Rise of Islamic Banking in Pakistan

By

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(2024)

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A thesis submitted to the National University of Sciences and Technology, Islamabad,

in partial fulfillment of the requirements for the degree of

Executive Masters in Business Administration

Supervisor: Mrs Fizza Khan.

NUST Business School

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(2024)

BUSINESS PROJECT ACCEPTANCE CERTIFICATE (NBS)

It is Certified that final copy of EMBA Business Project written by Syed Basil Balki Registration No. 400849 of EMBA 2K22 has been vetted by undersigned, found complete in all aspects as per NUST Statutes/Regulations/MS Policy, is free of errors, and mistakes and is accepted as fulfillment for award of EMBA degree. It is further certified that necessary amendments as pointed out by GEC members of the scholar have also been incorporated in the said business project.

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AUTHOR’S DECLARATION

I Syed Basil Balkhi hereby state that my EMBA Business Project titled “Rise of Islamic Banking in Pakistan” is my own work and has not been submitted previously by me for taking any degree from National University of Sciences and Technology, Islamabad or anywhere else in the country/ world.

At any time if my statement is found to be incorrect even after I graduate, the university has the right to withdraw my EMBA degree.

Name of Student: Syed Basil Balkhi

Date: 05.12.2024

Contents

Research approach and Objectives

Reasons for topic of Choice

My expertise in the financial services industry, which has given me a strong foundation in Islamic banking principles and their increasing importance, is the main factor for my decision to do a research and analysis project on the topic of "The Rise of Islamic Banking in Pakistan." The government's backing and rising customer demand for financial products that adhere to Sharia law have helped Pakistan's Islamic banking sector flourish recently. With a goal of 35% by 2025, regulatory organizations like the State Bank of Pakistan (SBP) are dedicated to growing the proportion of Islamic banking in the nation's financial system.

Furthermore, the banking industry will be greatly impacted by the recent Federal Shariat Court verdict, which mandates a transformation to interest-free banking by 2027. Major players like Meezan Bank and Bank Islami have increased activities as a result of this historic ruling, forcing the public and private financial sectors to more strictly adopt Sharia-compliant processes. This study will investigate how these legal and regulatory developments have affected the expansion of Islamic banking, how industry participants have adjusted their strategies, and what obstacles they have to overcome to reach these lofty goals.

Research Objectives:

This research focuses on examining the rise of Islamic Banking in Pakistan, analyzing its performance relative to conventional banking and other major players in the Islamic banking sector. This project will evaluate the growth, resilience, and strategic direction of Islamic banking using various analytical frameworks to explore both financial and non-financial aspects. The specific objectives include:

1. Measure Islamic Banking Total Industry Share and Growth.
2. Measure performance of selected Islamic Banks to further measure specific growth.
3. Compare Performance of selected Islamic banks with close conventional alternates.
4. Conversion of Faisal Bank and its implications considering recent Federal Shariat Court verdict.
5. Future Outlook for the Industry.

Research Approach

All research was carried out in accordance with the supervisor's recommendations, and they were consulted during every key process and on all data used during the study period. The inquiry mostly relied information from secondary sources. The following materials were all saved for later use: newspapers, web stories, independent company analysis reports, etc.

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Brief History of Islamic Banking

The foundation of Islamic banking is found in the more than 1,400-year-old Islamic teachings that emphasize justice and equity. Since riba (interest) is exploitative, the Quran forbids it. Instead, traditional Islamic transactions encouraged investments based on risk-sharing and partnerships. Researchers and economists, however, began working to codify an interest-free financial framework that would fit with pre-existing banking arrangements in the middle of the 20th century, which marked the beginning of contemporary Islamic banking.

The first example of modern Islamic banking was Mit Ghamr Savings Bank, which was founded in Egypt in 1963 and operated on a profit-sharing model without charging interest. Its success led to the establishment of full-fledged Islamic banks in several Middle Eastern, Southeast Asian, and North African countries, including Saudi Arabia, Malaysia, and the United Arab Emirates. An important step was the creation of the Islamic Development Bank (IDB) during 1975, which also set up nationwide expansion.

Entry of Islamic Banking in Pakistan:

In an effort to integrate Islamic principles into the national economy, Pakistan began experimenting with Islamic banking in the late 1970s under President Zia-ul-Haq's rule. In 1979, Zia made measures that permitted interest-free funding in some businesses and pushed banks to adopt profit-and-loss sharing plans. This initial stage was met with differing levels of success because of a lack of awareness, regulatory backing, and the ongoing importance of traditional banking practices.

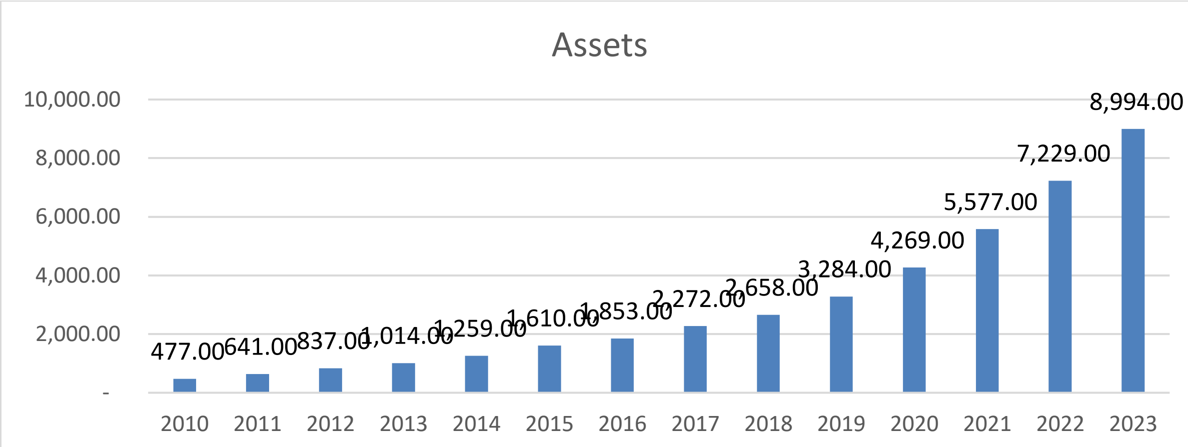
A second round of Islamic banking reforms occurred in the early 2000s. The State Bank of Pakistan (SBP) created a dedicated Islamic Banking Department and a regulatory framework in 2002 to aid in the establishment and operation of Islamic banks. Consequently, Meezan Bank, Pakistan's first fully Islamic bank, was founded. It gained popularity right away and was used as a model by other banks. Traditional banks, such as Bank Al Habib and Allied Bank, expanded Sharia-compliant financial services and opened Islamic banking branches nationwide in reaction to Meezan's popularity.

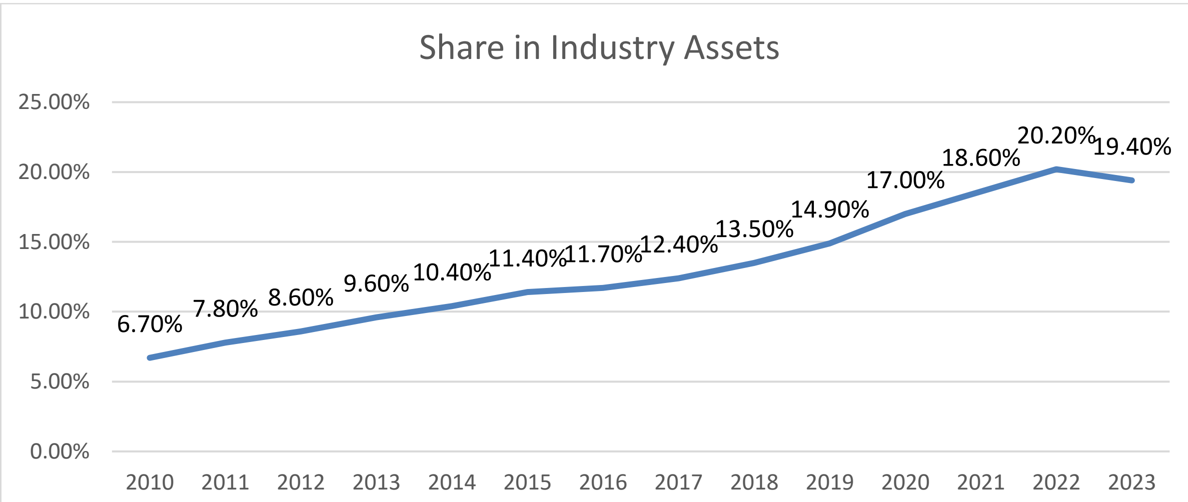
Government support and the SBP's regulatory framework were essential in building public trust and growing Islamic banking. A nationwide shift to an interest-free economy by 2027 was mandated by the Federal Shariat Court in 2022. The ruling has had a significant positive impact on Islamic banking; institutions such as Meezan Bank and Bank Islami are rapidly expanding and advancing in line with Sharia law.

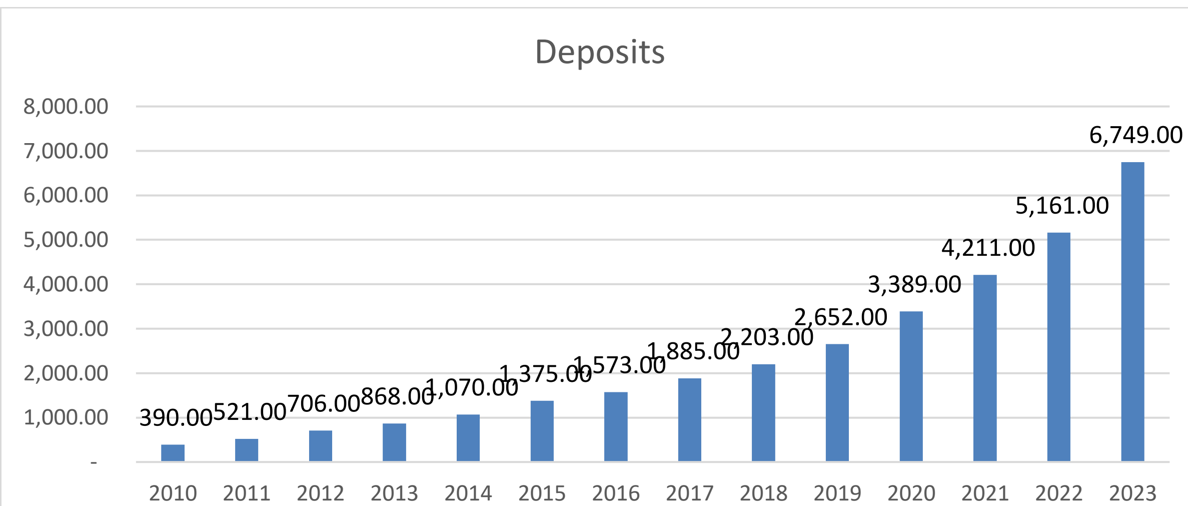
This timeline illustrates Pakistan's continuous shift towards a dual banking system and the steady trend towards making Islamic banking a key tenet of the financial sector, driven by public demand, regulatory backing, and a clear mandate from the country's legislative framework.

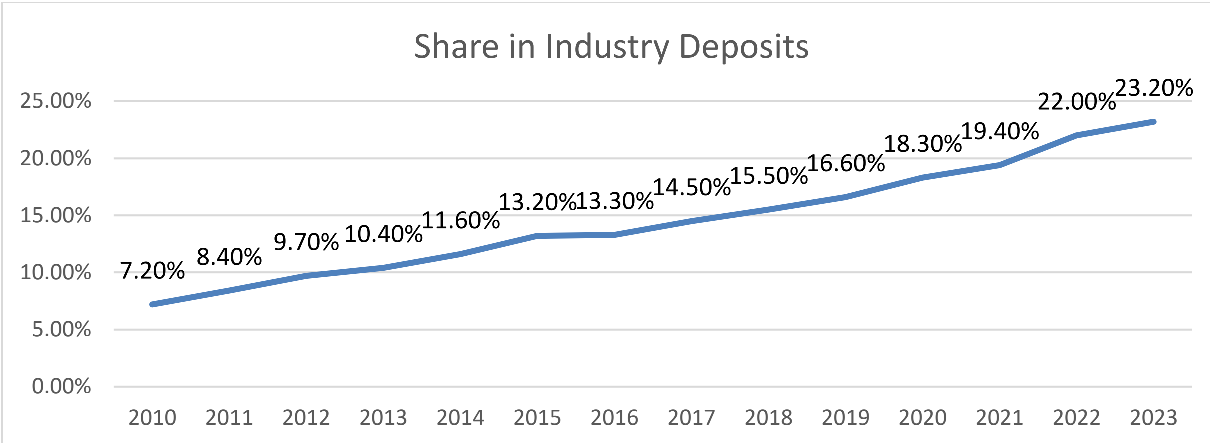
(Usmani, 2015), (State Bank of Pakistan , 2007), (Mushtaq, 2024)

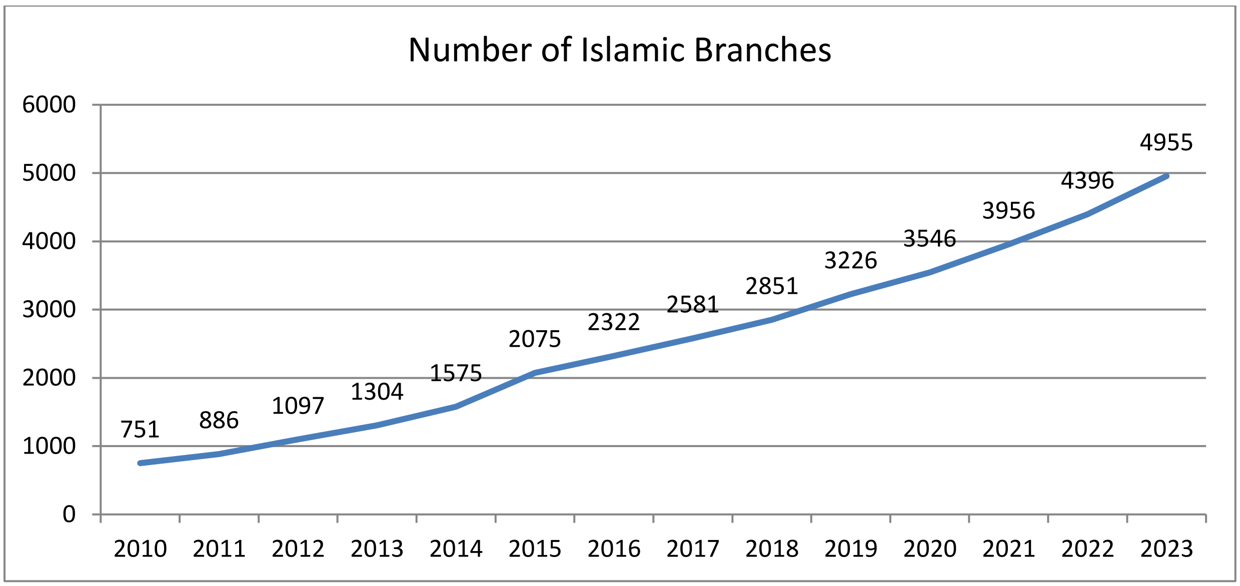
Islamic Banking Industry Position as on DEC 2023 when compared to DEC 2010











(Statebank of Pakistan, 2023), (Pakistan Credit Rating Agency , 2024),

1. Growth in Assets and Deposits

2010: The Islamic banking sector's total assets were PKR 477 billion, constituting a 6.7% market share in the banking industry. Deposits amounted to PKR 390 billion, with a share of 7.2% in the overall industry.

2023: Islamic banking assets surged to PKR 8,994 billion, representing a 19.4% share, while deposits reached PKR 6,749 billion, capturing 23.2% of the market.

Analysis: The industry experienced exponential growth, with assets and deposits increasing over tenfold in just over a decade. This remarkable expansion reflects rising consumer demand and a supportive regulatory environment that boosted Islamic banking’s integration within the broader financial sector.

2. Branch Network Expansion

2010: Islamic banking had 751 branches, predominantly located in Punjab and Sindh, where 79% of branches were concentrated.

2023: The branch network has expanded to 4,955 branches, with an additional 1,922 Islamic banking windows.

Analysis: The significant expansion in branch networks underscores the sector's commitment to accessibility, reflecting a strategic focus on reaching underserved and rural communities. This geographic spread has likely contributed to the increase in market share and consumer adoption.

3. Growth in Investments and Products

2010: Sukuk issuances allowed Islamic banks to better use their liquidity, which led to a notable increase in investments in Islamic banking. This expansion was greatly aided by the implementation of GoP Ijarah Sukuk.

2023: Government-issued Sharia-compliant bonds are driving significant expansion in the sector, which still heavily relies on Sukuk investments. These investments currently make up a sizeable portion of the industry's total assets.
Analysis: Sukuk continues to be a crucial instrument that helps the Islamic banking industry satisfy the demands of both the public and private sectors for investment and liquidity. The sector's stability has probably been aided by consistent Sukuk offerings, which offer reliable investment opportunities even amid economic ups and downs. .

4. Financial Stability and Profitability

2010: Because Islamic banking is still in its infancy, its Return on Equity (ROE) and Return on Assets (ROA) were 5.2% and 0.6% lower, respectively, than those of conventional banks.

2023: Although specific profitability indicators for 2023 were not provided, the sector's growth and expanded market share show better financial standing and competitiveness.

Analysis: Upfront investments in branch expansions and initial operating costs were primarily responsible for the reduced profitability in 2010. By 2023, the sector has probably experienced more strong profitability, in line with the industry's larger increases in market share, thanks to established customer bases and mature financial products.

5. Opportunities and Difficulties

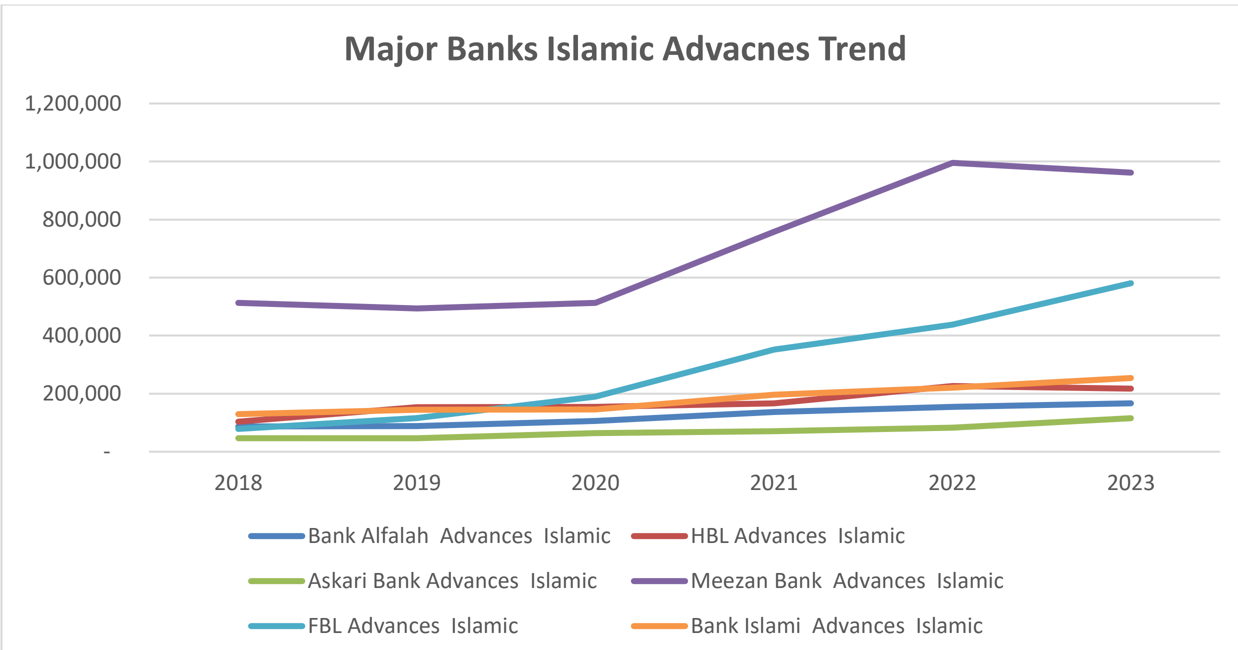
2010: A narrower range of financial products, decreased profitability, and low consumer awareness were among the difficulties. It was emphasized that unbanked people and underserved markets, such SMEs and agriculture, could be reached.

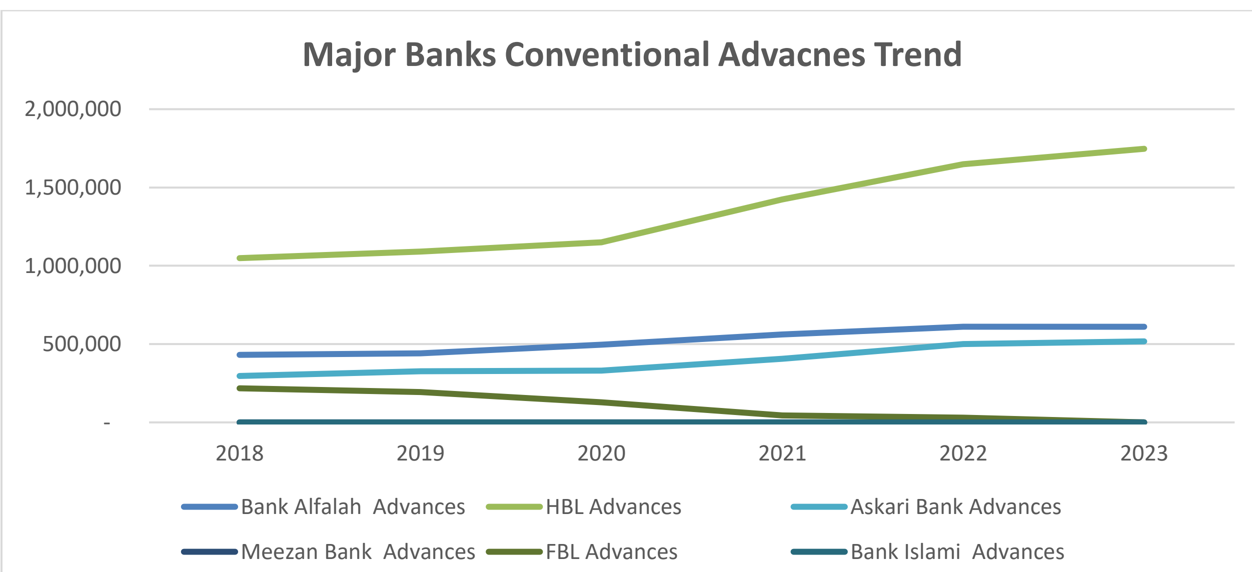
2023: The directive by the Federal Shariat Court to shift Pakistan's economy to an interest-free basis by 2027 is a game-changer. With the backing of the government and growing consumer confidence, Islamic banks are well-positioned to grow much more.

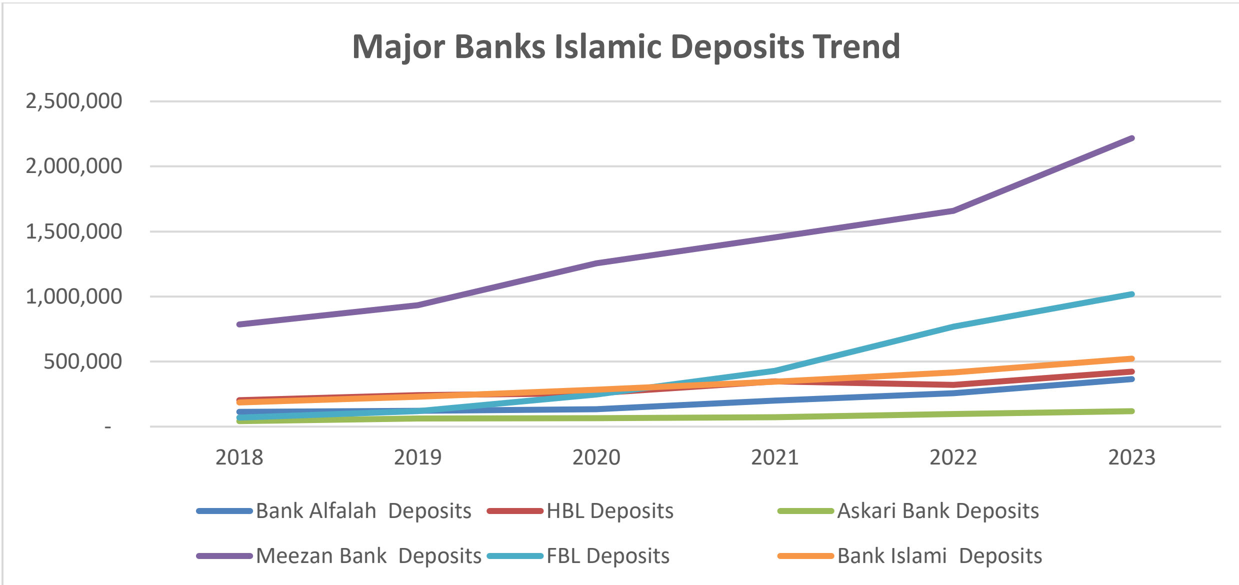
Analysis: 2010's early problems, such profitability and product awareness, have turned into chances for expansion. Islamic banking is becoming a mainstream financial service, especially for SMEs and rural areas, thanks to an inclusive framework that is being fostered by the regulatory environment and judicial support.

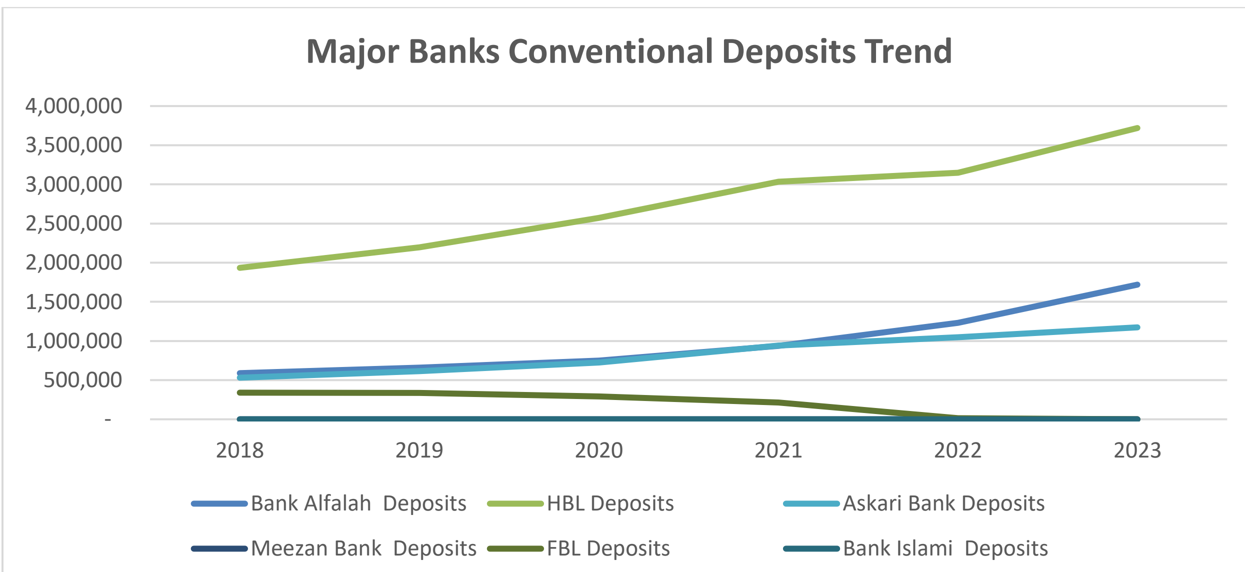
To Conclude:
By 2023, the Islamic banking industry in Pakistan has grown from a small niche in 2010 to a significant part of the financial system. Its branch network, deposits, and assets have all grown significantly, and its product offerings—such as Sukuk—have improved liquidity management. By 2027, there will be a complete transition to a Sharia-compliant financial model, indicating further expansion and establishing Islamic banking as a key component of Pakistan's banking system. (The Banker , 2024)

Islamic Banks/Divisions Financial Performance:






Major Banks Islamic Deposits Trend
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2018
2019
2020
2021
2022
2023
Bank Alfalah Deposits
HBL Deposits
Askari Bank Deposits
Meezan Bank Deposits
FBL Deposits
Bank Islami Deposits


Major Banks Conventional Deposits Trend
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2018
2019
2020
2021
2022
2023
Bank Alfalah Deposits
HBL Deposits
Askari Bank Deposits
Meezan Bank Deposits
FBL Deposits
Bank Islami Deposits

		Type	2018	2019	2020	2021	2022	2023
Bank Alfalah	Deposits	Conventional	589,354	660,261	748,730	938,655	1,231,174	1,719,600
		Islamic	113,541	122,023	133,037	200,390	255,671	365,397
	Advances	Conventional	431,337	441,129	495,225	562,302	610,960	610,313
		Islamic	87,055	88,842	105,674	136,771	154,733	166,974
HBL	Deposits	Conventional	1,934,046	2,195,049	2,572,957	3,035,103	3,149,459	3,719,643
		Islamic	203,247	242,548	257,414	346,895	319,883	422,709
	Advances	Conventional	1,048,833	1,090,003	1,150,991	1,423,898	1,648,221	1,746,942
		Islamic	103,600	153,319	154,418	167,092	226,447	217,714
Askari Bank	Deposits	Conventional	531,298	616,440	725,882	941,845	1,046,278	1,174,476
		Islamic	42,338	62,859	65,305	73,585	96,297	118,670
	Advances	Conventional	296,497	326,112	331,105	406,472	500,662	517,532
		Islamic	46,610	46,802	64,269	71,116	83,149	115,601
Meezan Bank	Deposits	Conventional	-	-	-	-	-	-
		Islamic	785,477	932,579	1,254,431	1,455,886	1,658,490	2,217,474
	Advances	Conventional	-	-	-	-	-	-
		Islamic	512,564	493,775	512,532	758,086	995,508	961,673
FBL	Deposits	Conventional	339,895	338,575	292,546	215,727	12,585	-
		Islamic	69,489	119,214	248,090	428,362	768,985	1,018,275
	Advances	Conventional	217,786	194,036	127,783	44,829	31,360	-
		Islamic	78,659	115,537	190,397	351,466	437,804	580,711
Bank Islami	Deposits	Conventional	-	-	-	-	-	-
		Islamic	185,945	229,984	283,641	344,788	415,912	522,541
	Advances	Conventional	-	-	-	-	-	-
		Islamic	129,578	144,720	145,338	196,378	220,341	254,035
Total	Deposits	Conventional	3,394,593	3,810,325	4,340,115	5,131,330	5,439,496	6,613,719
Total	Advances		1,994,453	2,051,280	2,105,104	2,437,501	2,791,203	2,874,787
Total	Deposits	Islamic	1,400,037	1,709,207	2,241,918	2,849,906	3,515,238	4,665,066
Total	Advances		958,066	1,042,995	1,172,628	1,680,909	2,117,982	2,296,708

(KPMG Taseer Hadi and Co , 2024), (Meezan Bank Limited , 2024), (Faysal Bank Limited , 2024), (Bank Islami Limited , 2024), (Habib Bank Limited , 2024), (Bank Alfalah Limited , 2024), (Askari Bank Limited , 2024), (Pakistan Credit Rating Agency , 2024), (DAWN, 2024), (KPMG Taseer Hadi and Co, 2022), (Express Tribune, 2024) (Ahmed, 2021), (Siddiqui, 2021)

Analysis Synopsis (2018–2023):

Islamic Progress and Development:

From 958,066 million in 2018 to 2,296,708 million in 2023, Islamic advancements have grown steadily.

This expansion indicates a notable increase in consumer preference or bank attention to Islamic banking offerings.

Growth of Conventional Advances:

Additionally, conventional advances increased considerably between 2018 and 2023, rising from 1,994,453 million to 2,874,787 million.

In contrast to Islamic advancements, the growth rate of traditional advancements is slower.

Change in Market Share:

An increasing change in attention or preference toward Islamic products is indicated by the fact that Islamic advances increased their percentage of total advances year over year.

Key Takeaways from Year to Year:

By 2023, the difference between Islamic and conventional advancements had greatly decreased.

Islamic advancements increased by 8.4% between 2022 and 2023, whereas conventional advancements only increased by 3.0%.

Visual Evaluation:

Fully Islamic vs. Conventional/Hybrid Developments:

A distinct distribution of advances between purely Islamic banks (like Meezan Bank and Bank Islami) and hybrid/conventional banks (like Bank Alfalah, HBL, Askari Bank, and FBL) can be seen in the stacked bar chart.

Meezan Bank has made a substantial contribution to the constantly rising share of Islamic advances held by fully Islamic banks.

Market Share of Conventional vs. Islamic Advancements:

The annual market share of Islamic versus conventional advancements is depicted in the pie charts:

Approximately 32.5% of all advances in 2018 were Islamic achievements.

The percentage of Islamic advances rose to 44.4% by 2023, indicating a significant trend toward Islamic banking products.

1. General Growth Patterns

Islamic Progress:

958,066 million in 2018

2,296,708 million in 2023

Growth: More than 139% in just six years

Observation: As a result of growing consumer adoption, product development, and knowledge of Islamic banking, Islamic advancements have continuously expanded.

Traditional Developments:

1,994,453 million in 2018

2,874,787 million in 2023

Growth: about 44% in six years

Observation: There has been a modest movement in consumer preference toward Islamic items, as evidenced by the slower growth of conventional advancements compared to Islamic ones.

2. Trends Particular to Banks

Conventional and Hybrid Banks:

Alfalah Bank:

Traditional advancements grew moderately until leveling off at 610,313 million in 2023.

From 87,055 million in 2018, to 166,974 million in 2023, Islamic advances nearly doubled.

Insight: Bank Alfalah is making a substantial contribution to total growth by progressively stepping up its emphasis on Islamic banking.

HBL:

The number of conventional advances increased significantly from 1,048,833 million in 2018 to 1,746,942 million in 2023.

The number of Islamic advances increased more quickly, rising from 103,600 million to 217,714 million throughout the same time frame.

Though conventional banking continues to dominate, HBL's Islamic banking division is growing quickly.

Bank Askari:

Between 2018 and 2023, conventional advances increased somewhat, from 296,497 million to 517,532 million.

The number of Islamic advances increased from 46,610 million to 115,601 million, almost tripling.

Observation: Askari Bank's Islamic banking initiatives are expanding, but they still make up a smaller portion of the total portfolio.

FBL:

By 2023, conventional advances had drastically decreased from 217,786 million in 2018 to almost nothing.

On the other hand, Islamic advances increased from 78,659 million to 580,711 million, indicating a total change to Islamic banking.

Observation: FBL is giving up traditional banking in Favor of a purely Islamic model.

Banks that are completely Islamic:

Bank Meezan:

From 512,564 million in 2018 to 961,673 million in 2023, advancements increased steadily.

Additionally, deposits increased significantly, reaching 2,217,474 million in 2023.

Insight: Meezan Bank continues to lead the industry in fully Islamic banking and accounts for the majority of Islamic advances.

Islami Bank:

From 129,578 million in 2018 to 254,035 million in 2023, advancements increased gradually.

Strong growth in deposits was another indication of growing confidence in the bank's entirely Islamic business strategy.

Insight: Bank Islami exhibits steady growth and rise in market share, although being smaller than Meezan Bank.

3. Highlights of the Year

2018–2019:

Conventional advances climbed by 2.8% while Islamic advances grew by 8.9%.

early indications that customers are more inclined to use Islamic banking products.

2019–2020:

Conventional gains increased by just 2.6%, whilst Islamic advances increased by a greater 12.4%.

A growing disparity in growth rates began this year.

2020–2021:

Compared to ordinary growth of 15.8%, Islamic advancements rose by a noteworthy 43.3%.

reflects a rise in the use of Shariah-compliant goods following the pandemic as consumers look for banking that is honest and moral.

2021–2022:

While conventional growth decreased to 14.5%, Islamic advancements maintained strong growth at 26%.

This tendency was probably influenced by increased awareness and regulatory backing.

2022–2023:

Even while the growth of Islamic advances dropped to 8.4%, it was still higher than that of conventional advances, which increased by 3.0%.

shows a growing Islamic banking business with enduring client loyalty.

4. Fully Islamic vs. Hybrid/Conventional Banks' Contributions

Banks that are completely Islamic:

In 2023, they will make up around 42% of all Islamic advancements.

dominated by Meezan Bank, with Bank Islami making a substantial contribution.

Conventional and Hybrid Banks:

contributed to the remaining 58% of advancements in Islam.

These banks are using dual banking approaches to quickly grow their Islamic holdings.

5. Dynamics of Market Share

2018: 32.5% of the market was made up of Islamic advancements.

2023: The share of Islamic advances in the overall advances market increased to 44.4%.

Gains in market share are a sign of growing consumer confidence, regulatory pressure, and competitive Islamic banking offerings.

Important Factors Fueling Islamic Advancements' Growth:

Central bank incentives for the growth of Islamic banks are examples of regulatory and policy support.

Customer preferences: Increasing knowledge of and confidence in Shariah-compliant goods.

Product innovation: competing Islamic banking products (like Ijara and Murabaha) are introduced.

Hybrid Bank Initiatives: Hybrid banks are using their traditional clientele to grow their Islamic portfolios.

In summary:

In addition to expanding, Islamic banking is steadily reducing the market share of traditional banking. Meezan Bank and other fully Islamic banks are important participants, while hybrid banks are growing their Islamic product lines to stay competitive. In the upcoming ten years, Islamic banking may take the lead in the industry if this trend keeps up.

The decision to use Islamic banking is influenced by a number of practical, economical, and religious factors. Here's a synopsis:

1. Religious Motives:

Shariah Principles Compliance: Because Islamic banking maintains the prohibition against riba (interest) and employs ethically sound financial practices, many customers prefer it.

Faith-Based Decisions: Devout Muslims usually choose Islamic banking to align their financial dealings with Islamic values.

Zakat and Social Responsibility: Islamic banks usually incorporate social welfare elements, like Zakat contributions, to attract customers who share their values.

2. Monetary Gains:

Profit-and-Loss Sharing: Islamic banking offers equity-based financing (such as mudarabah and musharakah) as an alternative to interest-based lending for people who want shared risk.

Crisis Resilience: Because Islamic banks frequently abstain from speculative activities, they are more resilient during financial crises. As a result, customers are more trusting.

Customized Products: Islamic banks offer reasonably priced, Shariah-compliant solutions (such murabaha for trade finance and ijara for leasing) to meet a variety of customer needs.

3. Cultural and Social Aspects:

Cultural Alignment: Because Islamic banking complies with social and cultural norms, it makes sense in countries where the overwhelming population is Muslim.

Perceived Ethical Practices: By avoiding activities that are viewed as immoral, such gambling and the selling of alcohol, Islamic banks attract customers who value ethical financing.

4. Government Support and Management:

Policy and Tax Incentives: Several governments promote Islamic banking by passing beneficial legislation, providing tax exemptions, and developing frameworks tailored to the needs of Islamic banks.

State-Owned Islamic Banks: In several countries, governments established Islamic banks to foster confidence and adoption.

5. Awareness and Marketing:

Educational Campaigns: By increasing public knowledge of Islamic banking principles through campaigns and community involvement, adoption is promoted.

Bank marketing: Banks highlight benefits like Shariah compliance, shared wealth, and ethical behavior to attract customers.

6. Inclusivity and Financial Access:

Access for the Underserved: Islamic banking appeals to unbanked individuals who are leery of conventional interest-based systems.

Microfinance Models: Islamic microfinance initiatives promote regional economic growth.

7. Global and Regional Trends:

Growth of the Islamic Banking Ecosystem: Islamic banking has gained even greater acceptance and promotion as the number of Islamic financial institutions has grown in regions such as the Middle East, South Asia, and Southeast Asia.

Diaspora Demand: Islamic financial choices are becoming more and more popular among Muslim diasporas living in non-Muslim countries.

8. Perception of Fairness:

Transparent Practices: Islamic banks usually present themselves as more open and equitable by abstaining from exploitative practices.

Risk-Sharing Appeal: Rather than fixed interest, customers looking for fairness in financial transactions are lured to the concept of shared risk.

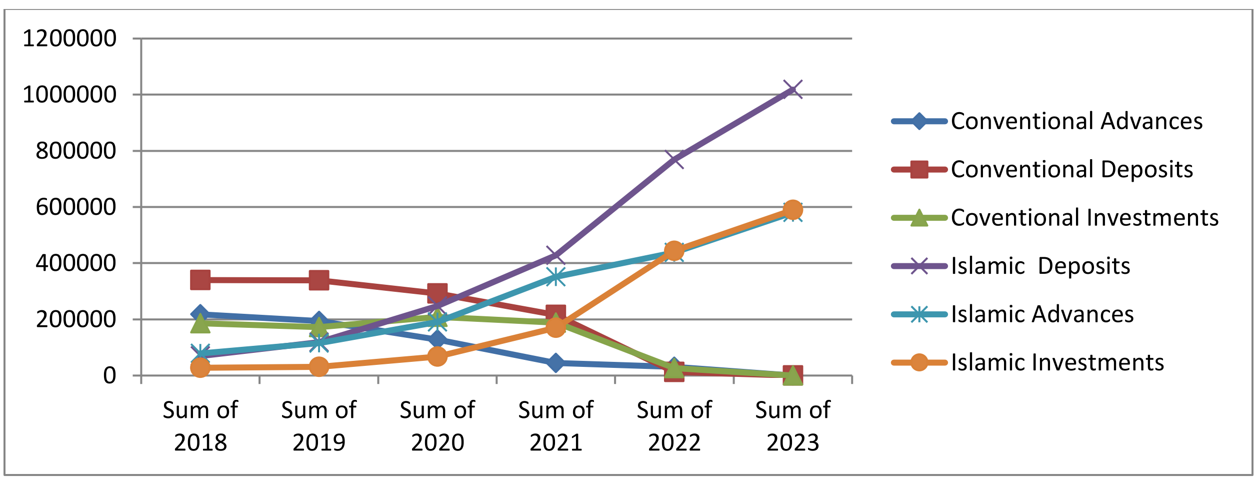
Challenges & Considerations:

Islamic banking still faces challenges like higher costs, a limited selection of products, and geographically different interpretations of Shariah regulations, despite growing consumer demands. Addressing these could further promote adoption.

Faisal Bank Conversion to Islamic Banking:

Faysal Bank Limited (PKR Millions)	2018	2019	2020	2021	2022	2023
Markup Income	35,200	58,398	55,922	53,869	104,521	189,448
Markup Expense	18,925	37,278	31,388	28,035	64,553	118,395
Net Markup Income	16,275	21,120	24,534	25,834	39,968	71,053
Net Interest Margin	46.24%	36.17%	43.87%	47.96%	38.24%	37.51%
Shareholders' equity	38,405	44,516	51,080	58,762	59,435	75,047
Gross Advances	296,445	309,573	318,180	396,295	454,260	580,711
Islamic Advances	78,659	115,537	190,397	351,466	437,804	580,711
Conventional Advances	217,786	194,036	127,783	44,829	31,360	-
Investments - Net	214,186	204,069	276,390	357,471	469,451	589,544
Islamic Investments	27,620	31,443	67,554	169,622	443,604	589,544
Conventional Investments	186,566	172,626	208,836	187,849	25,847	-
Total Deposits	409,384	457,789	540,636	644,089	781,570	1,018,275
Islamic Deposits	69,489	119,214	248,090	428,362	768,985	1,018,275
Conventional Deposits	339,895	338,575	292,546	215,727	12,585	-
Return on equity (ROE) %	13.43%	14.57%	13.62%	14.84%	19.01%	29.81%
Return on average assets (ROA) %	0.88%	0.98%	0.97%	1.03%	1.16%	1.64%
Capital Adequacy Ratio (CAR)	16.80%	19.14%	18.67%	17.53%	15.47%	17.46%

(KPMG Taseer Hadi and Co , 2024), (Pakistan Credit Rating Agency , 2024), (Faysal Bank Limited , 2024)



One of the top Islamic banks in Pakistan is Faysal Bank Limited (FBL), which has its headquarters in Karachi. It was established as a public limited company on October 3, 1994, and is listed on the Pakistan Stock Exchange. By the end of 2022, FBL had transformed from a normal bank to a completely Islamic bank, aligning every facet of its operations with Shariah.

The bank offers a variety of services, including commercial, retail, Islamic, and corporate banking. It operates a network of over 700 Islamic banking branches in over 270 Pakistani cities. Established in 2003 as a subsidiary of FBL, Faysal Asset Management Limited (FAML) leverages the financial expertise of its parent business to provide asset management services.

Ithmaar Bank, a subsidiary of FBL, owns roughly 66.78% of the company's shares. Despite discussions about potential asset purchases by Al Salam Bank, FBL stated in 2021 that Ithmaar Holding will remain the ultimate beneficial owner.

FBL received an AA (Double A) rating with a stable outlook from the Pakistan Credit Rating Agency Limited and an AA/A-1+ (Double A/A-One Plus) rating with a favourable outlook from the JCR-VIS Credit Rating Company.

FBL declared in September 2023 that, subject to regulatory permissions, it would create a fully-owned exchange business with an initial paid-up capital of Rs 1 billion. This goal aligns with the State Bank of Pakistan's endeavours to enhance oversight and management of the exchange business industry.

As the largest changeover by scale in the world, FBL's transformation into a fully operational Islamic bank has been acknowledged as a noteworthy accomplishment by the Islamic International Rating Agency (IIRA). The bank is still committed to offering its wide range of customers banking services that adhere to Shariah.

Between 2018 and 2023, Faysal Bank Limited (FBL) showed notable financial growth as it made a calculated shift to an entirely Islamic banking strategy. A thorough grasp of this progress can be obtained by examining the external reports in addition to the financial data that has been supplied.

1. Revenue and Markup Cost:

Markup Income: Between 2018 and 2023, FBL's markup income increased from PKR 35,200 million to PKR 189,448 million. The bank's strong growth and the increasing acceptance of its Islamic banking products are the causes of this noteworthy increase.

Similarly, markup costs increased PKR 118,395 million in 2023 from PKR 18,925 million in 2018. Higher deposit costs and the bank's attempts to draw clients by providing competitive profit rates are the causes of this increase.

2. Net Markup Income: In 2023, this revenue climbed to PKR 71,053 million from PKR 16,275 million in 2018. This increase demonstrates that FBL can successfully manage its profit margins in spite of the difficulties presented by the shift to Islamic banking.

3. The variable that showed the most fluctuation was the Net Interest Margin (NIM), which peaked in 2021 at 0.479 and then declined significantly to 0.375 in 2023. The bank's adoption of Islamic banking principles, which require different profit-sharing arrangements than those seen in Western banking, may be the cause of this discrepancy.

4. Shareholder Equity In 2018 and 2023, the total amount of shareholder equity was PKR 38,405 million and PKR 75,047 million, respectively. The bank's exceptional profitability and dedication to holding onto earnings to fuel future expansion are reflected in this increase.

Strategic Shift to Islamic Banking: FBL marked a major turning point in its history on January 1, 2023, when it finished its shift to Islamic banking. Its whole branch network and product line had to be converted to Shariah-compliant models in order to make this shift. The successful execution of this plan has made FBL a major player in Pakistan's Islamic banking industry.

Operational Expansion: To increase its clientele and reach, FBL intends to grow its branch network to 1,000 locations in accordance with its expansion goals. It is anticipated that this expansion would strengthen its position in the market and support long-term financial growth.

The financial statistics of Faysal Bank Limited show a period of expansion and strategic change from 2018 to 2023. Thanks to its successful transition to Islamic banking, operational growth, and efficient financial management, FBL has emerged as a significant player in Pakistan's banking sector. These elements have also contributed to the company's notable gains in equity and revenue.

Deposits

Total Deposits: Between 2018 and 2023, FBL's total deposits increased from PKR 409,384 million to PKR 1,018,275 million. Given the anticipated shift to a fully Islamic banking model in 2023, this notable growth highlights the bank's strong client appeal. The robust deposit base suggests that clients are growing more confident in FBL and choosing its Shariah-compliant products.

Conventional vs. Islamic Deposits: A noticeable trend toward Islamic deposits has been seen throughout time. As the bank finished its shift to Islamic banking, conventional deposits were gradually phased out, while Islamic deposits increased from PKR 69,489 million in 2018 to PKR 1,018,275 million in 2023. This change demonstrates how well clients have been onboarded to FBL's Shariah-compliant products and is consistent with the bank's goal of becoming a fully Islamic business.

Advancements

Total Advances: In 2023, advances climbed from PKR 296,445 million in 2018 to PKR 580,711 million, demonstrating robust lending growth, driven by the bank's wide array of Islamic financing options.

The former had remarkable growth, rising from PKR 78,659 million in 2018 to PKR 580,711 million in 2023, as compared to traditional advancements. By 2023, however, when the bank fully shifted to Islamic banking, conventional advances gradually decreased to zero. This increase in Islamic advancements is due to FBL's excellent product structuring to meet market demands as well as consumers' increasing need for financing options that comply with Shariah.

To put it briefly

The impressive increase in deposits and advances highlights FBL's strategic focus on Islamic banking, which has improved its balance sheet and made it a leader in Pakistan's Islamic banking sector. A rise in total deposits and advances indicates that the bank's transition to a completely Islamic model has been well received, as evidenced by customers transferring from conventional to Islamic products. This modification also aligns with FBL's long-term strategy to capitalize on the expanding market for Islamic financial services.

The successful completion of FBL's first year as an Islamic bank in 2023 marked a significant turning point for the company. The bank made a concerted effort to ensure that its financial services and products complied with Shariah standards by putting Islamic concepts into practice. This change has strengthened our ties to the community and strengthened our commitment to ethical banking. According to the ruling of the Federal Shariah Court, the conversion of FBL has made it possible for Pakistan's financial system to transition to an Islamic one. As long as regulatory conditions are fulfilled, the Board has authorized the creation of an exchange company with an initial paid-up capital of PKR 1 billion for the year. FBL will be the sole owner of the exchange business, Faysal Islami Currency Exchange Company (Private) Limited. The "No Objection Certificate" was presented to the bank by SBP, and the "Certificate of Incorporation" was issued by SECP on January 16, 2024.

Because of its consistent commitment to excellence, the Bank has seen unmatched growth and exceptional financial success. In order to commemorate this significant milestone of deposits exceeding the PKR OneTrillion mark, the Bank has consistently demonstrated that it is a strong, resilient company that has endured despite the challenges. The bank is now recognized as a significant player in Pakistan's Islamic banking sector. In addition, FBL's Profit Before Tax (PBT) of PKR 41.4 billion broke the previous record and was 85% more than the PBT of PKR 22.4 billion from the year before. However, the increase in Profit After Tax (PAT) to 78.5% at PKR 20 billion was constrained by an excessive and retroactive windfall tax. Additionally, profits per share rose from PKR 7.40 to PKR 13.21, which was an impressive gain.

With a notable 70% rise in total revenue over 2022, the Bank continued on its development track in 2023. A robust balance sheet expansion and rising spreads caused net spread income to rise 78% year over year to PKR 71.1 billion. A robust 18% increase in current deposits of PKR 49 billion and a rise in the average benchmark rate helped to improve overall spreads. In 2023, non-fund revenue amounted to PKR 12.1 billion, a 35% rise over the year before.

Due to the current circumstances of historically high inflation, a dropping value of the PKR relative to the USD, and an expanding branch network, the bank's overall expenditures have climbed by 48.4% over 2022. Nonetheless, the cost to income ratio has improved, rising from 56.2% in 2022 to 49.1% in 2023. The net provision for 2023 was PKR 0.9 billion, as opposed to the reversal of PKR 0.9 billion in 2022. The infection ratio continued to decrease due to strong deposit mobilization, reaching 3.8% with 87% coverage. Additionally, FBL's overall assets grew steadily, reaching PKR 1.4 trillion. Current accounts reached PKR 326 billion, an 18% rise over December 22, continuing on their upward trajectory over the preceding few years. As total deposits exceeded PKR 1 trillion and increased by 30.3% from December

22, the market share increased from 3.5% to 3.7% in 2023. However, because of the growth in term deposits, the CASA mix decreased from 80.0% to 75.0%.

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