Sharia Based Profit & Loss Distribution in Islamic Banking. Reality or Myth? An Analysis based on the Application of weightages

Adeel Ahmed Shah[1]
Research Scholar
Karachi University Business School,University of Karachi, Pakistan
adeelshah80@hotmail.com

Dr. Danish Ahmed Siddiqui
Associate Professor
Karachi University Business School, University of Karachi, Pakistan
daanish79@hotmail.com

ABSTRACT

This study explores the calculation and application mechanism of weightages in profit distribution by Islamic Banks and Windows in Pakistan to identify the factors, which determines the said weightage. Quasi experiments as well as regression analysis are carried out on the three months data of five full-fledged Islamic Banks and Nine Islamic Windows of Conventional Banks to identify the significance and impact of Size of deposits, its tenure, profit frequency and profit rates on the weightages of the respective deposit product. The Quasi Experiments conducted on all fourteen Islamic Banks & Windows suggest that it is only the profit rate, which is being used for weightage calculation by these banks and other factors are insignificant. Regression results confirm that there is significant positive relationship between all the factors and weightages; however, it is the profit rate, which had the most significant impact. This study suggests various measures to the Regulators, Scholars and Islamic Banks for improvement in the profit distribution mechanism.

Key Words: COVID-19, Stock return, Panel data analysis, Italian stock market

[1]Corresponding Author: Vice President / Wing Head – Pool Management, Aitemaad Islamic Banking, National Bank of Pakistan, Karachi, Pakistan, Tel: +92-345-888-0223

INTRODUCTION

Consenting to the standards of Shari'ah as cherished in the Holy Quran and the Sunnah of the Prophet (peace be upon him) is the substance of Islamic banking industry. A sound and viable Shari'ah consistence system is in this manner basically imperative to offer certainty to the overall population about Shari'ah conformity of Islamic Banking Institutions' (IBIs') products and services.

The dependability and flexibility showed in the wake of financial by Islamic banking industry has prompted to its more extensive acknowledgment as a practical and aggressive segment of the financial system. The inborn qualities of the Islamic financial system of being founded on gainful monetary movement and without unnecessary influence and indiscreet hazard taking have been key drivers of its essentially enhanced worthiness and expanding offer in the worldwide money related framework.

Notwithstanding, this financial crisis era is challenging in the meantime, because of the low certainty of clients in the predominant financial system alongside the lull in worldwide economic development. The second round effect of financial crisis on Islamic financial institutions has likewise demonstrated that the inbuilt shields of the Islamic financial system should be supplemented with a powerful administrative structure, improved straightforwardness and satisfactory cushions for guaranteeing its economic development and sustainable growth2.

The financial crisis of 2007–2008, also known as the global financial crisis and the 2008 financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. It began in 2007 with a crisis in the subprime mortgage market in the United States, and developed into a full-blown international banking crisis with the collapse of the investment bank Lehman Brothers on September 15, 2008. Excessive risk-taking by banks such as

[2]Rosman. Wahab Zainol "Efficiency of Islamic banks during the financial crisis: An analysis of Middle Eastern and Asian countries" Pacific Basin Finance Journal 28 (2014): 76-90

Lehman Brothers helped to magnify the financial impact globally. Massive bail-outs of financial institutions and other palliative monetary and fiscal policies were employed to prevent a possible collapse of the world financial system. The crisis was nonetheless followed by a global economic downturn, the Great Recession. The European debt crisis, a crisis in the banking system of the European countries using the euro, followed later. However, Islamic banks were able to sustain operations through the crisis.

Previously many researches have been conducted to identify the differences between the conventional and Islamic Banking practices (Hanif 2011) and how Islamic is the Islamic Banking in practice has been analyzed (Feisal Khan 2010).

There had been a lot of criticism on the pool management and profit distribution mechanism by the researchers recently, which have even classified Islamic deposits to be not interest-free, but closely pegged to conventional deposits (Chong 2009). Few have concluded that the case of Islamic Banks is the same as is of conventional banks (Zubair 2014).

Majority of the researches are focused towards use of profit & loss sharing mechanism in Islamic financing (Sadique 2009, Omar 2006) and only few have focused on the deposit side and Mudarabah based profit distribution (Ahmed 1996). Among those researches, there had been almost no work on the shariah compliant application of weightages to different deposit products in a pool and the resultant profit distribution.

Review of Literature

Dar & Presley (2001) attempts to find major cause of lack of Profit Loss Sharing (PLS) in the practice of Islamic finance through descriptive research. Empirical study on the imbalance between management and control rights of Islamic Banks was analyzed. The research concluded that Islamic banks will persist in taking the easy and risk averse route and avoid profit and loss sharing contracts. The paper recommended elimination of incentive to cheat and made

suggestions as to how venture capital can be developed in an Islamic setting, without fear of the system collapsing or being restricted in its development.

Chong & Liu (2008) attempted to establish whether Islamic banking is really different from conventional banking by using bivariate Granger causality test and further carrying out carried out unit root and co-integration tests to determine the long-run relation as well as short-run dynamics between conventional deposit rates and Islamic investment rates. The series of monthly data on the average rates across all financial institutions of Malaysia with the sampling period from April 1995 to April 2004 was collected. The sample size was 109 for each time series. The results indicate that because of competition from conventional banking, the returns on the Islamic deposit accounts are effectively pegged to the returns on conventional-banking deposits. The study concluded that the Islamic Deposits are not interest free and thus, suggested that Islamic banks should be regulated and supervised in a similar manner as conventional banks.

Nasir (2009) examined the economic rationale and justification for profit distribution practices in Islamic financial institutions in Malaysia through qualitative research method and employed exploratory research approach due to their appropriateness in achieving the objective of the study. The results depict evidences of unjustifiable practices in the course of distribution of profit by the practitioners in this sector of economy. As such, the study offered a guide aimed at ensuring the upholding the principle of on-going concern of the shariah-compliant financial institutions businesses and recommended the gross profit sharing (GPS) information system with variation of pre-agreed sharing ratios for all categories of fund providers.

Ahmed (1996) identifies the problem arising due to Islamic banks' commitment to share the actual profits resulting from investing depositors' money, with them. the author examine FIBS figures for two consecutive years to show how part of

the profits accruing on the investment of current deposits, which actually belong to the shareholders, were diverted to boost the profit share of depositors into investment accounts. The study recommended two techniques for mobilizing deposits in Islamic banking may be used to substitute interest based deposits; namely,
(a) Mudarabah contract, where all funds are held in one pool for investment and
(b) Limited

Period Mudarabah contract, where each group of Mudarabah certificates is invested in one project and profit is distributed when the project is liquidated.

Hamza (2015) examine the compliance of investment deposit return with profit and loss sharing principle. This compliance is analyzed through the impact of bank's risk, governance mechanisms and competition environment on investment deposit return through use of pooled regression model applied to a panel of sixty Islamic banks during the period 2004 to 2012. The estimation indicates that the management of investment deposit and PLS assets are characterized by a moral hazard behavior and excessive risk taking. The estimation reveals that capital ratio and interest rate affect positively investment deposit return. Small Islamic banks offer a better return of deposit compared to the large bank. The study suggested that investment accounts holders should be integrated in the bank governance system. Besides, the Islamic banks are incited to develop a new generation of investment deposits.

Farooq, Hassan & Clinch (2012) try to ascertain whether Islamic banks do in fact manage profit distributions and if so, what factors are associated with the extent of profit distribution management. Multiple Ordinary Least Square (OLS) regressions are utilized to ascertain the factors affecting profit distribution management towards interest rates. The results suggest that most Islamic banks manage profit distributions, with the extent of profit distribution directly related to religiosity, financial development, asset composition, and existence of discretionary reserves, while it is inversely related to market familiarity with Islamic banking, market concentration, depositor funding reliance and the age of the Islamic bank.

Hassan (2008) search for response on three basic issues in Islamic banking: First, how the profit sharing ratios in mudaraba contracts are in principle determined? Second, do the actual sharing ratios result in an equitable division of profit between the banks on the one hand and the depositors on the other? Finally, can the central bank use the profit sharing ratio along with the rate of interest for credit control so as to mitigate leverage lure in a dual banking system? The results show that the current use of mudaraba contracts in Islamic banking is beset with confusion and ambiguities. Even a cursory look at the prevalent profit sharing schemes, especially

on how the ratios are settled and weights assigned to different categories of deposits with reference to amount and time period involved needs scrutiny and control. The paper provides an explanation as answer to the first question. The response to the second is negative but positive to the third.

Mujaddidi (2017) aims to examine its compatibility with the principles of Sharıʻah and to weigh the objections in the criticisms against usage of daily product basis and allocation of weightages for profit distribution in the Islamic banks. After conducting empirical study of both systems, the study concluded that profit distribution on daily product basis could still be justified as the best method for distributing profits/losses. The weightage has proven beneficial if it is formulated based on a transparent and logical formula, free from any form of bias. The study recommended weightage system to be used by the Islamic banks on the condition that it is not taken as a permanent solution for profit distribution.

Khan (2010) attempts to measure to what extent, then, do actual Islamic Banking practices live up to the ideal, and how different are they from conventional banking? The study shows that there remain substantial divergences between IBF's ideals and its practices, and much of IBF still remains functionally indistinguishable from conventional banking. However, despite not providing an alternative to conventional banking and finance, IBF does strengthen a distinctly Islamic identity by providing the appropriate Islamic terminology for de facto conventional financial transactions.

Malik, Malik & Mustafa (2011) explores and highlights all those controversies and challenges which are in minds of different school of thoughts and are needed to be addressed and overcome if Islamic banking continues flourishing the way it is at present. It also suggested Islamic banking industry need for review to carter the demand of more sophisticated products and services which is likely to grow rapidly. It should be innovating rather than replicate the conventional banking products to meet the growing needs of its customers.

Hanif (2011) attempts to address the perceptional issues by identifying the similarities and differences in Islamic and conventional banking. Evidences of the study suggest Islamic banking is very much practiced like modern conventional banking with certain restrictions imposed by Sharia and addresses the large number of business requirements successfully hence perceiving Islamic banking as totally foreign to business world is not correct. It was further found in the study that Islamic banking is not a mere copy of conventional practices rather major differences exist in the operations of Islamic Financial Institutions (IFIs) in comparison with conventional banking. Moreover, it conclude that IFIs have succeeded in creating trust in the eyes of depositors and receive deposits on profit and loss sharing basis however investment and financing options available to Islamic banks are limited in comparison of conventional banks.

Conceptual Framework

Pool Management and Profit Distribution Mechanism in Islamic Banking

For any Commercial Bank, Liability side (Deposit) is the most important and critical segment. There are major structural differences between the deposit placed in a Conventional Bank (CB) and an Islamic Bank (IB). In IB, non-remunerative current account may base on Qardh (Loan)3 or Wakalah4 whereas the remunerative deposits are based on Mudharabah5 and Musharakah6.

The Bank offers different categories of Time and Demand liability products for its deposit customers.

Non-Remunerative Accounts

The Bank receives Current Account deposits based on Qardh or Wakalah, which unless specified otherwise are treated as equity of the Bank7. The Bank receives Current Account deposits based on Qardh on the condition that the depositor agrees to the unfettered use of the deposited funds by the Bank at its discretion in Shari'ah-compliant business as approved by its Shari'ah Advisor/Board, and that the depositor will not claim any monetary/other return in any form whatsoever.

Remunerative Deposit Products

Remunerative deposits accounts are based on Mudharabah/Wakalah. The account holder agrees to enter into a relationship where:

- **The Depositor** will be an investor (Rabb-ul-Maal/Muwakkil). The relationship of Shirkat-ul-Aqd will exist between all the depositors. The profit calculations of these investors are based on predetermined weightages.
- **The Bank** on the other hand will be Manager (Mudharib/Wakil). In case of Mudharib, the Bank will have a dual role; one as the Manager (Mudharib) of the funds deposited by the customer and two, has the option to invest in the deposit pool with other investors. However, Bank share of income as investor will be in proportion to bank equity invested in any pool before distribution of profit between Rabb-ul-Maal & Mudharib.

[3] Qardh is a specific contract on transferring a specified property to another party on condition that a similar property will be given back in return.

[4] Wakalah is a term in Islamic finance that denotes an agency contract, where one party appoints another to conduct a defined legal action on his behalf, for a specified fee or commission.

[5] Mudarabah is a distinct type of partnership, wherein one partner provides the capital to an entrepreneur (another partner) for investing in a commercial initiative, with the objective of sharing profit from the commercial entity.

[6] Musharakah is a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise.

[7] Current Account is based on Qardh/loan contract where the Bank is liable to pay customer money back on demand and thus can use it as it’s equity, as oppose to Amaanah, where the given money cannot be used by borrower.

General Structure

Pool Management refers to appropriate allocation by way of transfer of financing assets to a specified pool of depositors with the risks and rewards linked at any point of time. Income generated from the assets is assigned to its related pool for the period it remains linked to that pool and it is distributed based on profit sharing ratio/weightages which are assigned based upon amount, tenure and nature of deposits.

The Banks allocates the fund received from the customer to one or more Pools (like PKR, FCY deposit pool) based on the type of currency, investment strategy, distinct risk & reward features and tenure. These funds may be utilized from the pool to finance customers under Islamic modes that include, but are not restricted to Murabahah, Ijarah, and Diminishing Musharakah.

The Banks treat each pool as a virtual enterprise having its own assets, liabilities, income and expenses, which are identifiable, balanced and verifiable at all time. Further, the banks are required to maintain transaction records for each pool separately.

The Banks applies the concept of constructive liquidation for distributing profit as final settlement to closed/matured accounts that close or mature between profit calculation points and calculates the profit of the Deposit Pool every month.

Constructive Liquidation

Constructive liquidation means that accounting procedures are applied to decide the profit and loss status of the operation. At every end of period, where Islamic Banks needs to distribute profits to its accountholders, the business has to be liquidated constructively by way of valuation of the assets. "AAOIFI Shariah Standard No. 40 on Distribution of Profit on Mudarabah-based Investments Accounts" defines constructive liquidation as a method where, in addition to cash amounts, noncash assets are valued by experts, along with valuation of all debts with regard to possibilities of collection and appropriate allocation for bad debts.

Using these Banks calculate Gross Income (Return) of each deposit pool by taking all the assets booked by utilizing the funds from that Pool and allocates the net income between the bank and Depositors when the Bank comingles funds in proportion to their respective share in pool. Here Bank’s equity includes Bank's own fund, non-remunerative and current accounts’ deposit.

Income and expenses charged to the pool follows two (2) under-lying principles below as to which type of incomes and expenditures can be taken on the pool.

1. Income that is not using depositor funds will not be shared with the depositor
2. Costs not directly identifiable with Funded Assets in the pool will not be charged to the pool

The Bank shall charge all direct expenses to respective pool, while indirect expenses including the establishment cost shall be borne by itself as Mudharib.

The Bank then shares the Net Income (after adjustment of bank share in the pool) between the Bank (as Mudharib) and Depositors (Rabb-ul-Maal) in a predetermined ratio (%) of the actual profit earned.
The Bank’s compute the Profit in Remunerative deposits on the basis of average balances and credit to the depositor's account on average balance/daily product basis during the profit period. The distribution of profit among the depositors is made on the basis of predetermined weightages based on their respective category/tiers. In case of any loss, The Banks are required to share among the members of the Investment Pool in ratio of their actual investment.

Assignment of Weightages Mechanism

The Banks assign weightages to all categories of the depositors as they derive weightages for the month based on expected deposits, expected income and expected profit rates. The Banks normally claim to assign weightages on following basis:
• Investment tenure
• Profit payment option
• Amount tiers
• Type of account
• Market trend

However, weightages shall not provide the exact rate of return on any category of deposit; it shall reflect Bank's preferences among all depositors during the month. While assigning weightage, the Bank has an idea for expected (projected) gross income and expected profit rate.

The Bank shall distribute Profit amongst investors based on weightages assigned to different account categories.

Illustration of Profit Distribution

Say in June 2018 a bank earned profit amounting PKR. 200,000 against deposit of PKR. 9,000,000 and commingled equity including current accounts amount to PKR. 3,000,000. Assume a 55 : 45 profit sharing ratio between Rab ul Maal and Mudarib respectively, then if we distribute profit to all category depositors at flat rate, It will neither be logical, nor rational or justified.

On the other hand it is not possible for the Bank to invest particular category of deposit to particular category. To make logical, rational, justified Islamic Banking introduced weightage system. Calculation of the profit will be as follows:

Profits Received from Different Assets	
Murabaha	**60,000.00**
Ijarah	**40,000.00**
Diminishing Musharakah	**30,000.00**
Istisna'a	**20,000.00**
Total Profit	**200,000.00**

FUNDS AVAILABLE FROM DIFFERENT SOURCES (EQUITY AND DEPOSITS)	
Equity	3,000,000.00
Remunerative Deposits	9,000,000.00
Total Pool Size	12,000,000.00
Profit Sharing Ratio	
Bank(Mudarib)	45%
Remunerative Depositors (Rab ul mal)	55%

PROFIT DISTRIBUTION	
Share of Equity (200,000 x 2 M / 12 M)	50,000.00
Share of Mudaraba (200,000 x 10 M / 12 M	150,000.00
Mudarib Share (150,000 x 45%)	67,500.00
Depositor's Share (150,000 x 55%)	82,500.00

1	2	3	4	5	6
Deposits in (Pak Rupees)	**Weights**	**Daily Average Balance**	**Weighted Daily Average Balance**	**Allocated Profit**	**Annual rate of return**
			Col2*Col3	Col 4 *Distributable	(Col 5/Col 3) * 100 / 365/30
Saving Deposits					
1 to 249,999	0.7500	200,000.00	150,000.00	1,076.09	6.55%
250,000 to 499,999	0.8000	600,000.00	480,000.00	3,443.48	6.98%
TDR of less than 1 million(profit to be paid monthly)					
1 month	1.0500	1,000,000.00	1,050,000.00	7,532.61	9.16%
3 month	1.1000	1,200,000.00	1,320,000.00	9,469.57	9.60%
TDR 1 million to 9.99 million (profit to be paid monthly)					
1 month	1.2500	2,000,000.00	2,500,000.00	17,934.78	10.91%
3 month	1.5000	4,000,000.00	6,000,000.00	43,043.48	13.09%
TOTAL		**9,000,000.00**	**11,500,000.00**	**82,500.00**	

Theoretical Background

While the achievements made by the industry during last decade are commendable and gives optimism about continuation of growth momentum, the industry is still in the evolutionary phase and need collaborative efforts by all stakeholders, particularly the regulator and practitioners, to take it to the next level of growth and development. Despite strong growth momentum the industry perception is still not very positive largely due to limited awareness and apparent similarities between conventional and Islamic banking products. The legal and regulatory framework and taxation environment though improved over the years still need significant changes to enable Islamic banking to achieve its real potential and contribute in development of a sound, stable and inclusive financial system. Similarly the product offerings are overwhelmingly debt-based, which though meet the minimum Shariah requirements

however don't meet the Shariah objectives of **"risk and reward sharing"** and equitableandbroad based distribution of economic gains.

Since Islamic law (or Sharia) does not permit the concept of interest in lending, musharakah allows for the financier of a project or company to achieve a return in the form of a portion of the actual profits earned according to a predetermined ratio. However, unlike a traditional creditor, the financier will also share in any losses should they occur, also on a pro rata basis.

The five advantages that are offered by Islamic finance, which have made it a preferred choice among countries that have accepted it as a financial discipline[8]:

1. It assists in financial inclusion

The conventional banking system is based on paying interest at a pre-determined rate on deposits of money. As both payment and receipt of interest is prohibited by the Shariah law, Muslims generally abstain from banking. Through Islamic banking, financial inclusion can be promoted and a larger pool of saving s can be brought into the economy.

2. Reducing the impact of harmful products and practices

Shariah principles forbid any investment that would support industries or activities that are considered harmful to the people and the society in general. This includes usury, speculation and gambling, irrespective of whether these are legal or not in a given territory.

3. It promotes the principle of financial justice

Financial justice is a basic requirement for the functioning of Islamic finance products. Western or conventional financing looks forward to profit through interest payments and makes the beneficiary completely liable for any risk. Contrary to this, Islamic financing paves way for the

sharing of net profit/loss and the risk involved in a proportional manner between the lender and the beneficiary. Therefore, if a financier is expecting a claim on profits of a project, it is necessary that he/she should also carry a proportional share of the loss of that project.

[8] Source: www.guidanceresidential.com, blog: five-advantages-of-islamic-finance

4. Encouraging stability in investments

In Islamic finance, investments are approached with a slower, insightful decision-making process, when compared to conventional finance. Companies whose financial practices and operations are too risky are usually kept away by Islamic financing companies. By performing intensive audits and analyses, Islamic finance promotes the reduction of risk and creates the space for greater investment stability.

5. Accelerating economic development

Islamic finance companies certainly have profit creation and growth as their objectives. For which, they choose to invest in businesses based on their potential for growth and success. Thus in the Islamic banking industry, each bank will invest in promising business ventures and attempt to out-perform its competitors, in order to attract more funds from its depositors. This will eventually result in a high return on investments both for the bank and the depositors. This is unlikely in a conventional bank, where depositors redeem returns on their deposits based on a pre-determined interest rate.

Although industry has shown rapid growth, there are still areas which require concerted and proactive efforts by stakeholders to further develop and nurture the industry.

The Islamic banking facilities and products offered by the Islamic Banks or Islamic Windows of Conventional Banks even with the support from the regulator has not yet become the major or one of the major segments of the Pakistani financial system.

Previously many researches have been conducted to identify the differences between the

conventional and Islamic Banking practices (Hanif 2011) and how Islamic is the Islamic Banking in practice has been analyzed (Feisal Khan 2010).

There had been a lot of criticism on the pool management and profit distribution mechanism by the researchers recently, which have even classified Islamic deposits to be not interest-free, but closely pegged to conventional deposits (Chong 2009). Few have concluded that the case of Islamic Banks is the same as is of conventional banks (Zubair 2014).

Majority of the researches are focused towards use of profit & loss sharing mechanism in Islamic financing (Sadique 2009, Omar 2006) and only few have focused on the deposit side and Mudarabah based profit distribution (Ahmed 1996). Among those researches, there had been almost no work on the shariah compliant application of weightages to different deposit products in a pool and the resultant profit distribution.

Therefore, a research need was necessitated to focus on the shariah implication on Islamic Banking Profit distribution mechanism through use of weightages. The author through empirical research will try to identify whether the weightages are announced and applied in accordance with the "AAOIFI Shariah Standard No. 40 on Distribution of Profit on Mudarabah-based Investments Accounts".

BACK GROUND OF THE HYPOTHESIS

Under Islamic Banking pool management, weightages are assigned to different categories and slabs of depositors prior to the commencement of the business period. These are then used for determination of profit rates of different categories and slabs of depositors at conclusion of the period through constructive liquidation.

The Author through analysis of announced profit rates and weightages of various Islamic banks & Islamic windows of conventional banks will try to prove that these banks applies expected profit rates as the only factor to determine weightages in such a way that other factors i.e. size

of deposits, tenure, profit frequency do not impact the profitability of the depositors making the profit distribution more an interest based rather than profit & loss sharing based.

Currently majority of the IBIs and Islamic Windows are using following two mechanism for determination of weightages:

Calculation Mechanism of Weightages (Mechanism 1)

Following abbreviations will be used to define the mechanism:

1. W	=	Weightage of Slab
2. P	=	Profit of a slab
3. EP	=	Expected Profit of a slab
4. ETP	=	Expected Total Profit
5. ADP	=	Actual Distributable Profit
6. SOP	=	Share of Profit
7. ESOP	=	Expected Share of Profit
8. EAMB	=	Expected Average Monthly Balance of a slab
9. R	=	Rate of Profit of a slab
10. ER	=	Expected Rate of profit of a slab
11. N	=	No. of Days in the month
12. WAMB	=	Weighted Average Monthly Balance in a slab
13. EWAMB	=	Expected Weighted Average Monthly Balance in a slab
14. ETWAMB	=	Expected Total Weighted Average Monthly Balance
15. WAD	=	Actual Weighted Average Deposit in a slab
16. AMB	=	Actual Average Monthly Balance in a slab
17. TWAMB	=	Actual Total Weighted Average Monthly Balance

Weightages of different products and their slabs (tiers) are calculated by dividing the Expected Average Monthly Balance, based on projections, by Expected Weighted Average Monthly Balance of the said slab.

The Expected Weighted Average Monthly Balance in a slab is calculated by using expected share of profit of a slab, which is calculated by dividing the expected profit payable in a slab by the total expected distributable profits of all slabs. Thus, the working would be as follows:

$$EP = \frac{EAMB \times ER \times N}{365}$$

$$ESOP = EP / \sum EP \text{ i.e. } EP / ETP\text{, so}$$

$$ESOP = \frac{EAMB \times ER \times N}{365 \times ETP}$$

$$EWAMB = ESOP \times ETWAMB\text{, where}$$

$$ETWAMB = \sum EWAMB\text{, so}$$

$$EWAMB = \frac{EAMB \times ER \times N \times ETWAMB}{365 \times ETP}\text{, using this weightage of a slab is calculated}$$

$$W = EWAMB / EAMB\text{, i.e.}$$

$$W = \frac{\cancel{EAMB} \times ER \times N \times ETWAMB}{365 \times ETP \times \cancel{EAMB}}\text{, so}$$

$$W = \frac{ER \times N \times ETWAMB}{365 \times ETP}\text{, here } \frac{N \times ETWAMB}{365 \times ETP} \text{ is a common factor for all slabs}$$

Thus,

$$W = ER \times \left\{\frac{N \times ETWAMB}{365 \times ETP}\right\}$$

From the above presentation, it can be seen that the only factor used for calculating Weightages is the Expected Profit Rates, which again is a determined through KIBOR and competing bank's rates for similar products and their slabs. Simultaneously, when we look at the profit distribution mechanism using the weightage system, we can see that the Islamic Banks and Islamic Windows are distributing the profit on the basis of

the Expected Profit rates only and the size of the deposits within various products and their slabs do no impact the resultant profit rates of them.

Profit Distribution Mechanism

The IBIs and Islamic Windows use weightages for distribution of profit through constructive liquidation every month. The Actual Monthly Average Balances of a slab / product is converted into Weighted Average Monthly Balance by multiplying the Actual Averages with assigned weightages. The profit is then distributed amongst these slabs through share of profit, which is reach by dividing the weighted average monthly balance of the slab with the total average monthly balances of all slabs.

The profit rate is announce after dividing the share of profit of the slab with its actual average monthly balance, which surprisingly comes exactly the same as that of the expected rate.

The calculation mechanism is given below:

R = P / AMB x 365/N, where

P = ADP x SOP, where

SOP = WAMB / ∑ WAMB, so

P = $\frac{ADP \times WAMB}{\sum WAMB}$, where ∑ WAMB = TWAMB, so

P = $\frac{ADP \times WAMB}{TWAMB}$

WAMB = AMB x W, so if we replace W with its formula:

WAMB = $\frac{AMB \times ER \times N \times ETWAMB}{365 \times ETP}$, hence we replace WAMB in the P formula

P = $\frac{ADP \times AMB \times ER \times N \times ETWAMB}{TWAMB \times 365 \times ETP}$, use this formula for reaching the R,

R = P / AMB x 365 / N, so replace P with above formula

R = $\frac{ADP \times \cancel{AMB} \times ER \times \cancel{N} \times ETWAMB \times \cancel{365}}{TWAMB \times \cancel{365} \times ETP \times \cancel{AMB} \times \cancel{N}}$, so

R = $\frac{ADP \times ER \times ETWAMB}{TWAMB \times ETP}$, so

R = ER x $\{\frac{ETWAMB}{TWAMB}\}$ x $\{\frac{ADP}{ETP}\}$, replace ETWAMB, TWAMB, ADP and ETP with formulas

$$\text{ETWAMB} = \sum \left\{\frac{\text{EAMB} \times \text{ER} \times \text{N} \times \text{ETWAMB}}{365 \times \text{ETP}}\right\}$$, where (N x ETWAMB)/(365 x ETP) is common, so

$$\text{ETWAMB} = \frac{\text{N} \times \text{ETWAMB}}{365 \times \text{ETP}} \times \sum \{\text{EAMB} \times \text{ER}\}$$

$$\text{TWAMB} = \sum \left\{\frac{\text{AMB} \times \text{ER} \times \text{N} \times \text{ETWAMB}}{365 \times \text{ETP}}\right\},$$

where (N x ETWAMB) / (365 x ETP) is common, so

$$\text{TWAMB} = \frac{\text{N} \times \text{ETWAMB}}{365 \times \text{ETP}} \times \sum \{\text{AMB} \times \text{ER}\}$$

ADP = Average Distributable Profit is calculated by applying ER to Actual Monthly Balances of each slab, so

$$\text{ADP} = \sum \left\{\frac{\text{AMB} \times \text{ER} \times \text{N}}{365}\right\}$$, where N / 365 is common, so

$$\text{ADP} = \frac{\text{N}}{365} \times \sum \{\text{AMB} \times \text{ER}\}$$

$$\text{ETP} = \sum \left\{\frac{\text{EAMB} \times \text{ER} \times \text{N}}{365}\right\}$$, where N / 365 is common, so

$$\text{ETP} = \frac{\text{N}}{365} \times \sum \{\text{EAMB} \times \text{ER}\}$$, so

$$\text{R} = \text{ER} \times \frac{\left[\cancel{\frac{\text{N} \times \text{ETWAMB}}{365 \times \text{ETP}}} \times \sum \{\text{EAMB} \times \text{ER}\}\right] \times \left[\cancel{\frac{\text{N}}{365}} \times \sum \{\text{AMB} \times \text{ER}\}\right]}{\left[\cancel{\frac{\text{N} \times \text{ETWAMB}}{365 \times \text{ETP}}} \times \sum \{\text{AMB} \times \text{ER}\}\right] \times \left[\cancel{\frac{\text{N}}{365}} \times \sum \{\text{EAMB} \times \text{ER}\}\right]}$$

$$\text{R} = \text{ER} \times \frac{\cancel{\sum \{\text{EAMB} \times \text{ER}\}} \times \cancel{\sum \{\text{AMB} \times \text{ER}\}}}{\cancel{\sum \{\text{AMB} \times \text{ER}\}} \times \cancel{\sum \{\text{EAMB} \times \text{ER}\}}}$$, thus it can be seen that

$$\text{R} = \text{ER}$$

The Bank's using this mechanism will have different factor each month but it will remain common for each deposit product for the month.

Calculation Mechanism of Weightages (Mechanism ²)

W = ER / F, where F is a factor (whole number) used to determine weightage

R = P / AMB x 365/N, where

P = ADP x SOP, where

SOP = WAMB / ∑ WAMB, so

$$P = \frac{ADP \times WAMB}{\sum WAMB}$$, where ∑ WAMB = TWAMB, so

$$P = \frac{ADP \times WAMB}{TWAMB}$$

WAMB = AMB x W, so if we replace W with its formula:

WAMB = AMB x ER x F, hence we replace WAMB in the P formula with this

$$P = \frac{ADP \times AMB \times ER \times F}{TWAMB}$$, using this formula for reaching the R, we see

R = P / AMB x 365 / N, so replace P with above formula

$$R = \frac{ADP \times \cancel{AMB} \times ER \times F \times 365}{TWAMB \times \cancel{AMB} \times N}$$, so

$$R = \frac{ADP \times ER \times F \times 365}{TWAMB \times N}$$, so

TWAMB = ∑ {AMB x ER x F}, where F is common, so

TWAMB = F x ∑ {AMB x ER}

ADP = Average Distributable Profit is calculated by applying ER to Actual Monthly Balances of each slab, so

$$ADP = \sum \left\{\frac{AMB \times ER \times N}{365}\right\}$$, where N / 365 is common, so

$$ADP = \frac{N}{365} \times \sum \{AMB \times ER\}$$

$$R = ER \times \frac{\left[\frac{N}{\cancel{365}} \times \sum \{AMB \times ER\}\right] \times F \times \cancel{365}}{F \times \sum \{AMB \times ER\} \times N}$$

$$R = ER \times \frac{\cancel{N} \times \cancel{F} \times \cancel{\sum \{AMB \times ER\}}}{\cancel{N} \times \cancel{F} \times \cancel{\sum \{AMB \times ER\}}}$$

R = ER

The Bank's using this mechanism will have same factor each month as well as it will remain stagnant for each deposit product every month.

It can be seen that the Bank's using either of the techniques, will fetch exactly the same profit rates as equal to the Expected Profit Rates, which they camouflage through use of weightages.

Hypothesis

Based on the above analysis, the hypothesis of this study is Islamic Banks and windows use expected profit rates as the only and major factor in determining and calculating weightages of their different liability products for profit and loss distribution.

FINDINGS AND ANALYSIS

In order to test and verify the hypothesis, three months profit rates and weightages of five full- fledged Islamic Banks and nine Islamic windows various deposit products of conventional banks of Pakistan are obtained for quasi experimentation i.e. for the month of June, July and August [2018].

In the First Test the factors are computed for these banks, which they use to determine the weightages after applying on their expected profit rates, in order to identify which weightage calculation mechanism are they using i.e. projection method or factorizing method. This is done through dividing the actual profit rates of the deposit product with their corresponding weightages for the month. The results of each bank are then analyzed to check the validity of the hypothesis of this research. If the banks are not using either of the calculation mechanism, the hypothesis will be rejected.

In the Second Test of analysis, the relationship between weightages of all deposit products of each bank is tested by dividing the weightages of all deposit products with the minimum deposit weightage of that bank. Simultaneously, the profit rates of all deposit products of each bank are divided with the minimum deposit profit rate of that bank. The results are then matched with the results of weightages to identify whether the relationship between profit rates and weightages are same or different. For hypothesis to be accepted, both relationships should give same ratio.

The Bank wise results are as follows:

Meazan Bank

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Meezan Bank		Profit Rate / Weightage		
Savings	1.00	0.039	0.042	0.044
TDR 3 Months (Profit at maturity)	1,000,000.00	0.039	0.042	0.044
TDR 3 Months (Profit at maturity)	3,000,000.00	0.039	0.042	0.044
TDR 3 Monhs (Profit at maturity)	10,000,000.00	0.039	0.042	0.044
TDR 3 Months (Profit at maturity)	25,000,000.00	0.039	0.042	0.044
TDR 3 Months (Profit at maturity)	50,000,000.00	0.039	0.042	0.044
TDR 6 Months (Profit at maturity)	1,000,000.00	0.039	0.042	0.044
TDR 6 Months (Profit at maturity)	3,000,000.00	0.039	0.042	0.044
TDR 6 Months (Profit at maturity)	10,000,000.00	0.039	0.042	0.044
TDR 6 Months (Profit at maturity)	25,000,000.00	0.039	0.042	0.044
TDR 6 Months (Profit at maturity)	50,000,000.00	0.039	0.042	0.044
TDR 1 Year (Profit at maturity)	1,000,000.00	0.039	0.042	0.044
TDR 1 Year (Profit at maturity)	3,000,000.00	0.039	0.042	0.044
TDR 1 Year (Profit at maturity)	10,000,000.00	0.039	0.042	0.044
TDR 1 Year (Profit at maturity)	25,000,000.00	0.039	0.042	0.044
TDR 1 Year (Profit at maturity)	50,000,000.00	0.039	0.042	0.044
TDR 1 Year (Monthly profit)	1,000,000.00	0.039	0.042	0.044
TDR 1 Year (Monthly profit)	3,000,000.00	0.039	0.042	0.044
TDR 1 Year (Monthly profit)	10,000,000.00	0.039	0.042	0.044
TDR 1 Year (Monthly profit)	25,000,000.00	0.039	0.042	0.044
TDR 1 Year (Monthly profit)	50,000,000.00	0.039	0.042	0.044

From the above it can be seen that Meazan Bank is using the projection mechanism for calculating weightages as the relationship between its various deposit products remain stagnant during each month but changes amongst various month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Meezan Bank		Weightages Relationship			Profit Rates Relationship			Difference		
Savings	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
TDR 3 Months (Profit at maturity)	1,000,000.00	1.74	1.75	1.63	1.74	1.75	1.62	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	3,000,000.00	1.84	1.84	1.71	1.84	1.84	1.71	0.01	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	10,000,000.00	1.87	1.89	1.75	1.87	1.90	1.74	0.00	0.00	(0.00)
TDR 3 Months (Profit at maturity)	25,000,000.00	1.90	1.91	1.78	1.90	1.91	1.78	0.00	0.00	(0.00)
TDR 3 Months (Profit at maturity)	50,000,000.00	1.95	1.96	1.81	1.95	1.96	1.81	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	1,000,000.00	1.95	1.96	1.81	1.95	1.96	1.81	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	3,000,000.00	2.00	2.02	1.86	2.00	2.02	1.86	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	10,000,000.00	2.00	2.02	1.86	2.00	2.02	1.86	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	25,000,000.00	2.03	2.05	1.90	2.04	2.05	1.90	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	50,000,000.00	2.05	2.07	1.92	2.05	2.07	1.91	0.00	0.00	(0.00)
TDR 1 Year (Profit at maturity)	1,000,000.00	2.11	2.12	1.97	2.12	2.12	1.96	0.01	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	3,000,000.00	2.15	2.16	2.00	2.15	2.16	2.00	0.00	0.00	(0.00)
TDR 1 Yaer (Profit at maturity)	10,000,000.00	2.16	2.18	2.02	2.17	2.18	2.01	0.00	(0.00)	(0.01)
TDR 1 Year (Profit at maturity)	25,000,000.00	2.20	2.23	2.05	2.20	2.23	2.05	0.00	0.00	(0.00)
TDR 1 Year (Profit at maturity)	50,000,000.00	2.21	2.23	2.07	2.22	2.23	2.07	0.00	0.00	(0.00)
TDR 1 Year (Monthly profit)	1,000,000.00	1.85	1.86	1.73	1.85	1.86	1.73	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	3,000,000.00	1.95	1.96	1.81	1.95	1.96	1.81	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	10,000,000.00	2.00	2.02	1.86	2.00	2.02	1.86	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	25,000,000.00	2.03	2.05	1.90	2.04	2.05	1.90	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	50,000,000.00	2.08	2.11	1.95	2.09	2.10	1.95	0.01	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products fetch same results with few outliers.

Dubai Islamic Bank

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Dubai Islamic		Profit Rate / Weightage		
Savings Regular	1.00	0.025	0.025	0.025
Savings Regular	100,000.00	0.025	0.025	0.025
Savings Regular	500,000.00	0.025	0.025	0.025
TDR 1 Year (Monthly profit)	100,000.00	0.026	0.026	0.026
TDR 1 Year (Monthly profit)	10,000,000.00	0.026	0.026	0.026
TDR 3 Months (Profit at maturity)	100,000.00	0.025	0.025	0.025
TDR 3 Months (Profit at maturity)	1,000,000.00	0.025	0.025	0.025
TDR 3 Months (Profit at maturity)	5,000,000.00	0.025	0.025	0.025
TDR 3 Months (Profit at maturity)	10,000,000.00	0.025	0.025	0.025
TDR 6 Months (Profit atmaturity)	100,000.00	0.025	0.025	0.025
TDR 6 Months (Profit at maturity)	1,000,000.00	0.025	0.025	0.025
TDR 6 Months (Profit at maturity)	5,000,000.00	0.025	0.025	0.025
TDR 6 Months (Profit at maturity)	10,000,000.00	0.025	0.025	0.025
TDR 6 Months(Profit at maturity)	50,000,000.00	0.025	0.025	0.025
TDR 1 Year (Profit at maturity)	100,000.00	0.026	0.026	0.026
TDR 1 Year (Profit at maturity)	10,000,000.00	0.026	0.026	0.026
TDR 1 Year (Profit at maturity)	100,000,000.00	0.026	0.026	0.026

Dubai Islamic Bank Ltd is using the factorization mechanism for calculating weightages as the relationship between its various deposit products remain stagnant with few outliers due to rounding off, during each month but also remaining same amongst the various months.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Dubai Islamic		Weightages Relationship			Profit Rates Relationship			Difference		
Savings Regular	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Savings Regular	100,000.00	1.01	1.01	1.00	1.01	1.01	1.01	0.00	0.00	0.00
Savings Regular	500,000.00	1.01	1.01	1.01	1.01	1.01	1.01	0.00	0.00	0.00
TDR 1 Year (Monthly profit)	100,000.00	1.63	1.63	1.60	1.72	1.72	1.68	0.08	0.09	0.08
TDR 1 Year(Monthly profit)	10,000,000.00	1.74	1.74	1.69	1.83	1.83	1.78	0.09	0.10	0.09
TDR 3 Months (Profit at maturity)	100,000.00	1.50	1.50	1.48	1.50	1.50	1.48	0.00	0.00	0.00
TDR 3 Months (Profit at maturity)	1,000,000.00	1.53	1.53	1.50	1.53	1.53	1.50	0.00	0.00	(0.00)
TDR 3 Months (Profit at maturity)	5,000,000.00	1.53	1.53	1.50	1.53	1.53	1.50	0.00	0.00	(0.00)
TDR 3 Months (Profit at maturity)	10,000,000.00	1.71	1.71	1.67	1.71	1.71	1.67	0.00	0.00	0.00
TDR 6 Months (Profit at maturity)	100,000.00	1.55	1.55	1.52	1.55	1.55	1.52	0.00	0.00	0.00
TDR 6 Months (Profit at maturity)	1,000,000.00	1.58	1.58	1.55	1.58	1.58	1.55	(0.00)	0.00	(0.00)
TDR 6 Months (Profit at maturity)	5,000,000.00	1.63	1.63	1.60	1.63	1.64	1.60	(0.00)	0.00	(0.00)
TDR 6 Months(Profit at maturity)	10,000,000.00	1.74	1.74	1.70	1.73	1.74	1.69	(0.00)	0.00	(0.00)
TDR 6 Months (Profit at maturity)	50,000,000.00	1.97	1.97	1.92	1.97	1.97	1.92	0.00	0.00	0.00
TDR 1 Year (Profit at maturity)	100,000.00	1.81	1.81	1.77	1.91	1.91	1.86	0.10	0.10	0.09
TDR 1 Year (Profit at maturity)	10,000,000.00	1.92	1.92	1.87	2.02	2.02	1.96	0.10	0.11	0.10
TDR 1 Year (Profit at maturity)	100,000,000.00	1.97	1.97	1.91	2.08	2.08	2.02	0.11	0.11	0.10

The relationship between weightages and profit rates of corresponding deposit products fetch same results with few outliers, due to rounding off by DIB in profit rates.

BankIslami Pakistan Ltd

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Bank Islami		Profit Rate / Weightage		
Islami Bachat Account	1.00	0.080	0.080	0.080
Islami Bachat Account	2,500,000.00	0.080	0.080	0.080
Islami Bachat Account	50,000,000.00	0.080	0.080	0.080
Islami Bachat Account	100,000,000.00	0.080	0.080	0.080
Islami Bachat Account	200,000,000.00	0.080	0.080	0.080
Islami Bachat Account	500,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	1.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	5,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	10,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	25,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	50,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	100,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	200,000,000.00	0.080	0.080	0.080
TDR 3 Months (Profit at maturity)	500,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	1.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	1,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	2,500,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	5,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	10,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	25,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	50,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	100,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	200,000,000.00	0.080	0.080	0.080
TDR 6 Months (Profit at maturity)	500,000,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	1.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	2,500,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	5,000,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	10,000,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	100,000,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	200,000,000.00	0.080	0.080	0.080
TDR 1 Year (Profit at maturity)	500,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	1.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	1,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	2,500,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	5,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	10,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	100,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	200,000,000.00	0.080	0.080	0.080
TDR 1 Year (Monthly profit)	500,000,000.00	0.080	0.080	0.080

BankIslami Pakistan Ltd is also using the factorization mechanism for calculating weightages as the relationship between its various deposit products remain stagnant during every month i.e. they just multiply their profit rates with 0.08 to reach at the weightages.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Bank Islami		Weightages Relationship			Profit Rates Relationship			Difference		
Islami Bachat Account	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Islami Bachat Account	2,500,000.00	1.19	1.19	1.18	1.19	1.19	1.18	-	-	-
Islami Bachat Account	50,000,000.00	1.23	1.23	1.22	1.23	1.23	1.22	-	-	-
Islami Bachat Account	100,000,000.00	1.44	1.44	1.45	1.44	1.44	1.45	0.01	0.01	-
Islami Bachat Account	200,000,000.00	1.54	1.54	1.55	1.54	1.54	1.55	-	-	-
Islami Bachat Account	500,000,000.00	1.83	1.83	1.82	1.83	1.83	1.82	-	-	-
TDR 3 Months (Profit at maturity)	1.00	1.62	1.62	1.53	1.62	1.62	1.53	-	-	-
TDR 3 Months (Profit at maturity)	5,000,000.00	1.65	1.65	1.56	1.65	1.65	1.56	-	-	-
TDR 3Months (Profit at maturity)	10,000,000.00	1.69	1.69	1.60	1.69	1.69	1.60	-	-	-
TDR 3 Months (Profit at maturity)	25,000,000.00	1.79	1.79	1.69	1.79	1.79	1.69	-	-	-
TDR 3 Months (Profit at maturity)	50,000,000.00	1.85	1.85	1.75	1.85	1.85	1.75	-	-	-
TDR 3 Months (Profit at maturity)	100,000,000.00	2.12	2.12	2.00	2.12	2.12	2.00	-	-	-
TDR 3 Months (Profit at maturity)	200,000,000.00	2.19	2.19	2.07	2.19	2.19	2.07	-	-	-
TDR 3 Months (Profit at maturity)	500,000,000.00	2.23	2.23	2.11	2.23	2.23	2.11	-	-	-
TDR 6 Months (Profit at maturity)	1.00	1.73	1.73	1.85	1.73	1.73	1.85	-	-	-
TDR 6 Months (Profit at maturity)	1,000,000.00	1.73	1.73	1.89	1.73	1.73	1.89	-	-	-
TDR 6 Months (Profit at maturity)	2,500,000.00	1.73	1.73	1.93	1.73	1.73	1.93	-	-	-
TDR 6 Months (Profit at maturity)	5,000,000.00	1.77	1.77	1.96	1.77	1.77	1.96	-	-	-
TDR 6 Months (Profit at maturity)	10,000,000.00	1.79	1.79	1.96	1.79	1.79	1.96	-	-	-
TDR 6 Months (Profit at maturity)	25,000,000.00	1.83	1.83	1.96	1.83	1.83	1.96	-	-	-
TDR 6 Months (Profit at maturity)	50,000,000.00	1.88	1.88	1.96	1.88	1.88	1.96	-	-	-
TDR 6 Months (Profit at maturity)	100,000,000.00	2.12	2.12	2.33	2.12	2.12	2.33	-	-	-
TDR 6 Months (Profit at maturity)	200,000,000.00	2.19	2.19	2.40	2.19	2.19	2.40	-	-	-
TDR 6 Months (Profit at maturity)	500,000,000.00	2.23	2.23	2.51	2.23	2.23	2.51	-	-	-
TDR 1 Year (Profit at maturity)	1.00	2.06	2.06	1.96	2.06	2.06	1.96	-	-	-
TDR 1 Year (Profit at maturity)	2,500,000.00	2.06	2.06	2.00	2.06	2.06	2.00	-	-	-
TDR 1 Year (Profit at maturity)	5,000,000.00	2.06	2.06	2.04	2.06	2.06	2.04	-	-	-
TDR 1 Year (Profit at maturity)	10,000,000.00	2.08	2.08	2.04	2.08	2.08	2.04	-	-	-
TDR 1 Year (Profit at maturity)	100,000,000.00	2.17	2.17	2.44	2.17	2.17	2.44	-	-	0.00
TDR 1 Year (Profit at maturity)	200,000,000.00	2.21	2.21	2.55	2.21	2.21	2.55	-	-	-
TDR 1 Year (Profit at maturity)	500,000,000.00	2.27	2.27	2.64	2.27	2.27	2.64	-	-	-
TDR 1 Year (Monthly profit)	1.00	2.01	2.01	1.91	2.01	2.01	1.91	-	-	-
TDR lYear (Monthly profit)	1,000,000.00	2.01	2.01	1.93	2.01	2.01	1.93	-	-	-
TDR 1 Year (Monthly profit)	2,500,000.00	2.01	2.01	1.96	2.01	2.01	1.96	-	-	-
TDR 1 Year (Monthly profit)	5,000,000.00	2.01	2.01	2.00	2.01	2.01	2.00	-	-	-
TDR 1 Year (Monthlyprofit)	10,000,000.00	2.03	2.03	2.00	2.03	2.03	2.00	-	-	-
TDR 1 Year (Monthly profit)	100,000,000.00	2.12	2.12	2.36	2.12	2.12	2.36	-	-	-
TDR 1 Year (Monthly profit)	200,000,000.00	2.15	2.15	2.45	2.15	2.15	2.45	-	-	-
TDR 1 Year (Monthly profit)	500,000,000.00	2.21	2.21	2.55	2.21	2.21	2.55	-	-	-

The relationship between weightages and profit rates of corresponding deposit products fetch same results with few exceptions, due to rounding off in profit rates.

Al Baraka Bank (Pakistan) Ltd

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18
Bank Al Baraka		Profit Rate / Weightage	
Savings	1.00	12.2	12.3
TDR 3 Months (Profit at maturity)	1.00	12.2	12.3
TDR 3 Months (Profit at maturity)	5,000,000.00	12.2	12.3
TDR 3 Months(Profit at maturity)	10,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	15,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	50,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	100,000,000.00	12.2	12.3
TDR 3 Months (Profit atmaturity)	200,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	300,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	400,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	500,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	1,000,000,000.00	12.2	12.3
TDR 3 Months (Profit at maturity)	1,500,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	1.00	12.2	12.3
TDR 6 Months (Profit at maturity)	5,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	10,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	15,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	50,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	100,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	200,000,000.00	12.2	12.3
TDR 6 Months(Profit at maturity)	500,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	1,000,000,000.00	12.2	12.3
TDR 6 Months (Profit at maturity)	1,500,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	1.00	12.2	12.3
TDR 1 Year (Monthly profit)	5,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	10,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	15,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	30,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	50,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	100,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	200,000,000.00	12.2	12.3
TDR 1 Year (Monthly profit)	500,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	1.00	12.2	12.3
TDR 1 Year (Profit at maturity)	5,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	10,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	15,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	50,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	100,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	200,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	500,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	1,000,000,000.00	12.2	12.3
TDR 1 Year (Profit at maturity)	1,500,000,000.00	12.2	12.3

Bank Al Baraka is using the projection mechanism for calculating weightages as is evident from the profit : weightage relationship between its various deposit products, which remain stagnant during each month but changes amongst various month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
Bank Al Baraka		Weightages Relationship		Profit Rates Relationship		Difference	
Savings	1.00	1.00	1.00	1.00	1.00	-	-
TDR 3 Months (Profit at maturity)	1.00	1.61	1.61	1.61	1.61	(0.00)	0.00
TDR 3 Months (Profit at maturity)	5,000,000.00	1.65	1.65	1.65	1.65	(0.00)	0.00
TDR 3 Months (Profit at maturity)	10,000,000.00	1.69	1.69	1.69	1.69	(0.00)	0.00
TDR 3 Months (Profit at maturity)	15,000,000.00	1.72	1.72	1.72	1.72	(0.00)	0.00
TDR 3 Months (Profit at maturity)	50,000,000.00	2.05	2.05	2.05	2.05	(0.00)	0.00
TDR 3 Months (Profit at maturity)	100,000,000.00	2.24	2.24	2.24	2.24	(0.00)	0.00
TDR 3 Months (Profit at maturity)	200,000,000.00	2.26	2.26	2.26	2.26	(0.00)	0.00
TDR 3 Months (Profit at maturity)	300,000,000.00	2.28	2.28	2.28	2.28	(0.00)	0.00
TDR 3 Months (Profit at maturity)	400,000,000.00	2.28	2.28	2.28	2.28	(0.00)	0.00
TDR 3 Months (Profit at maturity)	500,000,000.00	2.36	2.39	2.36	2.39	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1,000,000,000.00	2.34	2.34	2.34	2.34	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1,500,000,000.00	2.34	2.34	2.34	2.34	(0.00)	0.00
TDR 6 Months (Profit at maturity)	1.00	1.69	1.69	1.69	1.69	(0.00)	0.00
TDR 6 Months (Profit at maturity)	5,000,000.00	1.74	1.74	1.74	1.74	(0.00)	0.00
TDR 6 Months (Profit at maturity)	10,000,000.00	1.76	1.76	1.76	1.76	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	15,000,000.00	1.82	1.82	1.82	1.82	(0.00)	0.00
TDR 6 Months (Profit at maturity)	50,000,000.00	1.88	1.88	1.88	1.88	(0.00)	0.00
TDR 6 Months (Profit at maturity)	100,000,000.00	2.18	2.18	2.18	2.18	(0.00)	0.00
TDR 6 Months (Profit at maturity)	200,000,000.00	2.24	2.24	2.24	2.24	(0.00)	0.00
TDR 6 Months (Profit at maturity)	500,000,000.00	2.26	2.36	2.26	2.36	(0.00)	0.00
TDR 6 Months (Profit at maturity)	1,000,000,000.00	2.32	2.39	2.32	2.39	(0.00)	0.00
TDR 6 Months (Profit at maturity)	1,500,000,000.00	2.30	2.45	2.30	2.45	(0.00)	0.00
TDR 1 Year (Monthly profit)	1.00	1.90	1.90	1.90	1.90	(0.00)	0.00
TDR 1 Year (Monthly profit)	5,000,000.00	1.92	1.92	1.92	1.92	(0.00)	0.00
TDR 1 Year (Monthly profit)	10,000,000.00	1.95	1.95	1.95	1.95	(0.00)	0.00
TDR 1 Year (Monthly profit)	15,000,000.00	1.97	1.97	1.97	1.97	(0.00)	0.00
TDR 1 Year (Monthly profit)	30,000,000.00	1.99	1.99	1.99	1.99	(0.00)	0.00
TDR 1 Year (Monthly profit)	50,000,000.00	2.05	2.05	2.05	2.05	(0.00)	0.00
TDR 1 Year (Monthly profit)	100,000,000.00	2.15	2.22	2.15	2.22	(0.00)	0.00
TDR 1 Year (Monthly profit)	200,000,000.00	2.17	2.30	2.16	2.30	(0.00)	0.00
TDR 1 Year (Monthly profit)	500,000,000.00	2.28	2.39	2.28	2.39	(0.00)	0.00
TDR 1 Year (Profit at maturity)	1.00	2.03	2.03	2.03	2.03	(0.00)	0.00
TDR 1 Year (Profit at maturity)	5,000,000.00	2.03	2.03	2.03	2.03	(0.00)	0.00
TDR 1 Year (Profit at maturity)	10,000,000.00	2.05	2.05	2.05	2.05	(0.00)	0.00
TDR 1 Year (Profit at maturity)	15,000,000.00	2.05	2.05	2.05	2.05	(0.00)	0.00
TDR 1 Year (Profit at maturity)	50,000,000.00	2.05	2.05	2.05	2.05	(0.00)	0.00
TDR 1 Year (Profit at maturity)	100,000,000.00	2.18	2.18	2.18	2.18	(0.00)	0.00
TDR 1 Year (Profit at maturity)	200,000,000.00	2.30	2.43	2.30	2.43	(0.00)	0.00
TDR 1 Year (Profit at maturity)	500,000,000.00	2.41	2.49	2.41	2.49	(0.00)	0.00
TDR 1 Year (Profit at maturity)	1,000,000,000.00	2.47	2.57	2.47	2.57	(0.00)	0.00
TDR 1 Year (Profit at maturity)	1,500,000,000.00	2.47	2.59	2.47	2.59	(0.00)	0.00

The relationship between weightages and profit rates of corresponding deposit products fetch same results showing weightages are just a replica of profit rates, as treated by Bank Al Baraka.

MCB Islamic Bank Ltd

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
MCB Islamic		Profit Rate / Weightage		
Hifazat Plus Saving Deposit 3	1.00	0.12	0.12	0.13
Hifazat Plus Saving Deposit 3	500,000,000.00	0.12	0.12	0.13
TDR 3 Months (Monthly profit)	500,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	1.00	0.12	0.12	0.13
TDR 3 Months(Profit at maturity)	25,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	100,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	500,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	1,000,000.00	0.12	0.12	0.13
TDR 3 Months (Profit atmaturity)	5,000,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	40,000,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	100,000,000.00	0.12	0.12	0.13
TDR 3 Months (Profit at maturity)	250,000,000.00	0.12	0.12	0.13
TDR 6 Months (Monthlyprofit)	100,000.00	0.12	0.12	0.13
TDR 6 Months (Monthly profit)	500,000.00	0.12	0.12	0.13
TDR 6 Months (Monthly profit)	5,000,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	1.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	25,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	100,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	500,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	1,000,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	5,000,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	10,000,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	40,000,000.00	0.12	0.12	0.13
TDR 6 Months (Profit at maturity)	100,000,000.00	0.12	0.12	0.13

The projection mechanism is being used by MCB Islamic Bank for calculating weightages as the relationship between its various deposit products remain constant during each month but changes amongst various month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
MCB Islamic		Weightages Relationship			Profit Rates Relationship			Difference		
Hifazat Plus Saving Deposit 3	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Hifazat Plus Saving Deposit 3	500,000,000.00	1.15	1.16	1.16	1.15	1.16	1.16	(0.00)	(0.00)	0.00
TDR 3 Months (Monthly profit)	500,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1.00	0.81	0.81	0.81	0.80	0.81	0.81	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	25,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	0.00	0.00
TDR 3 Months (Profit at maturity)	100,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	0.00	0.00
TDR 3 Months (Profit at maturity)	500,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1,000,000.00	0.82	0.82	0.82	0.81	0.82	0.82	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	5,000,000.00	0.82	0.82	0.82	0.82	0.82	0.82	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	40,000,000.00	0.83	0.83	0.83	0.82	0.83	0.83	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	100,000,000.00	1.10	1.10	1.10	1.09	1.10	1.10	(0.01)	0.00	(0.00)
TDR 3 Months (Profit at maturity)	250,000,000.00	1.23	1.23	1.46	1.22	1.23	1.46	(0.01)	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	100,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	0.00	(0.00)
TDR 6 Months (Monthly profit)	500,000.00	0.81	0.81	0.81	0.81	0.81	0.81	(0.00)	0.00	0.00
TDR 6 Months (Monthly profit)	5,000,000.00	0.82	0.82	0.82	0.82	0.82	0.82	(0.00)	(0.00)	0.00
TDR 6Months (Profit at maturity)	1.00	0.82	0.82	0.82	0.82	0.82	0.82	(0.00)	0.00	0.00
TDR 6 Months (Profit at maturity)	25,000.00	0.82	0.82	0.82	0.82	0.82	0.82	(0.00)	(0.00)	0.00
TDR 6 Months (Profit at maturity)	100,000.00	0.82	0.82	0.82	0.82	0.82	0.82	(0.00)	(0.00)	0.00
TDR 6 Months (Profit at maturity)	500,000.00	0.83	0.83	0.83	0.82	0.83	0.83	(0.00)	0.00	0.00
TDR 6 Months (Profit at maturity)	1,000,000.00	0.83	0.83	0.83	0.82	0.83	0.83	(0.00)	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	5,000,000.00	0.83	0.83	0.83	0.83	0.83	0.83	(0.00)	(0.00)	0.00
TDR 6 Months (Profit at maturity)	10,000,000.00	0.83	0.83	0.83	0.83	0.83	0.83	(0.00)	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	40,000,000.00	0.84	0.84	0.84	0.84	0.84	0.84	(0.00)	(0.00)	0.00
TDR 6 Months (Profit at maturity)	100,000,000.00	1.01	1.01	1.00	1.01	1.01	1.01	(0.00)	(0.00)	0.01

The relationship between weightages and profit rates of corresponding deposit products of MCB Islamic Bank Ltd fetch same results with few outliers having variation of less than 1%.

National Bank of Pakistan – Aitemaad Islamic

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
NBP		Profit Rate / Weightage		
Savings	1.00	0.037	0.037	0.040
Savings	25,000,000.00	0.037	0.037	0.040
Savings	50,000,000.00	0.037	0.037	0.040
Savings	100,000,000.00	0.037	0.037	0.040
Savings	250,000,000.00	0.037	0.037	0.040
Savings	500,000,000.00	0.037	0.037	0.040
Savings	1,000,000,000.00	0.037	0.037	0.040
TDR 3 Months (Monthly profit)	1.00	0.037	0.037	0.040
TDR 3 Months (Monthly profit)	1,000,000.00	0.037	0.037	0.040
TDR 3 Months (Monthly profit)	10,000,000.00	0.037	0.037	0.040
TDR 6 Months (Monthly profit)	1.00	0.037	0.037	0.040
TDR 6 Months (Monthly profit)	1,000,000.00	0.037	0.037	0.040
TDR 6 Months (Monthly profit)	10,000,000.00	0.037	0.037	0.040
TDR 1 Year (Monthly profit)	1.00	0.037	0.037	0.040
TDR 1 Year (Monthly profit)	1,000,000.00	0.037	0.037	0.040
TDR 1 Year (Monthly profit)	10,000,000.00	0.037	0.037	0.040
TDR 3 Months (Profit at maturity)	1.00	0.037	0.037	0.040
TDR 3 Months (Profit at maturity)	10,000,000.00	0.037	0.037	0.040
TDR 3 Months (Profit at maturity)	50,000,000.00	0.037	0.037	0.040
TDR 3 Months (Profit at maturity)	100,000,000.00	0.037	0.037	0.040
TDR 6 Months (Profit at maturity)	1.00	0.037	0.037	0.040
TDR 6 Months (Profit at maturity)	10,000,000.00	0.037	0.037	0.040
TDR 6 Months (Profit at maturity)	50,000,000.00	0.037	0.037	0.040
TDR 6 Months (Profit at maturity)	100,000,000.00	0.037	0.037	0.040
TDR 1 Year (Profit at maturity)	1.00	0.037	0.037	0.040
TDR 1 Year (Profit at maturity)	10,000,000.00	0.037	0.037	0.040
TDR 1 Year (Profit at maturity)	50,000,000.00	0.037	0.037	0.040
TDR 1 Year (Profit at maturity)	100,000,000.00	0.037	0.037	0.040

The projection methodology is used by NBP for calculating weightages as the profit / weightage remain perpetual during each month but changes from one month to other.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
NBP		Weightages Relationship			Profit Rates Relationship			Difference		
Savings	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Savings	25,000,000.00	1.04	1.04	1.04	1.04	1.04	1.04	0.00	(0.00)	(0.00)
Savings	50,000,000.00	1.12	1.12	1.12	1.12	1.12	1.12	0.00	0.00	(0.00)
Savings	100,000,000.00	1.22	1.22	1.22	1.22	1.22	1.22	(0.00)	(0.00)	(0.00)
Savings	250,000,000.00	1.31	1.31	1.31	1.31	1.31	1.31	(0.00)	0.00	0.00
Savings	500,000,000.00	1.41	1.41	1.41	1.41	1.41	1.41	0.00	(0.00)	(0.00)
Savings	1,000,000,000.00	1.51	1.51	1.51	1.51	1.51	1.51	0.00	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	1.00	1.51	1.71	1.71	1.51	1.71	1.70	(0.00)	(0.00)	(0.01)
TDR 3 Months (Monthly profit)	1,000,000.00	1.78	1.98	1.98	1.78	1.98	1.97	(0.00)	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	10,000,000.00	1.89	2.08	2.08	1.89	2.08	2.08	0.00	(0.00)	(0.00)
TDR6 Months (Monthly profit)	1.00	1.60	1.80	1.80	1.60	1.80	1.80	0.00	-	(0.00)
TDR 6 Months (Monthly profit)	1,000,000.00	1.89	2.08	2.08	1.89	2.08	2.08	0.00	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	10,000,000.00	2.00	2.20	2.20	2.00	2.20	2.19	-	0.00	(0.00)
TDR 1 Year (Monthly profit)	1.00	1.70	1.89	1.89	1.70	1.89	1.89	(0.00)	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	1,000,000.00	2.00	2.20	2.20	2.00	2.20	2.19	-	0.00	(0.00)
TDR 1 Year (Monthly profit)	10,000,000.00	2.02	2.22	2.22	2.02	2.22	2.21	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	1.00	2.00	2.20	2.20	2.00	2.20	2.20	0.00	-	(0.00)
TDR 3 Months (Profit at maturity)	10,000,000.00	2.03	2.22	2.22	2.03	2.22	2.22	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	50,000,000.00	2.05	2.24	2.24	2.05	2.24	2.24	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	100,000,000.00	2.06	2.26	2.26	2.06	2.26	2.26	0.00	0.00	(0.00)
TDR 6 Months (Profit at maturity)	1.00	2.02	2.22	2.22	2.02	2.22	2.22	0.00	(0.00)	(0.00)
TDR 6 Months(Profit at maturity)	10,000,000.00	2.05	2.24	2.24	2.05	2.24	2.24	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	50,000,000.00	2.07	2.27	2.27	2.07	2.27	2.26	0.00	-	(0.00)
TDR 6 Months (Profit at maturity)	100,000,000.00	2.08	2.27	2.27	2.08	2.27	2.27	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	1.00	2.04	2.24	2.24	2.04	2.24	2.24	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	10,000,000.00	2.07	2.26	2.26	2.07	2.26	2.26	-	0.00	(0.00)
TDR 1 Year (Profit at maturity)	50,000,000.00	2.09	2.29	2.29	2.09	2.29	2.28	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	100,000,000.00	2.18	2.37	2.37	2.18	2.37	2.37	0.00	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products of NBP fetches same results in all three months.

Habib Bank Ltd – Islamic Banking

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18
HBL		Profit Rate / Weightage	
Al-Itrifa Account	1.00	0.129	0.127
Al-Itrifa Account	500,000.00	0.129	0.127
Al-Itrifa Account	1,000,000.00	0.129	0.127
Al-Itrifa Account	5,000,000.00	0.129	0.127
Al-Itrifa Account	25,000,000.00	0.129	0.127
Al-Itrifa Account	50,000,000.00	0.129	0.127
Al-Itrifa Account	100,000,000.00	0.129	0.127
Al-Itrifa Account	250,000,000.00	0.129	0.127
Al-Itrifa Account	500,000,000.00	0.129	0.127
Al-Itrifa Account	1,000,000,000.00	0.129	0.126
TDR 1 Month (Profit at maturity)	1.00	0.129	0.127
TDR 3 Months (Profit at maturity)	1.00	0.129	0.127
TDR 6 Months (Profit at maturity)	1.00	0.129	0.127
TDR 1 Year (Profit at maturity)	1.00	0.129	0.127
TDR 3 Year (Profit at maturity)	1.00	0.129	0.127
TDR 5 Year (Profit at maturity)	1.00	0.129	0.127
TDR 1 Year (Monthly profit)	1.00	0.129	0.127
TDR 3 Year (Monthly profit)	1.00	0.129	0.127
TDR 5 Year (Monthly profit)	1.00	0.129	0.127

Only two months data was available for HBL as it has yet to declare rates for month of August 2018. However, the results show that HBL is using projection methodology for weightages calculation as weightage / profit ratio between deposit products is same in each month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
HBL		Weightages Relationship		Profit Rates Relationship		Difference	
Al-Itrifa Account	1.00	1.00	1.00	1.00	1.00	-	-
Al-Itrifa Account	500,000.00	1.03	1.03	1.03	1.03	(0.00)	0.00
Al-Itrifa Account	1,000,000.00	1.13	1.13	1.13	1.13	0.00	0.00
Al-Itrifa Account	5,000,000.00	1.15	1.15	1.15	1.15	(0.00)	0.00
Al-Itrifa Account	25,000,000.00	1.16	1.16	1.16	1.16	(0.00)	(0.00)
Al-Itrifa Account	50,000,000.00	1.17	1.17	1.17	1.17	(0.00)	(0.00)
Al-Itrifa Account	100,000,000.00	1.18	1.18	1.18	1.18	(0.00)	0.00
Al-Itrifa Account	250,000,000.00	1.18	1.18	1.18	1.18	(0.00)	0.00
Al-Itrifa Account	500,000,000.00	1.19	1.19	1.19	1.19	(0.00)	(0.00)
Al-Itrifa Account	1,000,000,000.00	1.20	1.20	1.20	1.19	(0.00)	(0.01)
TDR 1 Month (Profit at maturity)	1.00	1.23	1.23	1.23	1.23	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1.00	1.26	1.26	1.26	1.26	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	1.00	1.32	1.32	1.32	1.32	0.00	0.00
TDR 1 Year (Profit at maturity)	1.00	1.46	1.46	1.46	1.46	(0.00)	(0.00)
TDR 3 Year (Profit at maturity)	1.00	1.61	1.61	1.61	1.61	(0.00)	(0.00)
TDR 5 Year (Profit at maturity)	1.00	1.76	1.76	1.76	1.76	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	1.00	1.33	1.33	1.33	1.33	(0.00)	(0.00)
TDR 3 Year (Monthly profit)	1.00	1.45	1.45	1.45	1.45	(0.00)	(0.00)
TDR 5 Year (Monthly profit)	1.00	1.35	1.35	1.35	1.35	(0.00)	(0.00)

The ratio between weightages and profit rates of corresponding deposit products fetches same results in the corresponding months with only one outlier, due to rounding off in profit rates.

UBL Ameen

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
UBL Ameen		Profit Rate / Weightage		
Ameen Saving Account	1.00	0.08	0.08	0.08
Ameen Saving Account	10,000.00	0.08	0.08	0.08
Ameen Saving Account	10,000,000.00	0.08	0.08	0.08
Ameen Saving Account	50,000,000.00	0.08	0.08	0.08
Ameen Saving Account	100,000,000.00	0.08	0.08	0.08
Ameen Saving Account	500,000,000.00	0.08	0.08	0.08
TDR 1 Year (Monthly profit)	50,000.00	0.08	0.08	0.08
TDR 1 Year (Monthly profit)	500,000.00	0.08	0.08	0.08
TDR 1 Year (Monthly profit)	1,000,000.00	0.08	0.08	0.08
TDR 1 Year (Monthly profit)	2,500,000.00	0.08	0.08	0.08
TDR 2 Years (Monthly profit)	50,000.00	0.08	0.08	0.08
TDR 2 Years (Monthly profit)	500,000.00	0.08	0.08	0.08
TDR 2 Years (Monthly profit)	1,000,000.00	0.08	0.08	0.08
TDR 2 Years (Monthly profit)	2,500,000.00	0.08	0.08	0.08
TDR 3 Months (Profit at maturity)	10,000.00	0.08	0.08	0.08
TDR 3 Months (Profit at maturity)	250,000.00	0.08	0.08	0.08
TDR 3 Months (Profit at maturity)	500,000.00	0.08	0.08	0.08
TDR 3 Months (Profit at maturity)	1,000,000.00	0.08	0.08	0.08
TDR 3 Months (Profit at maturity)	2,500,000.00	0.08	0.08	0.08
TDR 6 Months (Profit at maturity)	10,000.00	0.08	0.08	0.08
TDR 6 Months (Profit at maturity)	250,000.00	0.08	0.08	0.08
TDR 6 Months (Profit at maturity)	500,000.00	0.08	0.08	0.08
TDR 6 Months (Profit at maturity)	1,000,000.00	0.08	0.08	0.08
TDR 6 Months (Profit at maturity)	2,500,000.00	0.08	0.08	0.08
TDR 1 Year (Profit at maturity)	10,000.00	0.08	0.08	0.08
TDR 1 Year (Profit at maturity)	250,000.00	0.08	0.08	0.08
TDR 1 Year (Profit at maturity)	500,000.00	0.08	0.08	0.08
TDR 1 Year (Profit at maturity)	1,000,000.00	0.08	0.08	0.08
TDR 1 Year (Profit at maturity)	2,500,000.00	0.08	0.08	0.08

UBL Ameen is using the factorization mechanism for calculating weightages as the relationship between its various deposits products remain stagnant during every month i.e. they just multiply their profit rates with 0.08 to reach at the weightages.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug 18	Jun-18	Jul-18	Aug-18
UBL Ameen		Weightages Relationship			Profit Rates Relationship			Difference		
Ameen Saving Account	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Ameen Saving Account	10,000.00	1.02	1.02	1.02	1.02	1.02	1.02	-	-	0.00
Ameen Saving Account	10,000,000.00	1.03	1.03	1.03	1.03	1.03	1.03	-	-	0.00
Ameen Saving Account	50,000,000.00	1.09	1.09	1.08	1.09	1.09	1.08	-	-	0.00
Ameen Saving Account	100,000,000.00	1.10	1.10	1.08	1.09	1.09	1.08	(0.02)	(0.02)	0.00
Ameen Saving Account	500,000,000.00	1.12	1.12	1.11	1.12	1.12	1.11	-	-	0.00
TDR 1 Year (Monthly profit)	50,000.00	1.36	1.36	1.33	1.36	1.36	1.33	-	-	0.00
TDR 1 Year (Monthly profit)	500,000.00	1.40	1.40	1.37	1.40	1.40	1.37	-	-	0.00
TDR 1 Year (Monthly profit)	1,000,000.00	1.43	1.43	1.40	1.43	1.43	1.40	-	-	0.00
TDR 1 Year (Monthly profit)	2,500,000.00	1.47	1.47	1.43	1.47	1.47	1.43	-	-	0.00
TDR 2 Years (Monthly profit)	50,000.00	1.38	1.38	1.35	1.38	1.38	1.35	-	-	0.00
TDR 2 Years (Monthly profit)	500,000.00	1.41	1.41	1.38	1.41	1.41	1.38	-	-	0.00
TDR 2 Years (Monthly profit)	1,000,000.00	1.45	1.45	1.41	1.45	1.45	1.41	-	-	0.00
TDR 2 Years (Monthly profit)	2,500,000.00	1.48	1.48	1.44	1.48	1.48	1.44	-	-	0.00
TDR 3 Months (Profit at maturity)	10,000.00	1.36	1.36	1.33	1.36	1.36	1.33	-	-	0.00
TDR 3 Months (Profit at maturity)	250,000.00	1.40	1.40	1.37	1.40	1.40	1.37	-	-	0.00
TDR 3 Months (Profit at maturity)	500,000.00	1.43	1.43	1.40	1.43	1.43	1.40	-	-	0.00
TDR 3 Months (Profit at maturity)	1,000,000.00	1.45	1.45	1.41	1.45	1.45	1.41	-	-	0.00
TDR 3 Months (Profit at maturity)	2,500,000.00	1.47	1.47	1.43	1.47	1.47	1.43	-	-	0.00
TDR 6 Months (Profit at maturity)	10,000.00	1.38	1.38	1.35	1.38	1.38	1.35	-	-	0.00
TDR 6 Months (Profit at maturity)	250,000.00	1.41	1.41	1.38	1.41	1.41	1.38	-	-	0.00
TDR 6 Months (Profit at maturity)	500,000.00	1.45	1.45	1.41	1.45	1.45	1.41	-	-	0.00
TDR 6 Months (Profit at maturity)	1,000,000.00	1.47	1.47	1.43	1.47	1.47	1.43	-	-	0.00
TDR 6 Months (Profit at maturity)	2,500,000.00	1.48	1.48	1.44	1.48	1.48	1.44	-	-	0.00
TDR 1 Year (Profit at maturity)	10,000.00	1.40	1.40	1.37	1.40	1.40	1.37	-	-	0.00
TDR 1 Year (Profit at maturity)	250,000.00	1.43	1.43	1.40	1.43	1.43	1.40	-	-	0.00
TDR 1 Year (Profit at maturity)	500,000.00	1.47	1.47	1.43	1.47	1.47	1.43	-	-	0.00
TDR 1 Year (Profit at maturity)	1,000,000.00	1.48	1.48	1.44	1.48	1.48	1.44	-	-	0.00
TDR 1 Year (Profit at maturity)	2,500,000.00	1.48	1.48	1.44	1.48	1.48	1.44	-	-	0.00

The relationship between weightages and profit rates of corresponding deposit products is fetch same results i.e. weightages are just a replica of profit rates, as treated by UBL Ameen.

Bank Al Habib Ltd – Islamic Banking

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Bank AlHabib		Profit Rate / Weightage		
Mahana Amadni Savings	1.00	0.06	0.06	0.06
Mahana Amadni Savings	50,000.00	0.06	0.06	0.06
Mahana Amadni Savings	10,000,000.00	0.06	0.06	0.06
Mahana Amadni Savings	25,000,000.00	0.06	0.06	0.06
Mahana Amadni Savings	50,000,000.00	0.06	0.06	0.06
Mahana Amadni Savings	200,000,000.00	0.06	0.06	0.06
TDR 3 Months (Monthly profit)	1.00	0.06	0.06	0.06
TDR 3 Months (Monthly profit)	10,000,000.00	0.06	0.06	0.06
TDR 3 Months (Monthly profit)	25,000,000.00	0.06	0.06	0.06
TDR 3 Months (Monthly profit)	50,000,000.00	0.06	0.06	0.06
TDR 3 Months (Monthly profit)	100,000,000.00	0.06	0.06	0.06
TDR 6 Months (Monthly profit)	1.00	0.06	0.06	0.06
TDR 6 Months (Monthly profit)	10,000,000.00	0.06	0.06	0.06
TDR 6 Months (Monthly profit)	25,000,000.00	0.06	0.06	0.06
TDR 6 Months (Monthly profit)	50,000,000.00	0.06	0.06	0.06
TDR 6 Months (Monthly profit)	100,000,000.00	0.06	0.06	0.06
TDR 1 Year (Monthly profit)	1.00	0.06	0.06	0.06
TDR 1 Year (Monthly profit)	10,000,000.00	0.06	0.06	0.06
TDR 1 Year (Monthly profit)	25,000,000.00	0.06	0.06	0.06
TDR 1 Year (Monthly profit)	50,000,000.00	0.06	0.06	0.06
TDR 1 Year (Monthly profit)	100,000,000.00	0.06	0.06	0.06
TDR 1 Year (Profit at maturity)	1.00	0.06	0.06	0.06
TDR 1 Year (Profit at maturity)	10,000,000.00	0.06	0.06	0.06
TDR 1 Year (Profit at maturity)	25,000,000.00	0.06	0.06	0.06
TDR 1 Year (Profit at maturity)	50,000,000.00	0.06	0.06	0.06
TDR 1 Year (Profit at maturity)	100,000,000.00	0.06	0.06	0.06

Bank Al Habib Ltd is also using the factorization mechanism for calculating weightages as the relationship between its various deposits products remain stagnant during every month i.e. they just multiply their profit rates with 0.06 to reach at the weightages.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Bank AlHabib		Weightages Relationship			Profit Rates Relationship			Difference		
Mahana Amadni Savings	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Mahana Amadni Savings	50,000.00	1.02	1.04	1.04	1.02	1.04	1.04	0.00	(0.00)	(0.00)
Mahana Amadni Savings	10,000,000.00	1.06	1.07	1.07	1.06	1.07	1.07	0.00	(0.00)	(0.00)
Mahana Amadni Savings	25,000,000.00	1.08	1.10	1.10	1.08	1.10	1.10	0.00	(0.00)	(0.00)
Mahana Amadni Savings	50,000,000.00	1.17	1.13	1.13	1.17	1.13	1.13	0.00	(0.00)	(0.00)
Mahana Amadni Savings	200,000,000.00	1.33	1.27	1.27	1.33	1.27	1.27	0.00	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	1.00	1.44	1.37	1.37	1.44	1.37	1.37	0.00	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	10,000,000.00	1.45	1.39	1.39	1.45	1.39	1.39	0.00	(0.00)	(0.00)
TDR 3Months (Monthly profit)	25,000,000.00	1.47	1.40	1.40	1.47	1.40	1.40	0.00	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	50,000,000.00	1.48	1.42	1.42	1.49	1.42	1.42	0.00	(0.00)	(0.00)
TDR 3 Months (Monthly profit)	100,000,000.00	1.52	1.45	1.45	1.52	1.45	1.45	0.00	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	1.00	1.48	1.42	1.42	1.49	1.42	1.42	0.00	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	10,000,000.00	1.50	1.43	1.43	1.50	1.43	1.43	0.00	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	25,000,000.00	1.52	1.45	1.45	1.52	1.45	1.45	0.00	(0.00)	(0.00)
TDR 6 Months (Monthly profit)	50,000,000.00	1.55	1.48	1.48	1.55	1.48	1.45	0.00	(0.00)	(0.03)
TDR 6 Months (Monthly profit)	100,000,000.00	1.67	1.60	1.46	1.67	1.59	1.46	0.00	(0.00)	(0.00)
TDR 1 Year(Monthly profit)	1.00	1.53	1.49	1.57	1.53	1.49	1.57	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	10,000,000.00	1.55	1.51	1.58	1.55	1.51	1.58	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	25,000,000.00	1.58	1.52	1.60	1.58	1.52	1.59	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	50,000,000.00	1.59	1.54	1.61	1.59	1.54	1.61	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	100,000,000.00	1.64	1.58	1.63	1.64	1.58	1.63	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	1.00	1.59	1.54	1.60	1.59	1.54	1.59	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	10,000,000.00	1.61	1.55	1.61	1.61	1.55	1.61	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	25,000,000.00	1.63	1.57	1.63	1.63	1.57	1.63	0.00	(0.00)	(0.00)
TDR 1 Year (Profit atmaturity)	50,000,000.00	1.64	1.58	1.64	1.64	1.58	1.64	0.00	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	100,000,000.00	1.67	1.60	1.66	1.67	1.59	1.65	0.00	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products fetch same results with only one exception, due to rounding off in profit rates.

Habib Metro Bank – Sirat

TEST 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Habib Metro		Profit Rate / Weightage		
Savings	1.00	0.040	0.040	0.037
Savings	25,000.00	0.040	0.040	0.037
Savings	100,000.00	0.040	0.040	0.037
Savings	500,000.00	0.040	0.040	0.037
Savings	1,000,000.00	0.040	0.040	0.037
Savings	10,000,000.00	0.040	0.040	0.037
Savings	20,000,000.00	0.040	0.040	0.037
Savings	30,000,000.00	0.040	0.040	0.037
Savings	40,000,000.00	0.040	0.040	0.037
Savings	90,000,000.00	0.040	0.040	0.037
Savings	100,000,000.00	0.040	0.040	0.037
TDR 1 Year (Monthly profit)	1.00	0.040	0.040	0.037
TDR 2 Years (Monthly profit)	1.00	0.040	0.040	0.037
TDR 3 Years(Monthly profit)	1.00	0.040	0.040	0.037
TDR 3 Months (Profit at maturity)	1.00	0.040	0.040	0.037
TDR 6 Months (Profit at maturity)	1.00	0.040	0.040	0.037
TDR 1 Year (Profit at maturity)	1.00	0.040	0.040	0.037

Habib Metro – Sirat is using the projection mechanism for calculating weightages as is evident from the profit : weightage relationship between its various deposit products, which remain stagnant during each month but changes amongst various month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Habib Metro		Weightages Relationship			Profit Rates Relationship			Difference		
Savings	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Savings	25,000.00	1.02	1.02	1.01	1.01	1.01	1.01	(0.00)	(0.00)	(0.00)
Savings	100,000.00	1.03	1.03	1.03	1.03	1.03	1.02	(0.00)	(0.00)	(0.00)
Savings	500,000.00	1.05	1.05	1.04	1.05	1.05	1.04	(0.00)	(0.00)	(0.00)
Savings	1,000,000.00	1.06	1.06	1.05	1.06	1.06	1.05	(0.00)	(0.00)	(0.00)
Savings	10,000,000.00	1.09	1.09	1.08	1.09	1.09	1.08	0.00	0.00	(0.00)
Savings	20,000,000.00	1.13	1.13	1.10	1.12	1.12	1.10	(0.00)	(0.00)	(0.00)
Savings	30,000,000.00	1.16	1.16	1.13	1.16	1.16	1.12	(0.00)	(0.00)	(0.00)
Savings	40,000,000.00	1.19	1.19	1.15	1.19	1.19	1.15	(0.00)	(0.00)	(0.00)
Savings	90,000,000.00	1.25	1.25	1.20	1.25	1.25	1.20	(0.00)	(0.00)	(0.00)
Savings	100,000,000.00	1.25	1.25	1.20	1.25	1.25	1.20	(0.00)	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	1.00	1.33	1.33	1.27	1.33	1.33	1.27	(0.00)	(0.00)	(0.00)
TDR 2 Years (Monthly profit)	1.00	1.33	1.33	1.27	1.33	1.33	1.27	(0.00)	(0.00)	(0.00)
TDR 3 Years (Monthly profit)	1.00	1.39	1.39	1.32	1.39	1.39	1.31	(0.00)	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	1.00	1.30	1.30	1.24	1.30	1.30	1.24	(0.00)	(0.00)	0.00
TDR 6 Months (Profit at maturity)	1.00	1.32	1.32	1.26	1.32	1.32	1.26	(0.00)	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	1.00	1.50	1.50	1.40	1.50	1.50	1.40	(0.00)	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products fetch same results showing weightages are just a replica of profit rates, as treated by Habib Metro.

Bank Alfalah - Islamic

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
Bank Alfalah		Profit Rate / Weightage		
Saving Musharaka	1.00	0.039	0.040	0.040
Saving Musharaka	10,000.00	0.039	0.040	0.040
Saving Musharaka	100,000.00	0.039	0.040	0.040
Saving Musharaka	500,000.00	0.039	0.040	0.040
Saving Musharaka	1,000,000.00	0.039	0.040	0.040
Saving Musharaka	5,000,000.00	0.039	0.040	0.040
Saving Musharaka	10,000,000.00	0.039	0.040	0.040
Saving Musharaka	25,000,000.00	0.039	0.040	0.040
Saving Musharaka	50,000,000.00	0.039	0.040	0.040
Saving Musharaka	100,000,000.00	0.039	0.040	0.040
TDR 1Year (Monthly profit)	100,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	500,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	1,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	5,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthlyprofit)	10,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	25,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	50,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	75,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	100,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	150,000,000.00	0.039	0.040	0.040
TDR 1 Year (Monthly profit)	200,000,000.00	0.039	0.040	0.040
TDR 3 Months (Profit at maturity)	100,000.00	0.039	0.040	0.040
TDR 3 Months (Profit at maturity)	500,000.00	0.039	0.040	0.040
TDR 3 Months (Profit at maturity)	1,000,000.00	0.039	0.040	0.040
TDR 3 Months (Profit at maturity)	5,000,000.00	0.039	0.040	0.040
TDR 3 Months (Profit at maturity)	10,000,000.00	0.039	0.040	0.040
TDR 3 Months (Profit atmaturity)	25,000,000.00	0.039	0.040	0.040

The projection mechanism is being used by Bank Alfalah for calculating weightages as the relationship between its various deposit products remain constant during each month but changes amongst various month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
Bank Alfalah		Weightages Relationship			Profit Rates Relationship			Difference		
Saving Musharaka	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
Saving Musharaka	10,000.00	1.00	1.00	1.00	1.00	1.00	1.00	(0.00)	(0.00)	(0.00)
Saving Musharaka	100,000.00	1.01	1.01	1.01	1.01	1.01	1.01	(0.00)	(0.00)	(0.00)
Saving Musharaka	500,000.00	1.01	1.01	1.01	1.01	1.01	1.01	(0.00)	(0.00)	(0.00)
Saving Musharaka	1,000,000.00	1.06	1.06	1.06	1.07	1.06	1.06	0.00	(0.00)	(0.00)
Saving Musharaka	5,000,000.00	1.10	1.10	1.10	1.10	1.10	1.10	0.00	0.00	(0.00)
Saving Musharaka	10,000,000.00	1.11	1.11	1.11	1.11	1.11	1.11	0.00	(0.00)	(0.00)
SavingMusharaka	25,000,000.00	1.12	1.12	1.11	1.12	1.12	1.11	0.00	(0.00)	(0.00)
Saving Musharaka	50,000,000.00	1.12	1.12	1.12	1.12	1.12	1.11	0.00	(0.00)	(0.00)
Saving Musharaka	100,000,000.00	1.12	1.12	1.12	1.12	1.12	1.12	0.00	(0.00)	(0.00)
TDR 1 Year(Monthly profit)	100,000.00	1.61	1.61	1.60	1.62	1.61	1.60	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	500,000.00	1.70	1.70	1.68	1.70	1.70	1.68	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	1,000,000.00	1.72	1.72	1.70	1.72	1.72	1.70	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	5,000,000.00	1.73	1.73	1.72	1.74	1.73	1.72	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	10,000,000.00	1.75	1.75	1.73	1.75	1.75	1.73	0.00	0.00	(0.00)
TDR 1 Year (Monthly profit)	25,000,000.00	1.77	1.77	1.75	1.77	1.77	1.75	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	50,000,000.00	1.78	1.78	1.77	1.78	1.78	1.76	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	75,000,000.00	1.79	1.79	1.77	1.79	1.79	1.77	0.00	0.00	(0.00)
TDR 1 Year (Monthly profit)	100,000,000.00	1.83	1.83	1.81	1.83	1.83	1.81	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	150,000,000.00	1.82	1.82	1.81	1.83	1.82	1.80	0.00	(0.00)	(0.00)
TDR 1 Year (Monthly profit)	200,000,000.00	1.83	1.83	1.81	1.84	1.83	1.81	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	100,000.00	1.31	1.31	1.30	1.31	1.31	1.30	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	500,000.00	1.34	1.34	1.33	1.34	1.34	1.33	0.00	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1,000,000.00	1.36	1.36	1.35	1.36	1.35	1.35	0.00	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	5,000,000.00	1.37	1.37	1.36	1.37	1.37	1.36	0.00	0.00	(0.00)
TDR 3 Months (Profit at maturity)	10,000,000.00	1.41	1.41	1.40	1.41	1.41	1.39	0.00	(0.00)	(0.00)
TDR 3 Months (Profit atmaturity)	25,000,000.00	1.44	1.44	1.43	1.44	1.44	1.43	0.00	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products of Bank Alfalah fetch same results every month.

Allied Bank Ltd – Islamic Banking

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18
ABL		Profit Rate / Weightage		
Savings	1.00	3.2	3.2	3.3
TDR 1 Year (Monthly profit)	1.00	3.2	3.2	3.3
TDR 2 Years (Monthly profit)	1.00	3.2	3.2	3.3
TDR 3 Years (Monthly profit)	1.00	3.2	3.2	3.3
TDR3 Months (Profit at maturity)	1.00	3.2	3.2	3.3
TDR 6 Months (Profit at maturity)	1.00	3.2	3.2	3.3
TDR 1 Year (Profit at maturity)	1.00	3.2	3.2	3.3

The projection methodology is used by ABL Islamic for calculating weightages as the profit / weightage remain perpetual during each month but changes from one month to other.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18	Jun-18	Jul-18	Aug-18
ABL		Weightages Relationship			Profit Rates Relationship			Difference		
Savings	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-	-
TDR 1 Year (Monthly profit)	1.00	2.04	2.04	1.84	2.04	2.04	1.84	0.00	(0.01)	(0.00)
TDR 2 Years (Monthly profit)	1.00	2.18	2.18	1.96	2.18	2.17	1.96	(0.00)	(0.00)	0.00
TDR 3 Years (Monthlyprofit)	1.00	2.18	2.18	1.96	2.18	2.17	1.96	(0.00)	(0.00)	0.00
TDR 3 Months (Profit at maturity)	1.00	1.82	1.82	1.64	1.82	1.82	1.64	0.00	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	1.00	1.87	1.87	1.68	1.87	1.86	1.68	(0.00)	(0.00)	0.00
TDR 1Year (Profit at maturity)	1.00	2.20	2.20	1.98	2.20	2.20	1.98	0.00	(0.00)	0.00

The relationship between weightages and profit rates of corresponding deposit products of ABL Islamic fetches same results in all three months.

Faysal Bank – Barkat Islamic Banking

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18
Faysal Bank		Profit Rate / Weightage	
Barkat Saving Account	1.00	0.040	0.035
Barkat Saving Account	2,500,000.00	0.040	0.035
Barkat Saving Account	5,000,000.00	0.040	0.035
Barkat SavingAccount	7,500,000.00	0.040	0.035
Barkat Saving Account	10,000,000.00	0.040	0.035
Barkat Saving Account	15,000,000.00	0.040	0.035
Barkat Saving Account	25,000,000.00	0.040	0.035
Barkat Saving Account	50,000,000.00	0.040	0.035
Barkat Saving Account	100,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Monthly profit)	50,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Monthly profit)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Monthly profit)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 3Months (Monthly profit)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Monthly profit)	25,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Profit at maturity)	50,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Profit at maturity)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Profit at maturity)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Profit at maturity)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 3 Months (Profit at maturity)	25,000,000.00	0.040	0.035
Barkat Inv. Cert. 3Months (Profit at maturity)	50,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Monthly profit)	50,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Monthly profit)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Monthly profit)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Monthly profit)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Monthly profit)	25,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	50,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profitat maturity)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	25,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	50,000,000.00	0.040	0.035
Barkat Inv. Cert. 6 Months (Profit at maturity)	100,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Monthly profit)	50,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Monthlyprofit)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Monthly profit)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Monthly profit)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Monthly profit)	25,000,000.00	0.040	0.035
Barkat Inv.Cert. 1 Year (Profit at maturity)	50,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	1,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	5,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	10,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	25,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	50,000,000.00	0.040	0.035
Barkat Inv. Cert. 1 Year (Profit at maturity)	100,000,000.00	0.040	0.035

Only two months data was available for Faysal Bank – Barkat Islamic as it has yet to declare rates for month of August 2018. However, the results show that they are using projection methodology for weightages calculation as weightage / profit ratio between deposit products is same in each month.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
Faysal Bank		Weightages Relationship		Profit Rates Relationship		Difference	
Barkat Saving Account	1.00	1.00	1.00	1.00	1.00	-	-
Barkat Saving Account	2,500,000.00	1.04	1.04	1.04	1.04	(0.00)	(0.00)
Barkat Saving Account	5,000,000.00	1.10	1.09	1.10	1.09	(0.00)	(0.00)
Barkat Saving Account	7,500,000.00	1.25	1.24	1.25	1.24	(0.00)	(0.00)
Barkat Saving Account	10,000,000.00	1.48	1.46	1.48	1.46	(0.00)	(0.00)
Barkat Saving Account	15,000,000.00	1.54	1.50	1.54	1.50	(0.00)	0.00
Barkat Saving Account	25,000,000.00	1.77	1.74	1.77	1.74	(0.00)	(0.00)
Barkat Saving Account	50,000,000.00	1.87	1.83	1.86	1.83	(0.00)	(0.00)
Barkat Saving Account	100,000,000.00	1.96	1.93	1.96	1.92	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Monthly profit)	50,000.00	1.73	1.74	1.73	1.74	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Monthly profit)	1,000,000.00	1.88	1.91	1.88	1.90	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Monthly profit)	5,000,000.00	1.96	1.93	1.96	1.92	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Monthly profit)	10,000,000.00	2.08	2.02	2.08	2.01	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Monthly profit)	25,000,000.00	2.13	2.09	2.13	2.09	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	50,000.00	1.83	1.81	1.82	1.81	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	1,000,000.00	1.94	1.91	1.94	1.90	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	5,000,000.00	2.02	1.98	2.02	1.98	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	10,000,000.00	2.12	2.06	2.11	2.05	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	25,000,000.00	2.23	2.19	2.23	2.18	(0.00)	(0.00)
Barkat Inv. Cert. 3 Months (Profit at maturity)	50,000,000.00	2.25	2.20	2.25	2.20	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Monthly profit)	50,000.00	1.83	1.83	1.82	1.83	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Monthly profit)	1,000,000.00	1.90	1.93	1.90	1.92	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Monthly profit)	5,000,000.00	1.98	1.94	1.98	1.94	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Monthly profit)	10,000,000.00	2.10	2.04	2.10	2.03	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Monthly profit)	25,000,000.00	2.12	2.07	2.11	2.07	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	50,000.00	1.92	1.87	1.92	1.87	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	1,000,000.00	1.98	1.96	1.98	1.96	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	5,000,000.00	2.08	2.04	2.08	2.03	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	10,000,000.00	2.17	2.11	2.17	2.11	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	25,000,000.00	2.25	2.22	2.25	2.22	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	50,000,000.00	2.27	2.24	2.27	2.24	(0.00)	(0.00)
Barkat Inv. Cert. 6 Months (Profit at maturity)	100,000,000.00	2.31	2.26	2.31	2.26	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Monthly profit)	50,000.00	1.87	1.87	1.86	1.87	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Monthly profit)	1,000,000.00	1.92	2.00	1.92	2.00	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Monthlyprofit)	5,000,000.00	2.02	2.06	2.02	2.05	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Monthly profit)	10,000,000.00	2.10	2.07	2.10	2.07	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Monthly profit)	25,000,000.00	2.19	2.15	2.19	2.15	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	50,000.00	1.96	1.98	1.96	1.98	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	1,000,000.00	2.02	2.07	2.02	2.07	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	5,000,000.00	2.10	2.11	2.10	2.11	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	10,000,000.00	2.15	2.13	2.15	2.13	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	25,000,000.00	2.27	2.26	2.27	2.26	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	50,000,000.00	2.29	2.30	2.29	2.29	(0.00)	(0.00)
Barkat Inv. Cert. 1 Year (Profit at maturity)	100,000,000.00	2.33	2.31	2.32	2.31	(0.00)	(0.00)

The ratio between weightages and profit rates of corresponding deposit products of Faysal Bank–Barkat Islamic fetches same results in the corresponding months, due to rounding off in profit rates.

Standard Chartered Bank Pakistan – Saadiq

Test 1

Bank Name / Products	Amount	Jun-18	Jul-18
Standard Chartered		Profit Rate / Weightage	
Sadiq Saver Account	1.00	0.08	0.08
Sadiq Saver Account	500,000.00	0.08	0.08
Sadiq Saver Account	1,000,000.00	0.08	0.08
Sadiq Saver Account	5,000,000.00	0.08	0.08
Sadiq Saver Account	20,000,000.00	0.08	0.08
Sadiq Saver Account	40,000,000.00	0.08	0.08
Sadiq Saver Account	60,000,000.00	0.08	0.08
Sadiq Saver Account	80,000,000.00	0.08	0.08
Sadiq Saver Account	100,000,000.00	0.08	0.08
TDR 3 Months (Profit at maturity)	50,000.00	0.08	0.08
TDR 3 Months (Profit at maturity)	3,000,000.00	0.08	0.08
TDR 6Months (Profit at maturity)	50,000.00	0.08	0.08
TDR 1 Year (Profit at maturity)	50,000.00	0.08	0.08
TDR 1 Year (Profit at maturity)	3,000,000.00	0.08	0.08
TDR 1 Year (Profit at maturity)	25,000,000.00	0.08	0.08

Standard Chartered Bank is using the projection technique for calculating weightages as the relationship between its various deposit products remain stagnant, however changes between the months.

Test 2

Bank Name / Products	Amount	Jun-18	Jul-18	Jun-18	Jul-18	Jun-18	Jul-18
Standard Chartered		Weightages Relationship		Profit Rates Relationship		Difference	
Sadiq Saver Account	1.00	1.00	1.00	1.00	1.00	-	-
Sadiq Saver Account	500,000.00	1.00	1.00	1.00	1.00	-	-
Sadiq Saver Account	1,000,000.00	1.05	1.05	1.05	1.05	(0.00)	(0.00)
Sadiq Saver Account	5,000,000.00	1.09	1.09	1.09	1.09	(0.00)	(0.00)
Sadiq Saver Account	20,000,000.00	1.14	1.14	1.13	1.13	(0.00)	(0.00)
Sadiq Saver Account	40,000,000.00	1.18	1.18	1.18	1.18	(0.00)	(0.00)
Sadiq Saver Account	60,000,000.00	1.23	1.23	1.22	1.23	(0.00)	(0.00)
Sadiq Saver Account	80,000,000.00	1.23	1.23	1.22	1.23	(0.00)	(0.00)
Sadiq Saver Account	100,000,000.00	1.27	1.27	1.27	1.27	(0.00)	(0.00)
TDR 3 Months (Profit at maturity)	50,000.00	1.45	1.45	1.45	1.45	(0.00)	(0.00)
TDR 3Months (Profit at maturity)	3,000,000.00	1.50	1.50	1.49	1.50	(0.00)	(0.00)
TDR 6 Months (Profit at maturity)	50,000.00	1.59	1.59	1.59	1.59	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	50,000.00	1.82	1.82	1.81	1.81	(0.00)	(0.00)
TDR 1 Year(Profit at maturity)	3,000,000.00	1.86	1.86	1.86	1.86	(0.00)	(0.00)
TDR 1 Year (Profit at maturity)	25,000,000.00	1.91	1.91	1.90	1.90	(0.00)	(0.00)

The relationship between weightages and profit rates of corresponding deposit products is fetch same results i.e. weightages are just a replica of profit rates, as treated by Standard Chartered Bank.

Hypothesis Testing

In order to further validate the acceptance of the null hypothesis, which is weightages calculation for profit distribution in Islamic Banks is only determined through profit rates that IBI intend to pay, regression analysis has been used. The interpretation of the regression analysis is based on the standardized coefficient beta (β) and R^2 which provides evidence whether or not the determinants specified above have any impact on the customer's preferential criteria. Regression analyses were conducted to test the factors 1 to 4 i.e. amount of deposits, tenure, profit frequency and profit rates. In this analysis, all the factors is treated as the independent variable, whereas Weightages as the dependent variable. Table I and Table II show the relationship between dependent and independent variables.

Table I: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Mean Square	F	Sig.
1	.577[a]	.333	.331	.388599	18.663	123.591	.000[b]

Predictors: (Constant), Amount of Deposit, Tenure, Profit Frequency and Profit Rate

Dependent Variable: Weightages

Table I shows that the model is significant (F = 123.591) (Sig. F = 0.000). The model explained

33.1 % of the variation in the weightages of the Islamic Banking Industry (Adjusted R2: 0.331).

Table II presents the results of the statistical tests of the hypotheses to address the research objective.

Table II: Multiple regression results coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.559	.056		9.941	.000		
Amount	2.152E-10	.000	.099	3.621	.000	.900	1.111
Tenure	.013	.002	.188	6.685	.000	.850	1.176
Profit Frequency	.181	.026	.191	7.090	.000	.934	1.071
Profit Rate	.155	.012	.383	12.799	.000	.753	1.329

Dependent Variable: Weightages

The above table suggests that all variables have significant positive relationship with weightages i.e. Amount of Deposit (Beta = 0.099, $p \leq 0.1$), Tenure (Beta = 0.188, $p \leq 0.1$), Profit Frequency (Beta = 0.191, $p \leq 0.1$) and Profit Rate (Beta = 0.383, $p \leq 0.1$).

The evidence shows that though all the factors have their impact on the calculation of the weightages, it is the profit rate, which has the highest Beta, that had the most significant impact.

CONCLUSION

The Summary of the results of each bank is given as below:

Name of Bank	Hypothesis Test 1			Hypothesis Test 2			Test Result	Weightage Methodology
	Total Observations	No. of Outliers	%age of outliers	Total Observations	No. of Outliers	%age of outliers		
Meezan Bank	63	-	0.00%	63	4	6.35%	Accepted	Projection
Dubai Islamic	51	21	41.18%	51	15	29.41%	Partially Accepted	Factorization
Bank Islami	117	-	0.00%	117	2	1.71%	Accepted	Factorization
Bank Al Baraka	84	-	0.00%	84	-	0.00%	Accepted	Projection
MCB Islamic	72	-	0.00%	72	3	4.17%	Accepted	Projection
NBP	84	-	0.00%	84	1	1.19%	Accepted	Projection
HBL	38	-	0.00%	38	1	2.63%	Accepted	Projection
UBL Ameen	87	-	0.00%	87	2	2.30%	Accepted	Factorization
Bank AlHabib	78	-	0.00%	78	1	1.28%	Accepted	Factorization
Habib Metro	51	-	0.00%	51	-	0.00%	Accepted	Projection
Bank Alfalah	81	-	0.00%	81	-	0.00%	Accepted	Projection
ABL	21	2	9.52%	21	1	4.76%	Accepted	Projection
Faysal Bank	88	-	0.00%	88	-	0.00%	Accepted	Projection
Standard Chartered	30	-	0.00%	30	-	0.00%	Accepted	Projection
TOTAL	945	23	2.43%	945	30	3.17%	Accepted	

The hypothesis testing performed on five full-fledged Islamic Banks and nine largest Islamic Windows of conventional banks of Pakistan prove acceptance of the hypothesis i.e. weightages announced and used for profit distribution by Islamic Banking Industry are derived from the expected profit rates only, consequently making the profit distribution based on profit rates only.

From the results, it can be seen that Dubai Islamic Bank appears to be the only Islamic Bank, whose weightages are not solely dependent on the profit rates alone and they would be giving due consideration to other factors as well for calculation of weightages.

Moreover, the regression analysis conducted on the above mentioned data of the Islamic Banking Industry depicts that although all the factors i.e. size, tenure, profit frequency of the deposit has somewhat impact on the weightages, it is profit rate which is given the maximum consideration when weightages are calculated.

RECOMMENDATIONS

Based on our research and its analysis, we would recommend IBIs and the Regulators to work on the following:

I. The Regulators may research and come out with an alternative solution for pool management and profit distribution for Islamic Banking Industry, which had a lesser chances of manipulation.

II. The regulator may introduce restriction on the change of weightages of a deposit product for a quarter and the changes shall be documented on the basis of logical reasoning, which may include the size and tenure of the deposit, the profit payment frequency, the bank's asset & liabilities ageing and need for funds etc.

III. The percentage of maximum general Hiba from Mudarib share may gradually be reduced to zero so that profits and losses are shared in its true spirit.

IV. Shariah scholars may revisit the concept of weightages in profit distribution by IBIs after reviewing the practice and calculation of weightages mechanism of these banks.

V. The criticism on Islamic banking by other school of thoughts should be taken as an opportunity for improvement and genuine concerns specially on the PLS basis shall be addressed.

VI. IBIs and Educational Institutes including Islamic Schools should start investing in the development of human capital so that knowledgeable and quality personnel are available for hiring and utilization. This may include offering of Graduate and Post-graduate programs on Islamic Banking.

ALTERNATIVE PLAN

The concept of Sub Profit Sharing Ratio between the Rabul Maal may be introduced for profit distribution instead of weightages as that would be more acceptable mechanism and the practice will be more Shariah compliant. Under this concept PSR at account level may be declared prior to the commencement of the business period instead of assigning of weightages.

References

Khan, Feisal. "How Islamic is Islamic banking?" Journal of Economic Behavior & Organization 76 (2010): 805-820.

Dar, HA. and Presley, JR "Lack of Profit Loss Sharing in Islamic Banking: Man agement and Control Imbalances." International Journal of Islamic Finan cial Services (2000).

Farook, Sayd., Hassan, MK. and Clinch, Gregory. "Profit Distribution manage ment by Islamic banks: An empirical investigation." The Quarterly review of Economics and Finance 52 (2012): 333-347.

Chong, BS., Liu, MH. "Islamic banking sector: Interest-free or Interest-based?" Pacific- Basin Finance 17 (2009): 125-144.

Farooq, MO. "Partnership, Equity-financing and Islamic finance: Whither Profit_loss- Sharing." Draft (2006).

Yatim, M. "Accounting information system for profit distribution (al-ishtirak) of Islamic financial institution." African Journal of Business Management 3.11 (2009): 773- 780.

Hassan, Zubair. "Theory of Profit: The Islamic Viewpoint." J. Res. Islamic Eco nomics 1.1 (1983): 3-14.

Ahmed, El Tegani A. "Distribution of Profits in Islamic Banking: A Case Study of Faysal Islamic Bank of Sudan (FIBS)." Journal of King Abdul Aziz University: Islamic Economic 8 (1996): 15-32.

Hassan, Zubair. "Islamic Banks: Profit Sharing Equity and Credit Control." Jour nal of King Abdul Aziz University: Islamic Economic 23.1 (2010).

Siddiqui, MN. "Islamic Banking and Finance in theory and practice: a survey of state of the art." Islamic Economic Studies 13.2 (2006).

Malik, MS., Malik, A. and Mustafa, W. "Controversies that make Islamic banking controversial: An analysis of issues and challenges." American Journal of Social and Management Sciences (2011): 2156-1540.

Sadique, MA. "Profit and Loss Allocation among Islamic Bank and Client Partner in Equity Financing: Practice, Percepts and Alternatives." Journal of King Abdul Aziz University: Islamic Economic 22.1 (2009): 145-168.

Zubair, HM. "Islamic Banking in Pakistan: A Critical Review." International Jour nal of Humanities and Social Sciences 4.2 (2014).

Saeed, Abdullah. "Islamic Banking and Interest: A study of Prohibition of Interest and its Contemporary Interpretation." Journal of King Abdul Aziz Univer sity: Islamic Economic 17.2 (2004): 35-38.

Mujaddidi, MY. "Profit Distribution in Islamic Banks – Daily Product Basis and Allocation of Weightages." Journal of Islamic Business and Management 7.1 (2017): 39-51.

Bellalah, M., Ellouz, S. "Islamic Finance, Interest Rates and Islamic Banking: A Survey of the Literature." Finance India 8 (2004): 533-546.

Hanif, M. "Differences and Similarities in Islamic and Conventional Banking." International Journal of Business and Social Science 2.2 (2011).

Darrat, Ali F. "The Islamic Interest-free banking system: some empirical evidenc es." Applied Economic 20 (1988): 417-425.

Hamza, H. "Does Investment deposit return in Islamic Banks reflect PLS Princi ple?" Borsa Istanbul Review 16.1 (2016): 32-42.

Rosman. Wahab Zainol "Efficiency of Islamic banks during the financial crisis: An analysis of Middle Eastern and Asian countries" Pacific Basin Finance Journal 28 (2014): 76-90