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HANDOUT

ISL4868

Islamic Banking and Finance

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ISL4868

Islamic Banking & Finance

Study Handout

Complete lecture-wise notes for Virtual University students

About This Handout

This handout covers ISL4868 Islamic Banking and Finance -- the theory, contracts, markets, and governance of shari'ah-compliant finance. Written in English with transliterated Arabic terms (no Arabic script). The exam rewards contract structuring, product screening, and the authenticity debate. After each lesson, close the handout and structure one contract from memory -- Islamic finance is learned by structuring, not just reading.

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Lesson 1: Foundations of Islamic Finance

Learning Objectives

- State the prohibitions
- Explain the risk-sharing thesis
- Describe industry scale and Pakistan's drive
- Apply foundational maxims

Why Islamic finance exists: conventional banking's core -- interest (riba) -- is prohibited in the Qur'an ('God has permitted trade and forbidden riba' -- al-Baqarah 275) and Sunnah; alongside prohibitions of gharar (excessive uncertainty), maysir (gambling), and investment in haram sectors (alcohol, pork, conventional finance, weapons, adult entertainment). Islamic finance rebuilds banking on trade, leasing, and partnership -- risk-sharing instead of risk-transfer.

The industry's scale: ~$4-5 trillion in assets globally (2024-25 estimates), growing faster than conventional banking; hubs -- Malaysia, Saudi Arabia, UAE, Bahrain; Pakistan -- the State Bank's Islamization drive (the Federal Shariat Court's 2022 riba judgment ordering full conversion by 2027-28, extended timelines). Every Pakistani bank now runs Islamic windows/branches -- this course is career-relevant.

Foundational maxims: al-ghunm bi'l-ghurm (gain accompanies liability -- no reward without risk); al-kharaj bi'l-daman (benefit goes with responsibility); contracts require clarity (no gharar), mutual consent (taradi), and real underlying assets. The exam's thesis: Islamic finance is not conventional banking minus interest -- it is a different theory of money, risk, and justice.

Key Terms & Definitions

- Riba / gharar / maysir — Interest / uncertainty / gambling; prohibited.
- Al-ghunm bi'l-ghurm — Gain accompanies liability.
- Taradi — Mutual consent in contracts.
- FSC 2022 judgment — Pakistan's riba-elimination order.

Example / Illustration

- Conventional loan: bank earns fixed interest regardless of the borrower's fate (risk transferred). Musharakah: bank shares profit AND loss (risk shared) -- al-ghunm bi'l-ghurm in action.

Lesson Summary

- Riba, gharar, maysir banned; trade/partnership built.
- Risk-sharing, not risk-transfer.
- Pakistan: FSC 2022 conversion drive.

Exam Pointers — Very Important

★ Explain why Islamic finance is a different theory, not just interest-free banking -- the framing essay.

Lesson 2: Riba, Gharar, Maysir

Learning Objectives

- Distinguish riba types
- Apply the gharar test
- Separate maysir from enterprise
- Screen products

Riba al-qurud (interest on loans): any contractual excess over principal in a loan -- the Qur'anic prohibition's core; vs riba al-buyu' (in the six ribawi commodities -- gold, silver, wheat, barley, dates, salt -- unequal spot exchange or any deferred exchange). The hadith: 'gold for gold, equal for equal, hand to hand.' Wisdom: preventing exploitation and ensuring money stays a medium, not a commodity. The exam loves the two riba types with examples.

Gharar: excessive uncertainty voiding contracts -- selling fish still in the sea, unborn calf, 'whatever this box contains'. Test: does uncertainty affect the subject matter or price fundamentally? Minor gharar (delivery time windows) tolerated by necessity. Maysir: zero-sum games of chance -- lotteries, speculative derivatives detached from assets; vs legitimate risk (entrepreneurship) -- Islam bans gambling, not enterprise.

Application: screen a product -- (1) is there contractual interest? (2) is uncertainty excessive? (3) is it zero-sum speculation? (4) is the sector halal? This four-filter test handles any case study the exam throws.

Key Terms & Definitions

- Riba al-qurud / al-buyu' — Loan interest / commodity-exchange riba.
- Six ribawi commodities — Gold, silver, wheat, barley, dates, salt.
- Gharar test — Fundamental uncertainty in subject/price.
- Four-filter test — Riba, gharar, maysir, sector screen.

Example / Illustration

- Conventional credit card: revolving interest (riba) -- fails filter 1. 'Islamic' credit card must use ujrah (fee) or tawarruq structures -- and scholars debate which are genuine.

Lesson Summary

- Two ribas; six commodities; spot-and-equal.
- Gharar voids; minor uncertainty tolerated.
- Four filters screen any product.

Exam Pointers — Very Important

★ Apply the four-filter test to a given product -- the applied staple.

Lesson 3: Trade-Based Modes: Murabahah, Salam, Ijarah

Learning Objectives

- Structure murabahah correctly
- Use salam and istisna'
- Explain ijarah variants
- Assess tawarruq controversy

Murabahah (cost-plus sale): bank buys the asset, sells to client at disclosed cost + profit, on deferred payment -- the workhorse (~70%+ of Islamic bank financing). Conditions: bank must OWN first (no selling what you don't possess), cost disclosed, price fixed, asset real. Binding promise (wa'd) to purchase -- scholars allow, with conditions. Late-payment: no compounding penalty as income -- charity (sadaqah) clauses only.

Salam (advance purchase): full advance payment for future delivery of fungible goods -- the exception to 'don't sell what you don't have', with strict specs (quantity, quality, date, place). Istisna' (manufacturing order): payment can be staged; used in construction/project finance. Ijarah (leasing): bank owns, client uses, rent paid; ijarah muntahiyah bi'tamlik (lease-to-own) -- ownership transfer modes (gift, token sale) debated.

Tawarruq (monetization): client buys commodity on deferred terms, sells spot for cash -- controversial ('organized tawarruq' where the bank arranges everything = backdoor interest per many scholars, including the OIC Fiqh Academy's 2009 ruling). Know the controversy -- exams probe it.

Key Terms & Definitions

- Murabahah — Cost-plus deferred sale; own-first rule.
- Salam / istisna' — Advance purchase / manufacturing order.
- Ijarah muntahiyah bi'tamlik — Lease ending in ownership.
- Organized tawarruq — Controversial monetization; OIC 2009 ruling.

Example / Illustration

• Car murabahah: bank buys car (100), sells to you at 120 on 24 installments; bank owned it first (title transfer!); late payment goes to charity, not bank income -- every condition visible.

Lesson Summary

• Murabahah: own first, disclose cost, fix price.

• Salam/istisna': the permitted exceptions.

• Tawarruq: know the scholarly controversy.

Exam Pointers — Very Important

★ Structure a murabahah home-financing case with conditions -- the workhorse question.

Lesson 4: Partnership Modes: Musharakah, Mudarabah

Learning Objectives

• Structure partnerships

• Distinguish mudarabah/wakalah

• Explain rarity in practice

• Apply to deposit products

Musharakah (partnership): all partners contribute capital (and optionally work), share profit by agreement, share loss by capital ratio -- the purest risk-sharing mode. Diminishing musharakah: bank's share bought out over time -- the flagship home-financing alternative to murabahah. Conditions: capital mixed or identifiable, profit ratio fixed upfront, no guaranteed returns (a 'guaranteed 10%' = riba in disguise!).

Mudarabah (trustee partnership): rabb al-mal (capital provider) + mudarib (manager); profit shared, loss borne by capital (manager loses effort). The Prophet's own pre-prophetic trade with Khadijah's capital was mudarabah! Uses: deposit products (profit-sharing investment accounts -- the 'Islamic savings account'), entrepreneur finance. Two-tier mudarabah: depositors -> bank -> businesses.

Wakalah (agency): bank as agent (wakil) for a fee (ujrah) -- used in sukuk and takaful; vs mudarabah (profit share). The exam's comparison: wakalah (fixed fee, no loss share) vs mudarabah (profit share, loss on capital). Why partnerships are rare in practice: moral hazard (honest reporting), taxation, and banks' risk aversion -- the industry's authenticity debate.

Key Terms & Definitions

- Musharakah — Partnership; loss by capital ratio.
- Mudarabah — Capital + manager; Khadijah's model.
- Wakalah — Agency for a fixed fee.
- Diminishing musharakah — Buyout home finance.

Example / Illustration

- 'Islamic savings account': your deposit = mudarabah (you're rabb al-mal, bank is mudarib); profit shared 60:40; loss -- your capital at risk (in theory; smoothing reserves debated).

Lesson Summary

- Musharakah: share all; mudarabah: capital + manager.
- No guaranteed returns -- ever.
- Practice lags theory; know why.

Exam Pointers — Very Important

★ Compare mudarabah and wakalah with a deposit-product example -- the comparison question.

Lesson 5: Sukuk, Takaful, and Islamic Markets

Learning Objectives

- Structure sukuk
- Explain the 2008 critique
- Describe takaful models
- Screen equities

Sukuk (certificates): ownership in underlying assets/usufruct, NOT debt -- the shari'ah line between sukuk and bonds. Structures: ijarah sukuk (rent streams -- the cleanest), musharakah/mudarabah sukuk (project shares), salam/istisna' sukuk, wakalah sukuk. AAOIFI's 2008 Sheikh Taqi Usmani statement: most sukuk were bond-replicas (purchase undertakings at face value = guaranteed principal) -- the industry's credibility crisis and reform.

Takaful (Islamic insurance): tabarru' (donation) into a common pool; operator as wakil (fee) or mudarib (share); surplus shared, deficit covered by qard hasan (interest-free loan). Models: wakalah, mudarabah, hybrid. Family vs general takaful. Pakistan: takaful operators growing under SECP's Takaful Rules.

Islamic capital markets: shari'ah screening of equities (sector + financial ratios -- debt/market-cap under ~33%, non-compliant income under ~5%; purification of dividends); Islamic indices (KMI All-Share Islamic in Pakistan); Islamic mutual funds/ETFs.

The exam: screen a company or structure a sukuk.

Key Terms & Definitions

- Sukuk — Asset-ownership certificates, not debt.
- AAOIFI 2008 statement — Taqi Usmani's bond-replica critique.
- Takaful / tabarru' — Donation-pool insurance.
- Shari'ah screening — Sector + ratio filters; purification.

Example / Illustration

- Ijarah sukuk: investors own the building (via SPV), receive rent; at maturity, sold back at market value -- ownership and risk real; bond: lenders owed fixed interest regardless.

Lesson Summary

- Sukuk: own assets, earn rent/profit.
- 2008: the authenticity reckoning.
- Takaful: donate, share, cover deficits interest-free.

Exam Pointers — Very Important

★ Structure an ijarah sukuk and contrast it with a bond -- the capital-markets question.

Lesson 6: Governance, Pakistan, and the Authenticity Debate

Learning Objectives

- Describe shari'ah governance
- Explain Pakistan's framework
- Assess authenticity debates
- Argue the capstone evaluation

Shari'ah governance: the Shari'ah board (scholars certifying products), SBP's Shari'ah Board and SGF (Shari'ah Governance Framework for IBIs), AAOIFI (standards -- Bahrain), IFSB (prudential -- Kuala Lumpur). The board's tools: product certification, shari'ah audit, and purification (donating non-compliant income). Fatwa shopping (banks hunting lenient scholars) -- the governance failure mode; central boards counter it.

Pakistan's framework: SBP's IBI instructions, the 2022 FSC judgment (riba elimination; conversion deadlines), full-fledged Islamic banks (Meezan -- the flagship, BankIslami, Dubai Islamic, MCB Islamic) vs Islamic windows. Conversion mechanics: murabahah portfolios replacing loan books, staff training, system changes -- the operational mountain behind the headline.

Global debates: 'shari'ah arbitrage' (form over substance -- tawarruq, commodity murabahah); the authenticity spectrum (purists vs pragmatists); maqasid al-shari'ah (higher objectives -- justice, welfare) as the reform compass. The exam's evaluative essay: 'Is Islamic banking truly Islamic?' -- argue with structures, the 2008 statement, and maqasid.

Key Terms & Definitions

- Shari'ah board — Scholarly certification and audit.
- AAOIFI / IFSB — Standards / prudential bodies.
- Fatwa shopping — Governance failure mode.
- Maqasid al-shari'ah — Higher objectives; reform compass.

Example / Illustration

- Meezan Bank: Pakistan's largest Islamic bank -- full-fledged, SBP-supervised, shari'ah-board-certified; critique: murabahah-heavy (debt-like); defense: compliant structures, real assets, no interest -- the balanced answer.

Lesson Summary

- Boards certify; audits verify; purification cleanses.
- Pakistan: FSC 2022 + SBP framework.
- Maqasid: the compass beyond forms.

Exam Pointers — Very Important

★ Evaluate 'Is Islamic banking truly Islamic?' -- the capstone debate essay.

Lesson 7: Zakat on Financial Assets

Learning Objectives

- Calculate zakat on assets
- Treat shares and funds
- Distinguish stock vs flow
- Apply the four-step drill

Zakat's financial rules: 2.5% on cash, bank balances, trade goods, shares (tradable), gold/silver -- after nisab (minimum threshold -- ~85g gold value) and one lunar year (hawl). Debts deducted; personal-use assets (home, car) exempt. Shares: if held for trading, zakat on market value; if long-term investment, on the company's zakatable assets (or 2.5% of market value per many contemporary fatwas -- know both views).

Sukuk and funds: ijarah sukuk -- zakat on rental income + tradable value; Islamic mutual funds -- the fund publishes zakat NAVs (many Pakistani funds do). Salaries: no zakat until savings cross nisab for a hawl (the 'income vs wealth' distinction -- zakat is on stock, not flow). Calculation drill: cash 500,000 + gold 100g + shares 300,000 - debt 100,000 --

compute 2.5% (the exam's numerical staple!).

Zakat institutions: state collection (Pakistan's official zakat -- deducted on bank balances each Ramadan), private distribution, and the eight asnaf (recipients -- al-Tawbah 60). Contemporary: zakat fintech (calculation apps, verified disbursement platforms); the 'zakat on provident funds/pensions' debate. Method: list assets, subtract debts, check nisab, apply 2.5% -- the four-step drill.

Key Terms & Definitions

- Nisab / hawl — Minimum threshold / lunar year.
- Asnaf — The eight zakat recipients.
- Zakat on shares — Trading: market value; investment: debated.
- Purification — Donating non-compliant income.

Example / Illustration

- Cash 800,000 + gold 50g (~700,000) + trade stock 500,000 = 2,000,000; minus debt 200,000 = 1,800,000; nisab met; zakat = 45,000. Four steps, every time.

Lesson Summary

- 2.5% on wealth, not income.
- Nisab, hawl, debts -- then compute.
- Funds publish zakat NAVs.

Exam Pointers — Very Important

★ Calculate zakat on a mixed portfolio -- the numerical staple.

Lesson 8: Islamic Microfinance

Learning Objectives

- Explain qard hasan
- Profile Akhuwat
- Design micro-products
- Assess sustainability debates

The model: qard hasan (benevolent interest-free loans) -- Akhuwat (Pakistan's flagship, founded by Dr. Amjad Saqib): mosque-based disbursement, zero interest, ~99%+ recovery via social collateral and dignity ('the borrower is not a beggar'). Scale: billions disbursed, millions of families -- the world's largest interest-free microfinance. Contrast: conventional microfinance's interest burden and over-indebtedness crises.

Structures: group guarantees (social collateral), gradual graduation (micro-loan to SME), and complementary support (health, education -- Akhuwat's universities/clothes banks).

Shari'ah modes: qard hasan for consumption-smoothing, murabahah/salam for enterprise assets, mudarabah for entrepreneurs. The exam: 'design an Islamic microfinance product' -- pick the mode by purpose.

Challenges: sustainability without interest (donations, zakat funds, waqf -- the funding puzzle), scale vs mission drift, and measuring impact (income + dignity metrics). Maqasid link: microfinance serves hifz al-mal (wealth protection) for the poor -- finance as social justice, the course's ethical spine.

Key Terms & Definitions

- Qard hasan — Benevolent interest-free loan.
- Akhuwat — Pakistan's interest-free microfinance giant.
- Social collateral — Group guarantees replacing interest.
- Mission drift — Chasing sustainability over the poor.

Example / Illustration

- Akhuwat loan: 50,000 qard hasan for a sewing machine, disbursed in the mosque, repaid in 20 monthly installments, zero interest; group of five guarantees -- dignity + discipline.

Lesson Summary

- Qard hasan + social collateral = the model.
- Akhuwat: mosques, dignity, 99% recovery.
- Fund via zakat/waqf/donations.

Exam Pointers — Very Important

★ Design a microfinance product for rural women -- the applied-design question.

Lesson 9: Waqf: The Endowment Economy

Learning Objectives

- Define waqf types
- Trace historical role
- Structure modern waqf
- Propose revival reforms

Waqf (endowment): dedicating an asset's corpus perpetually for charitable purposes -- 'its principal preserved, its yield given' (Umar's Khaybar land). History: waqf funded Islamic civilization -- mosques, madrasahs, hospitals (bimaristans), caravanserais, waterworks; the Ottoman awqaf as a parallel welfare state. Types: waqf khayri (public charity), waqf ahli (family -- debated perpetuity), waqf mushtarak (mixed).

Modern waqf: cash waqf (endowing money -- Ottoman precedent; contemporary fatwas permit), waqf shares/units, corporate waqf (Malaysia's models), and waqf-based microfinance funding. Pakistan: Auqaf departments (provincial; mismanagement critiques), the need for professional waqf management -- the exam's reform essay. Governance: mutawalli (trustee), perpetuity, istibdal (asset substitution with court/shari'ah approval).

Waqf + finance: waqf funds as Islamic social finance -- sukuk for waqf development (Singapore's Bencoolen project -- waqf land developed via musharakah sukuk!), waqf-bank hybrids proposed. The vision: reviving waqf as the third sector -- beyond state and market, the ummah's endowment economy.

Key Terms & Definitions

- Waqf khayri / ahli — Public / family endowment.
- Cash waqf — Endowing money; Ottoman precedent.
- Mutawalli / istibdal — Trustee / asset substitution.
- Third sector — Waqf beyond state and market.

Example / Illustration

- Bencoolen (Singapore): waqf land + musharakah sukuk = mosque + commercial complex; yield funds charity perpetually -- the textbook modern waqf structure.

Lesson Summary

- Corpus preserved, yield given -- perpetually.
- Waqf built Islamic civilization's institutions.
- Modern: cash, shares, sukuk structures.

Exam Pointers — Very Important

★ Propose a waqf revival plan for Pakistan -- the reform essay.

Lesson 10: Islamic Fintech and Crypto

Learning Objectives

- Digitize Islamic contracts
- Assess crypto Islamically
- Explain shari'ah-tech
- Apply filters to fintech

Digital Islamic banking: branchless Islamic banking (SBP's framework), mobile wallets with shari'ah-compliant structures (mudarabah deposits via apps), and robo-advisory for halal portfolios. Structures digitized: online murabahah (e-commerce financing), digital salam (agri-fintech advance payments to farmers -- Pakistan potential!), and

smart-contract wakalah. The shari'ah question is structural, not digital -- code the contract correctly.

Crypto debate: Bitcoin etc. -- scholars divided: prohibitionists (gharar, speculation, no intrinsic value -- Mufti Taqi Usmani's caution) vs permissibility advocates (customary acceptance as currency -- 'money is what people accept'; some Gulf fatwas). Exam-safe position: present both, note no ijma', and stress the gharar/speculation filter. CBDCs: central bank digital currencies -- fewer objections (sovereign backing).

RegTech/shari'ah-tech: AI shari'ah screening of stocks, blockchain sukuk (smart contracts automating ijarah distributions), and digital zakat platforms. The principle: technology is a tool -- the contract's shari'ah structure is what matters. Fintech case: screen a crypto product with the four filters.

Key Terms & Definitions

- Branchless Islamic banking — SBP's digital framework.
- Crypto scholarly split — Gharar vs customary-acceptance camps.
- Smart sukuk — Blockchain-automated distributions.
- Structure over medium — Code the contract right.

Example / Illustration

- Bitcoin: filter 1 (riba) -- no interest involved; filter 2 (gharar) -- extreme volatility as excessive uncertainty?; filter 3 (maysir) -- speculation dominates use; scholars split -- present both camps.

Lesson Summary

- Digital contracts, same shari'ah rules.
- Crypto: scholars divided; present both.
- Tech is tool; structure is substance.

Exam Pointers — Very Important

★ Assess cryptocurrency with the four-filter test -- the contemporary debate.

Lesson 11: Risk Management Islamically

Learning Objectives

- Explain the hedging problem
- Structure wa'd hedges
- Describe liquidity tools
- Argue systemic resilience

The problem: conventional hedging (futures, options, swaps) is gharar/maysir-laden -- Islamic banks need shari'ah-compliant risk tools. Solutions: wa'd (unilateral

promise)-based structures -- the promise to buy/sell at a set price (binding on one party only, avoiding a bilateral forward = avoiding 'selling what you don't have'); tahawwut (hedging) master agreements (IIFM standards); profit-rate swaps via reciprocal murabahah/twarruq (debated).

FX risk: wa'd-based currency hedging -- the bank promises to buy currency at a rate; executed via spot at maturity. The shari'ah line: hedging real exposures (permitted -- need) vs speculation (banned). AAOIFI/IIFM standards govern documentation. The exam: 'hedge an import payment Islamically' -- structure the wa'd.

Capital and liquidity: Islamic banks' lender-of-last-resort puzzle (no interest-based discount window -- SBP's shari'ah-compliant facilities: bai' mu'ajjal/ijarah-based liquidity tools), sukuk for liquidity management (short-term salam/ijarah sukuk), and takaful for operational risk. The system's resilience: asset-backing and risk-sharing as built-in stabilizers -- the 2008 crisis narrative (Islamic banks' relative resilience).

Key Terms & Definitions

- Wa'd — Unilateral promise; hedging's workhorse.
- Tahawwut — Shari'ah-compliant hedging.
- IIFM — Islamic hedging standards body.
- Real exposure only — Hedging permitted; speculation banned.

Example / Illustration

- Importer owes $100,000 in 90 days: bank gives unilateral wa'd to sell dollars at today's rate + margin; at maturity, spot murabahah executes -- rate locked, no bilateral forward, real exposure only.

Lesson Summary

- Wa'd (one-sided promise) enables hedging.
- Hedge real risk; never speculate.
- Asset-backing as built-in stability.

Exam Pointers — Very Important

★ Structure a wa'd-based FX hedge for an importer -- the risk-management applied question.

Lesson 12: Islamic Accounting and Prudential Standards

Learning Objectives

- Contrast AAOIFI and IFRS
- Treat murabahah/ijarah/mudarabah
- Explain investment-account nature
- Read an Islamic bank's accounts

The accounting question: conventional IFRS assumes interest-based accruals -- Islamic transactions need different recognition (murabahah profit, ijarah rentals, mudarabah distributions). AAOIFI (Bahrain): FAS standards for Islamic institutions -- the industry's accounting constitution; used/mandated across the Gulf, adopted in Pakistan alongside IFRS with SBP's Islamic banking instructions.

Key treatments: murabahah -- recognize profit over the term (not upfront); ijarah -- asset stays on lessor's books; mudarabah deposits -- 'profit-sharing investment accounts' (not guaranteed deposits -- the disclosure debate!); zakat and qard disclosures. IFSB's prudential standards (capital adequacy for profit-sharing assets -- the 'displaced commercial risk' concept).

Pakistan practice: SBP's instructions + AAOIFI-aligned disclosures; Meezan's annual report as the model document (study its notes on Islamic modes!). The exam: 'prepare accounting entries for a murabahah' or 'explain why mudarabah deposits aren't liabilities like conventional deposits.'

Key Terms & Definitions

- AAOIFI FAS — Islamic accounting standards.
- IFSB — Islamic prudential standards.
- Displaced commercial risk — Smoothing returns to depositors.
- Profit recognition — Over the term, not upfront.

Example / Illustration

- Conventional deposit: bank owes fixed interest (liability, guaranteed). Mudarabah account: depositor shares profit/loss (not guaranteed -- equity-like); mislabeling it a 'deposit' hides risk -- the disclosure debate.

Lesson Summary

- AAOIFI: the accounting constitution.
- Profit over time; assets stay with lessor.
- Investment accounts: equity-like, not guaranteed.

Exam Pointers — Very Important

★ Explain why investment accounts differ from deposits -- the accounting-concept question.

Lesson 13: Pakistan's Islamic Banking Story

Learning Objectives

- Profile Pakistani Islamic banks
- Explain the FSC judgment
- Describe conversion mechanics
- Benchmark Malaysia

Meezan Bank: Pakistan's first and largest Islamic bank -- full-fledged, consistently the most profitable trajectory, murabahah/ijarah-heavy portfolio, the conversion-era flagship. BankIslami, Dubai Islamic Pakistan, MCB Islamic -- the full-fledged cohort; conventional giants' Islamic windows (HBL, UBL). The FSC 2022 judgment: riba 'eliminated' order, government appeals withdrawn (2023-24), SBP's phased conversion plan -- the industry's defining event.

Conversion mechanics: re-documenting loan books into murabahah/ijarah, retraining thousands of bankers, core-banking system overhauls, customer migration (explaining 'why my 'interest' is now 'profit''), and the sovereign sukuk pipeline (government borrowing Islamically). Challenges: shari'ah talent shortage, corporate awareness, and the authenticity critique from purists.

Malaysia as benchmark: 40+ years of dual banking, sukuk market leadership, INCEIF (the global Islamic-finance university), and Bank Negara's shari'ah framework -- what Pakistan can borrow. The exam's Pakistan question: narrate the FSC judgment, SBP's role, and assess conversion progress honestly (achievements + gaps).

Key Terms & Definitions

- Meezan Bank — Pakistan's Islamic flagship.
- FSC 2022 judgment — Riba elimination order.
- Dual banking — Malaysia's 40-year model.
- Conversion mechanics — Re-document, retrain, re-system.

Example / Illustration

• FSC 2022: five-year elimination order; SBP's steering committee, bank conversion plans, sovereign sukuk growth -- progress real, deadlines extended; the honest assessment: momentum with friction.

Lesson Summary

- FSC 2022: the defining judgment.
- Conversion: documents, people, systems.
- Malaysia: the 40-year benchmark.

Exam Pointers — Very Important

★ Assess Pakistan's Islamic-banking conversion -- the country-case essay.

Lesson 14: Revision: Islamic Finance Master Drill

Maqasid al-shari'ah (higher objectives): the five essentials -- din (religion), nafs (life), aql (intellect), nasl (lineage), mal (wealth) -- preserved by the law; finance serves hifz al-mal (wealth's preservation and circulation: 'so wealth does not circulate only among your rich' -- al-Hashr 7). Al-Ghazali's formulation, al-Shatibi's systematization, contemporary maqasid-based reform (Ibn Ashur, al-Raysuni).

Maqasid as finance's compass: beyond form-compliance (is the contract's Arabic right?) to substance (does it serve justice?) -- the tool against shari'ah arbitrage; evaluating tawarruq (form ok, maqasid fail), microfinance (maqasid triumph), and financial inclusion. The exam's philosophical essay: 'Maqasid and the future of Islamic finance.'

Revision master-drill: contracts grid (murabahah/salam/istisna'/ijarah/musharakah/mudarabah/wakalah -- structure + use + condition each); prohibitions (riba types, gharar, maysir); the four-filter test; sukuk vs bonds; takaful models; AAOIFI/IFSB; Pakistan (FSC 2022, Meezan); debates (tawarruq, crypto, authenticity); essay frames: 'different theory of finance', 'truly Islamic?', 'Pakistan's conversion', 'maqasid's compass'. Structuring drill: one contract from memory, fully conditioned.