:** Islamic banking sector does not have full-fledged Shariah audit which is hurdle in rapid growth of Islamic banking sector.
- **Minimum Budget for Research and Development:** Islamic banking sector of Pakistan is not allocating handsome amount of money in research and development therefore product development is very slow in Islamic banking sector.
- **Absence of Linkage between Training Institutes and Shariah Bodies:** In Pakistan there is a lack of linkage between training institutes and Shariah supervisory bodies in the country. If linkage is established then it would be beneficial for whole Islamic banking sector of Pakistan.

Recommendations and Suggestions

- **Re-structure the financial System:** There is need to re-organize the whole capitalistic financial system of the world and launch Islamic reforms which based on Islamic shariah. Need of the time is follow Islamic finance as globally a movement has been started namely “Banked like a Islamic way” Islamic banking is showing excellent performance despite of working beneath the traditional banking structure.
- **Future Policy and Strategy:** Islamic banks should launch awareness campaign about the actual concept of Islamic banking and develop Islamic banking in the mind of public as a PLS mode banking because public perceive Islamic banking as same as conventional banking system.
- **Stepping for Distributional Efficiency:** Distribution of resources is compromise by the Islamic banking sector which ultimately affects the distributive efficiency of the Islamic bank. Islamic banks develop such distributional policy for their resources which able Islamic banks to become profit and loss sharing banks and convert banking into PLS mode banking. Bank should be selective in deciding about the borrowers.
- **Promotion of Allocative Efficiency:** Islamic banking sector sometime allocate their resources in less productive sector which sacrifice the allocative efficiency. Islamic banks can mend allcative efficiency by investing their fund in priority sectors i.e. agriculture, Garments, Small and cottage industry and in those avenues where efficiency can’t be compromise and keep in mind the profitability when devising the policy about the priority sector for investable funds.
- **Modern banking Policies and Practices:** Islamic banking sector has to develop such a policies which are aligning to modern banking practices because survival under the conventional banking framework would not be possible without the modern banking policies.
- **Development of New Products:** Islamic banks must develop a product like running finance and call loan because almost all the banks facing difficulty while targeting conventional banking customers. If any product same like running finance is develop then it would change the pace of growth of Islamic banks.



Conclusion

Overall, Meezan Bank is on highest position in these banking efficiency models test, Dubai Islamic Bank is on 2nd highest in these tests, Al-Baraka Islamic Bank is on 3rd number, Burj Bank is on 4th number in this test and Bank Islami is on 5th number in this test.

In Operational Efficiency test Meezan Bank is on top in whole Islamic banking sector of Pakistan. Al-Baraka Islamic Bank is on second number, Bank Islami is on third, Dubai Islamic Bank is on fourth number, and Burj Bank is on number fifth in the whole Islamic banking sector of Pakistan.

In Allocative efficiency test Dubai Islamic Bank is on top, Burj Bank is second highest in allocative efficiency test, Bank Islami is third highest in allocative efficiency, Al-Baraka Islamic Bank fourth highest bank in allocative efficiency test and Meezan Bank is fifth highest in allocative efficiency test in Islamic banking sector of Pakistan.

Bank Islami Pakistan is secure 1st highest position in Distributive Efficiency test, Meezan Bank is secure 2nd highest position in Distributive Efficiency test, Burj Bank Pakistan is secure 3rd highest position in Distributive Efficiency test, Dubai Islamic Bank Pakistan is secure 4th highest position in Distributive Efficiency test, and Al-Baraka Islamic Bank is secure 5th highest position in Distributive Efficiency test in Islamic banking sector of Pakistan.

Bank Islami is highest in stabilization efficiency test, Dubai Islamic Bank is second highest in stabilization efficiency test, Meezan Bank is third highest in stabilization efficiency test, Burj Bank is fourth highest in stabilization efficiency test and Al-Baraka Islamic Bank is fifth place in stabilization efficiency test in whole Islamic banking sector of Pakistan.

According to the banking efficiency model five test criteria rating for the Islamic banking sector would be Meezan Bank will be on top followed by Bank Islami, Dubai Islamic Bank, Burj Bank and Al-Baraka Islamic Bank respectively.

Current performance Islamic banking sector of Pakistan is satisfactory under this condition of the financial system but Islamic banks can serve more proficient then currently they are serving if they are buoyed with apt banking laws and regulations. If this would happened As a result very soon they will launch PLS modes of processes, which are very much encouraging to economic growth. Islamic banking sector is working efficiently under conventional banking system and applying PLS mode. There is no need to restructure the whole wheel. All the effort should be made to transform conventional accounting theory to make it attuned with Islamic Shariah. This will save vitality and phase which should be expended over the progress of new Islamic modes of financing and improving the overall operations of Islamic economic and banking system.

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Appendix

Project Efficacy Ratio Test

Indicators / Bank	Burj Bank Limited	Bank Islami Limited	Al-Baraka Islamic	Meezan Bank Limited	Dubai Islamic Bank
Project Selection Preferences	Textile Sector affected; Commodity market which include Sugar, rice and wheat; Prefer to lend Government based entities.	Finance all the businesses which are according to Shariah.		No preference policy in specific sector exposure but lend every sector which are doing business	Make the policy year wise which sector have to finance; Define the exposure of the financing accordingly particular sector expected growth
Policy	Follow push policy they lend those borrowers whose Bargaining power is high. So the recovery of loan to that customer is very easy.	Prefer push policy because recovery of loan is very easy but also go for pull policy after securing the investment.			Have no defined policy which customer they have to target either Push or Pull.
Lending limit	Lend 25 % of equity	Lend 30 % of equity	Lend 25 % of equity		Lend 25 % of equity
Pre Financing Appraisal of Projects	Financial Analysis (Net Worth, Current Ratio, Profit Margin, Adjusted Leverage, ROCE) Business Analysis (Industry Potential, Ownership, Years in Business, Strength of Sponsor's, External Rating, Internal Control) Other Factors (Quality of Financial Reporting, CIB Report, Credit Relationship with Bank)	Use the data of cash flow statement, Balance Sheet and profit and loss account. Other pre financing appraisal method are same as other banks	Risk Appraisal; Financial Spreadsheet; Ratio Analysis; PR Compliance Sheet; Visit Report	Development impact and focus on the majority Innovation; Responsiveness to need; Sustainability; Organizational capacity; Quality and feasibility of the proposal; Financial Spreadsheet; Risk Appraisal; Ratio Analysis; Market Report; CIB Reports; Physical Information	Cash flow Statement; Balance Sheet; Profit and Loss Account; Credit rating Score Card; Business Analysis; Financial Analysis
Post Financing Supervision	Stock Movement Report; Market Share; Word of Mouth; Physical Visits of Site;	For supervision bank nominate independent agent. Bank personnel also physically visit and inspect the project.	Stock Movement Report; Market Share; Physical Visits of Site; Other bank reports about our client	Stock Movement Report; Market Share; Word of mouth Physical Visits of Site; Other bank reports about our client	Word of Mouth; Stock Movement Report; Market Share; Other bank reports about our client; Physical Visits of site
Built Mechanical Linkage to the Financed Projects	Built into a process from the very start with its financed projects & implementing different methods to check their linkages with projects.	Don't have any sector preferences in lending.	Have no built-in mechanical linkage of the bank with its finances projects.	Built-in mechanical linkage of the bank with its finances projects.	



Allocative Efficiency of the Islamic Banks

Meezan Bank Limited					
	2006	2007	2008	2009	2010
Short term financing (TDR)(MC)	4.52%	2.99%	0.99%	1.96%	3.18%
Term financing (Musharaka, Hire Purchase) (M)	18.42%	12.50%	13.36%	9.86%	11.85%
Trade financing (Murabaha, Bai-muajjal) (MA)	20.19%	20.22%	18.94%	19.51%	10.81%
Investment in Govt. Securities Term Bills other approved securities (C)	1.25%	1.84%	3.33%	5.07%	10.98%
Others (A)	55.62%	62.45%	63.38%	63.60%	63.18%

Al-Baraka Islamic Bank Pakistan					
	2006	2007	2008	2009	2010
Short term financing (TDR)(MC)	14.20%	11.87%	9.59%	13.67%	6.21%
Term financing (Musharaka, Hire Purchase) (M)	8.76%	10.32%	9.99%	8.31%	18.38%
Trade financing (Murabaha, Bai-muajjal) (MA)	21.82%	21.55%	22.62%	22.22%	14.82%
Investment in Govt. Securities Term Bills other approved securities (C)	0.00%	0.00%	0.00%	0.00%	0.00%
Others (A)	55.22%	56.27%	57.80%	55.81%	60.59%

Bank Islami Limited					
	2006	2007	2008	2009	2010
Short term financing (TDR)(MC)	14.74%	13.14%	7.68%	3.41%	0.61%
Term financing (Musharaka, Hire Purchase) (M)	11.66%	32.84%	31.91%	29.11%	14.87%
Trade financing (Murabaha, Bai-muajjal) (MA)	14.38%	6.26%	8.25%	10.86%	12.21%
Investment in Govt. Securities Term Bills other approved securities (C)	4.66%	0.00%	0.00%	0.00%	10.45%
Others (A)	54.56%	47.76%	52.16%	56.63%	61.85%

Burj Bank Limited					
	2006	2007	2008	2009	2010
Short term financing (TDR)(MC)	-	3.16%	3.12%	5.12%	4.94%
Term financing (Musharaka, Hire Purchase) (M)	-	48.60%	60.09%	52.97%	57.08%
Trade financing (Murabaha, Bai-muajjal) (MA)	-	44.04%	32.53%	38.81%	33.03%
Investment in Govt. Securities Term Bills other approved securities (C)	-	0.00%	0.00%	0.00%	0.00%
Others (A)	-	4.21%	4.26%	3.10%	4.95%



Dubai Islamic Bank					
	2006	2007	2008	2009	2010
Short term financing (TDR)(MC)	-	8.86%	12.52%	8.44%	10.24%
Term financing (Musharaka, Hire Purchase) (M)	-	73.60%	69.82%	66.61%	59.23%
Trade financing (Murabaha, Bai-muajjal) (MA)	-	16.56%	16.77%	22.12%	19.29%
Investment in Govt. Securities Term Bills other approved securities (C)	-	0.00%	0.00%	2.83%	11.24%
Others (A)	-	0.99%	0.89%	0.00%	0.00%

