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Islamic Banking Operations in Bangladesh 2024

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Foreword

It is with great satisfaction that we present the review paper on Islamic Banking Operations in Bangladesh 2024, prepared by a distinguished review team of the Bangladesh Institute of Bank Management (BIBM). I commend the team for their rigorous methodology, which combines empirical analysis with insights from questionnaires, interviews, and focus group discussions involving practitioners, regulators, Shariah scholars, and academics. Their recommendations—if implemented properly—can help sustain the credibility, competitiveness, and resilience of the industry.

The review underscores that the Islamic banking industry now accounts for a substantial share of banking assets and deposits in Bangladesh. At the global level, the Islamic finance industry has expanded dynamically, reaching trillions of US dollars in assets, with Bangladesh as a key player among developing economies. Yet, as the review paper highlights, the industry continues to face multifaceted challenges, but there are also opportunities for innovation and progress.

BIBM has long been committed to advancing knowledge, capacity building, and policy dialogue in Bangladesh's banking sector. Through this review paper, our aim is to provide a platform where policymakers, regulators, practitioners, and academics can engage in constructive dialogue, share experiences, and chart the future course of Islamic banking in Bangladesh. Since 2014, BIBM has included Islamic banking as a regular component of its annual review workshops, providing a consistent avenue for assessing performance, identifying challenges, and shaping policy directions.

I extend my sincere appreciation to the review team for their dedication and professionalism in preparing this important paper. I also wish to acknowledge the valuable contributions of industry leaders, regulators, and stakeholders who participated in the process. Their insights have enriched the review and will help guide meaningful developments.

It is my hope that the findings and recommendations presented here will contribute to the continued advancement of Islamic banking in Bangladesh, enabling it to play a more prominent role in the country's financial system and to meet the aspirations of the people for a just, inclusive, and Shariah-compliant economy.

S. M. Abdul Hakim

Director General, BIBM

Acknowledgment

The review team of Islamic Banking Operations in Bangladesh 2024 extends its sincere gratitude to the leadership of the Bangladesh Institute of Bank Management (BIBM). The guidance of the Director General was invaluable, while the facilitation provided by faculty members greatly enabled this work. Strategic direction and encouragement were consistently extended, and institutional resources were generously made available throughout the review. We also gratefully acknowledge the insightful cooperation of the various wings of BIBM.

Our appreciation is further conveyed to the officials of Bangladesh Bank and the scheduled banks. Their timely provision of data and clarifications was indispensable to the preparation of this review paper. We also acknowledge the support of the senior management of full-fledged Islamic banks, as well as the Islamic windows and branches of conventional banks. Valuable assistance was extended by Managing Directors, Additional Managing Directors, Deputy Managing Directors, Chief Financial Officers, and Heads of Islamic Banking Divisions.

We also gratefully acknowledge the constructive perspectives contributed by the Members of Shariah Supervisory Committees (SSCs) and the Heads of Shariah Secretariats, while operational insights were generously shared by branch and field officers during surveys, key informant interviews (KIIs), and focus group discussions (FGDs).

Any remaining errors or omissions are solely the responsibility of the review team. The analysis and opinions expressed herein are those of the authors and do not necessarily reflect the views of any institution or authority acknowledged above.

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Executive Summary

The global Islamic finance industry is experiencing growth and diversification. Over the past decade, its total assets have more than doubled, exceeding USD 4.9 trillion in 2023 and projected to reach USD 7.5 trillion by 2028. Islamic banking dominates this sector, accounting for over 70 percent of these assets, while the Sukuk market, Islamic funds, and Takaful continue to expand steadily. The industry's evolution reflects a dynamic interplay of technology, sustainability, and ethics. Digital platforms and fintech solutions are providing services to unbanked and underserved populations, while instruments like green Sukuk and blended finance are aligning profitability with the higher objectives of Shariah (Maqasid al-Shariah). Countries such as Malaysia and Indonesia demonstrate how strong regulatory support, targeted tax incentives, and pilot projects can foster such innovations. However, global debates reveal ongoing tensions: the lack of standardized reporting on environmental, social, and governance (ESG) metrics, the risks of excessive financialization, and the challenge of maintaining a distinct identity amid pressures to converge with conventional finance.

Bangladesh's trajectory presents a compelling case within this global narrative. Since the establishment of Islami Bank Bangladesh PLC in 1983, Islamic banking has grown to account for over a quarter of the country's banking sector deposits and financing while also dominating inward remittance channels. The sector has surpassed the Islamic Financial Services Board (IFSB)'s systemic importance threshold of 15 percent, underscoring its significance in the national financial system. In global indices, however, Bangladesh's performance is mixed. It ranked tenth in the 2024 Islamic Finance Development Indicator (IFDI), primarily due to lagging awareness, financial depth, and knowledge infrastructure. Its position in the Islamic Finance Country Index (IFCI) has fluctuated, rising to sixth in 2022 before dropping to tenth in 2024, illustrating both progress and fragility.

The Bangladesh Institute of Bank Management (BIBM) has played a crucial role in producing annual reviews of Islamic banking since 2014, offering a platform to assess achievements and identify reform needs. The 2024 review comes at a pivotal moment. The domestic industry is navigating complex debates over bank mergers, significant non-performing investments, governance gaps, and pressing calls for reforms across various sectors, including diversification, digital transformation, and skilled human resources in Islamic banking.

The 2024 review utilized a mixed-method approach, combining surveys of thirty-two banks, in-depth interviews with regulators, senior executives, and Shariah scholars, and focus group discussions (FGDs) with practitioners. These insights were supported by secondary data from Bangladesh Bank, the IFSB, the London Stock Exchange Group (LSEG), and other international sources. The findings reveal a sector that is expanding but unevenly. While deposits, investments, and trade financing grew in 2023–2024, this growth was disproportionately driven by the Islamic branches of conventional banks, which often outperformed full-fledged Islamic banks. Remittances, export receipts, and import payments through Islamic banks also rose significantly, highlighting their integration with the real economy. Agent banking services expanded access, while total assets increased. However, corporate social responsibility (CSR) expenditures declined, mainly due to reduced allocations by struggling full-fledged Islamic banks.

Stakeholder discussions revealed deep structural concerns. Heavy dependence on Mudarabah deposits exposes banks to displaced commercial risk, while many depositors expect fixed returns or resist Shariah-based documentation. These gaps in customer understanding highlight the urgent need for nationwide awareness campaigns and structured financial literacy programs.

In some dual banks, Islamic banking operations are treated as secondary, despite boards demonstrating explicit commitment. Cost allocations between Islamic and conventional operations are often not at arm's length, and most banks rely on conventional core banking systems (CBS) that lack full Shariah-compliance features. Shariah Supervisory Committees (SSCs) exist in all banks but often lack independence, dual competence in fiqh and finance, and adequate accountability mechanisms. Calls for external Shariah audits, aligned with global AAOIFI standards, were strongly voiced by both scholars and practitioners.

From a regulatory perspective, progress has been made through the Finance Company Act 2023, which formally recognized Islamic finance terminology, and the establishment of the Islamic Banking Regulation and Policy Department (IBRPD) at Bangladesh Bank in 2025, tasked with policy formulation and oversight. However, the absence of a comprehensive legal framework remains a pressing gap, leaving the sector primarily governed by ad hoc circulars from Bangladesh Bank. Stakeholders emphasized that long-term stability and credibility cannot be ensured without a comprehensive legal framework. There is also a pressing need to deepen the Islamic capital market, scale up Sukuk issuance, and foster credible risk-sharing instruments that reduce dependence on debt-like modes

of financing. Capacity building remains central: without developing a new generation of bankers, regulators, and Shariah scholars with dual expertise, the sector risks losing competitiveness both at home and abroad.

The 2024 review thus presents a picture of both progress and vulnerability. Islamic banking in Bangladesh has evolved from a niche experiment into a systemically important segment of the financial system, supported by strong demand fundamentals. Yet without decisive reforms in governance, legislation, risk management, product development, and capacity building, the sector risks stagnation and recurring crises of confidence. If reforms are pursued with clarity and determination, Bangladesh can position itself as a leader in financial inclusion and ethical finance, as well as a globally recognized contributor to the evolving architecture of Islamic finance.

List of Abbreviation

AACOB	Anti-Money Laundering Compliance Officers of Banks in Bangladesh
AAIB	Al-Arafah Islami Bank PLC
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACB	Audit Committee of the Board
AuM	Assets under Management
BB	Bangladesh Bank
BDBL	Bangladesh Development Bank Limited
BDT	Bangladesh Taka
BGIS	Bangladesh Government Investment Sukuk
BIBM	Bangladesh Institute of Bank Management
BoD	Board of Directors
BRPD	Banking Regulation and Policy Department
BSB	Bangladesh Shilpa Bank
BSEC	Bangladesh Securities and Exchange Commission
BSRS	Bangladesh Shilpa Rin Sangstha
CEO	Chief Executive Office
CIBFP	Certified Islamic Banking and Finance Professional
CIPA	Certified Islamic Professional Accountant
CPD	Continuous Professional Development
CRAR	Capital to Risk-Weighted Assets Ratio
CRR	Cash Reserve Requirement
CSAA	Certified Shari'ah Adviser and Auditor
CSB	Central Shariah Board
CSBIB	Central Shariah Board for Islamic Banks of Bangladesh
CSR	Corporate Social Responsibility
DIB	Diploma in Islamic Banking
ESG	Environmental, Social, and Governance
EXIM	Export Import Bank of Bangladesh PLC
FGD	Focus Group Discussions
FID	Financial Inclusion Department
FSIB	First Security Islami Bank PLC
GCC	Gulf Cooperation Council
GIB	Global Islami Bank PLC
GIFR	Global Islamic Finance Report
HPSM	Hire Purchase under Shirkatul Melk
IB	Islamic Bank
IBB	Islami Bank Bangladesh PLC
IBBL	Islami Bank Bangladesh Limited
IBD	Islamic Banking Division
IBF	Islamic Banking and Finance
IBFS	Islamic Banking and Finance Statistics
IBLF	Islami Bank Liquidity Fund

IF	Islamic Finance
IFCI	Islamic Finance Country Index
IFDI	Islamic Finance Development Indicator
IFIs	Islamic Financial Institutions
IFRS	International Financial Reporting Standard
IFSB	Islamic Financial Services Board
IIFA	International Islamic Fiqh Academy
IIFM	International Islamic Financial Market
IILM	International Islamic Liquidity Management Corporation
IIRA	Islamic International Rating Agency
IMF	International Monetary Fund
IsDB	Islamic Development Bank
KSA	Kingdom of Saudi Arabia
LSEG	London Stock Exchange Group
MANCOM	Management Committee
MD	Managing Director
MLS	Mudarabah Liquidity Support
NPI	Non-performing Investment
OIC	Organization of Islamic Cooperation
OIFI	Other Islamic Financial Institutions
PLC	Public Limited Company
PLS	Profit-and-Loss Sharing
RMC	Risk Management Committee
ROA	Return on Assets
ROE	Return on Equity
RSGF	Revised Shari'ah Governance Framework
SDGs	Sustainable Development Goals
SIB	Social Islami Bank PLC
SJIB	Shahjalal Islami Bank PLC
SLR	Statutory Liquidity Reserve
SME	Small and Medium-sized Enterprises
SMT	Senior Management Team
SND	Special Notice Deposit
SSC	Shariah Supervisory Committee
SWT	Subhanahu wa Ta'ala
TA	Total Assets
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USD	United States Dollar

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Islamic Banking Operations in Bangladesh 2024

Section 1: Introduction

1.1 Background of the Study

The global landscape of Islamic finance reflects a dynamic interplay between tradition and innovation, as well as between theory and practice. In recent years, rapid technological advancements and a growing focus on sustainable finance have shaped the industry. Emerging technologies have enhanced the industry's ability to reach underserved populations and small enterprises, while environmental and social considerations increasingly influence product design. Instruments like green finance, impact investment, and blended finance are now central to aligning profitability with the higher objectives of Islamic law (Maqasid al-Shariah).

Blended finance represents a promising avenue, where social finance instruments—such as Zakat, Waqf, and Sadaqah—are integrated into commercial banking operations. This approach fosters scalability and inclusiveness while ensuring financial sustainability. Experiences from Malaysia and Indonesia highlight the importance of regulatory support and tax incentives in advancing blended finance initiatives. Pilot projects demonstrate how innovation can be tested and scaled, while cross-border collaborations and international standard-setting efforts reflect the sector's expanding global reach.

Meanwhile, a key challenge the industry faces is maintaining its credibility while pursuing growth. The central question is whether Islamic finance can preserve its distinct identity while expanding market share or whether it risks converging with conventional finance. Comparative studies across jurisdictions offer valuable lessons on regulatory practices, product innovation, and governance mechanisms that balance ethical distinctiveness with market-driven innovation. Enhanced transparency, standardized reporting, and robust Shariah governance remain pressing priorities.

In Bangladesh, Islamic banking has grown steadily since the establishment of its first Islamic bank in 1983. The sector now commands a substantial share of the overall banking industry, reflecting strong and persistent demand for Shariah-compliant financial services. However, despite notable contributions to financial inclusion and economic development, ongoing concerns persist in Islamic banking in Bangladesh regarding Shariah non-compliance, a lack of product

standardization, over-reliance on fixed-income instruments, the absence of dedicated legal and regulatory frameworks, and issues surrounding operations within a dual-banking system. Moreover, the industry is witnessing discussions on bank mergers, asset recovery, liquidity support, the rise of digital banking, the need for product diversification, and demands for stronger Shariah governance and skilled human resources.

Against this backdrop, the 2024 review of Islamic banking operations in Bangladesh by the Bangladesh Institute of Bank Management (BIBM) comes at a critical juncture. Through institutional and regulatory engagement, the review assesses performance, identifies challenges, and offers recommendations to help shape the future direction of Islamic banking in Bangladesh.

1.2 Objectives of the Study

The overarching aim of this study is to review the operations of Islamic banking in Bangladesh in 2024 and compare them with their performance in 2023. The specific objectives are to:

- a) examine the regulatory environment governing Islamic banking in Bangladesh;
- b) analyze Islamic banking services, activities, and operations in Bangladesh within a global comparative perspective;
- c) identify success factors and key challenges facing the Islamic banking sector; and
- d) recommend strategies to enhance the effectiveness, resilience, and sustainability of Islamic banking operations.

1.3 Methodology of the Study

To achieve the study's objectives, a mixed-method approach is used, integrating both primary and secondary data to ensure depth, accuracy, and contextual relevance.

Primary data were collected using a semi-structured questionnaire designed by the research team and distributed to banks offering Islamic banking services in Bangladesh. Responses were received from thirty-two institutions, including eight full-fledged Islamic banks and twenty-four conventional banks with Islamic branches and/or windows. In addition, in-depth interviews and focus group discussions (FGDs) were conducted with key stakeholders, such as board members, senior officials of Islamic banks, Shariah scholars, and regulatory authorities. These

qualitative insights enrich the analysis by capturing lived practices, sectoral challenges, and strategic perspectives.

Secondary data were sourced from a wide range of national and international publications and databases. These include the Islamic Financial Services Industry Stability Report of the Islamic Financial Services Board (IFSB), the Islamic Finance Development Report of the London Stock Exchange Group (LSEG), the Global Islamic Finance Report of the Cambridge IFA, as well as Bangladesh Bank's Financial Stability Report, Scheduled Banks Statistics, Islamic Banking and Finance Statistics (IBFS), and its Quarterly Report on Islamic Banking. Annual reports and official websites of relevant banks were also reviewed.

This combined framework allows for a comprehensive, comparative, and integrative analysis of Islamic banking operations. The draft paper was presented at a stakeholder workshop comprising professionals from the banking sector, regulatory authorities, and academia. Feedback and recommendations from this workshop have been incorporated into this final version, ensuring that the study reflects both empirical realities and expert opinions.

1.4 Limitations of the Study

This study has several limitations. Although it draws on both primary and secondary sources, not all Islamic banks and Islamic banking divisions provided complete datasets, which may limit the comprehensiveness of the findings. Reliance on self-reported survey responses and interviews also introduces potential bias, particularly in areas such as Shariah governance and operational risk. The analysis is cross-sectional, covering 2023–2024, and therefore cannot capture longer-term trends or cyclical fluctuations. Cross-country comparisons are further constrained by variations in regulatory frameworks, definitions, and reporting standards. The scope is confined to the banking segment of Islamic finance in Bangladesh, excluding Sukuk, Takaful, and other non-bank institutions. In addition, the study does not address the discussions happening in the industry regarding mergers, high levels of non-performing investments (NPIs), asset recovery, and liquidity management, as these issues remain under active review by the central bank. Finally, the study relies on published data without independently verifying the limitations that may be inherent in them.

1.5 Structure of the Review Paper

The review paper is organized into six interrelated sections, designed to ensure logical progression and coherence:

- **Section 1** introduces the study by outlining its background, objectives, and methodology, thus framing the overall direction of the paper.
- **Section 2** examines the fundamentals of Islamic banking and finance, focusing on conceptual foundations, principles, and theoretical frameworks that distinguish Shariah-compliant practices from conventional banking.
- **Section 3** synthesizes recent literature on contemporary themes such as fintech and digital transformation, sustainable and green finance, integration of social and commercial finance, ethical concerns around financialization, and regulatory and standardization efforts.
- **Section 4** explores the regulatory environment of Islamic banking in Bangladesh, with particular attention to legal frameworks, supervisory institutions, and policy directives that shape operations in the domestic context.
- **Section 5** presents a detailed review and analysis of Islamic banking activities both globally and in Bangladesh, highlighting trends, growth indicators, operational statistics, and comparative insights.
- **Section 6** concludes the paper with a discussion of the major challenges and provides strategic recommendations aimed at strengthening governance, enhancing sustainability, and ensuring the long-term resilience of Islamic banking in Bangladesh.

Section 2: Fundamentals of Islamic Banking and Finance

2.1 Conceptual Framework of Islamic Finance

Islamic finance, with banking as its core subset, represents a distinct and rapidly growing segment of the global financial system, governed by principles derived from Shariah. These principles prohibit interest (Riba), excessive uncertainty (Gharar), gambling (Maysir), and transactions involving harmful activities (Dharar), while emphasizing ethical conduct, social justice, and financial responsibility. Thus, Islamic finance is not just a system of prohibitions but a comprehensive framework that promotes equity, fairness, and risk-sharing. It anchors financial activities in real assets and socially beneficial investments, aligning finance with the broader goals of inclusive and sustainable development.

As a holistic financial ecosystem rooted in Islamic jurisprudence, Islamic finance encompasses banking, capital markets, and insurance. Islamic banking replaces interest-based lending with trade, partnership, and leasing contracts such as Murabahah, Musharakah, Mudarabah, and Ijarah. In parallel, Takaful represents mutual cooperation and risk-sharing among participants, while Islamic capital market instruments—such as Sukuk and Islamic funds—offer investment avenues aligned with religious and ethical values. Collectively, these components integrate financial viability with moral obligations, seeking to advance both individual prosperity and societal welfare.

2.2 Historical Evolution of Islamic Banking and Finance

The origins of Islamic finance trace back to the early Islamic era, where commercial practices were governed by ethical norms encouraging fairness and justice. Instruments such as trade and participatory investments, such as Mudarabah and Musharakah, were widely used during the lifetime of the Prophet Muhammad (SAW).

Modern Islamic finance re-emerged in the mid-20th century, beginning with small-scale experiments in Pakistan during the 1950s and the establishment of Mit Ghamr Savings Bank in Egypt in 1963. Although Mit Ghamr was short-lived, it laid the foundation for contemporary Shariah-compliant

banking. The establishment of Tabung Haji in Malaysia in 1963 for Hajj pilgrims is another pioneering example. The establishment of the Islamic Development Bank (IsDB) in 1974 by the Organization of Islamic Cooperation (OIC) marked a turning point, institutionalizing Islamic finance on a multilateral scale.

The 1970s and 1980s witnessed the emergence of pioneering private institutions such as Dubai Islamic Bank, Faisal Islamic Bank of Sudan, and Bahrain Islamic Bank. In Bangladesh, the sector began with the establishment of Islami Bank Bangladesh Limited in 1983. Since then, Islamic finance has expanded worldwide, offering a wide range of products through both full-fledged Islamic institutions and Islamic windows of conventional banks.

2.3 Core Principles and Ethical Foundations of IBF

Islamic banking and finance operate on a distinct set of foundational principles derived from Shariah, which not only guide financial transactions but also reinforce justice, transparency, and shared responsibility. These principles distinguish Islamic banking and finance from their conventional counterparts and ensure alignment with both religious obligations and societal welfare.

2.3.1 Fundamental Principles

- **Application of Permissible Contracts:** Islamic financial transactions are structured around contracts rooted in trade, lease, and partnership, such as Mudarabah, Musharakah, Murabahah, and Ijarah. Unlike conventional banking, which profits primarily through imposing interest, Islamic financial transactions derive income from real economic activities. All contracts must be executed with mutual consent, clarity, and fairness. As stated in the Qur'an:

"...But Allah has permitted trading and forbidden interest..." (Surah Al-Baqarah, 2:275).

- **Fairness, Transparency, and Ethical Dealings:** High ethical standards are central to Islamic finance. Parties must fully understand

contractual terms, and ambiguities are to be avoided to prevent injustice. The Qur'an commands:

"Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice..." (Surah An-Nisa, 4:58).

- **Investment in Permissible Sectors:** In Islamic banking and finance, investments can only be made in halal activities that support ethical values and productive sectors. Transactions involving Shariah-prohibited and harmful items such as alcohol, gambling, or pork are strictly forbidden. The Qur'an states:

"O believers! Intoxicants, gambling, idols, and drawing lots for decisions are all evil of Satan's handiwork. So shun them so you may be successful." (Surah Al-Ma'idah, 5:90).

- **Risk Sharing:** In contrast to interest-based lending, which shifts risks to the borrower, Islamic banking emphasizes risk sharing. Contracts like Murabahah and Ijarah justify income based on ownership risks, while Mudarabah and Musharakah ensure equitable sharing of profit and loss. This reflects the Islamic legal maxim:

"Al-kharāj bi al-ḍamān – profit is justified by bearing liability."

- **Asset-Backed Transactions:** All Shariah-compliant financing must be backed by real assets or services, ensuring a direct link to the real economy. For example, in Murabahah or Ijarah, the bank must assume ownership before selling or leasing the asset. The Prophet Muhammad (SAW) said:

"Do not sell what you do not possess." (Sunan Abu Dawud, Hadith 3503).

- **Pursuit of Maqasid al-Shariah:** The higher objectives of Islamic law (Maqasid al-Shariah)—preserving religion, life, intellect, progeny, and wealth—underpin the values of Islamic banking and finance. Accordingly, products and services should promote justice, welfare, and harmony. The Qur'an warns:

“Do not consume one another’s wealth unjustly...” (Surah Al-Baqarah, 2:188).

- **Social Justice and Accountability:** With the integration of Zakat, Sadaqah, and Qard Hasan (benevolent loans), Islamic banking and finance promote social welfare. Financial inclusion and charitable initiatives are core responsibilities, not optional acts. The Qur’an declares:

“Indeed, Allah orders justice and excellence, and giving to relatives, and forbids immorality, bad conduct, and oppression...” (Surah An-Nahl, 16:90).

2.3.2 Key Prohibitions in Islamic Finance

- **Riba (Interest):** The payment or receipt of interest is strictly prohibited. Riba represents unjust enrichment, where returns are earned based on credit risk, which is not permitted by the Shariah. The Qur’an strongly condemns it:

“O believers, fear Allah, and give up what remains due to you of interest, if you are true believers. If you do not, then be warned of war from Allah and His Messenger...” (Surah Al-Baqarah, 2:278–279).

- **Gharar (Excessive Uncertainty):** Islamic contracts must avoid ambiguity and speculation. Unclear terms, undefined conditions, or speculative sales invalidate transactions. The Prophet (SAW) forbade transactions involving uncertainty and speculative practices:

“Abu Huraira (RA) reported that Allah's Messenger (SAW) forbade a transaction determined by throwing stones, and the type which involves some uncertainty.” (Sahih Muslim, Hadith No. 1513)

- **Maysir (Gambling):** Gambling and games of chance are prohibited, as they involve gain without productive effort. The Qur’an cautions:

“They ask you about wine and gambling. Say, ‘In them is great sin and [some] benefit for people. But their sin is greater than their benefit.’” (Surah Al-Baqarah, 2:219).

- **Dharar (Harm):** Any transaction that causes unjust harm to individuals or society is prohibited. Exploitation, fraud, coercion, and manipulation are strictly forbidden, following the maxim:

“Lā ḍarar wa lā ḍirār – harm should neither be inflicted nor reciprocated.”

- **Other Prohibited Practices:** Shariah forbids dealing in impermissible goods, deceptive practices, coercion, hoarding, and unjust enrichment (Zulm). Financial dealings must uphold honesty, consent, and fairness. As recorded in a Hadith Qudsi:

“Verily, I have made oppression unlawful for Myself and for My servants; so do not oppress one another.” (Sahih Muslim, Vol. 6, Hadith 6247).

2.4 Shariah-based Contracts and Principles in Islamic Banking

Islamic banks use a variety of Shariah-based contracts and principles to offer alternatives to conventional products and services. These contracts and principles provide options for deposit mobilization, consumer and business finance, and investment, all while adhering to the Shariah. The following is an overview of the most widely applied ones by Islamic banks:

- **Qard (Interest-Free Loan):** Qard refers to loans extended on an interest-free basis.
- **Wadiah (Safekeeping):** Wadiah is a safekeeping contract under which customers deposit funds with the bank for custodial purposes. The bank acts as a trustee but may utilize the funds with the depositor’s consent. While no return can be contractually agreed or promised, the bank may, at its discretion, provide a gift (Hibah).
- **Murabahah (Cost-Plus Sale):** Murabahah is among the most common contracts in Islamic banking. Here, the bank purchases an asset and sells it to the client at a disclosed cost-plus profit margin. Payment may be immediate or deferred.
- **Mudarabah (Profit-Sharing):** Mudarabah is a partnership in which one party (Rab al-Mal) contributes capital, while the other (Mudarib) provides expertise and management. Profits are distributed according to a pre-agreed ratio, whereas financial loss—unless caused by negligence,

misconduct, or breach of terms—is borne solely by the capital provider. This contract promotes entrepreneurship and risk-sharing.

- **Musharakah (Equity Participation):** Musharakah represents a joint venture in which partners contribute capital and, in some cases, managerial effort. Profits are distributed according to agreed ratios, while losses are shared in proportion to capital contributions. This mode encourages genuine partnership and longer-term equity financing.
- **Salam (Advance Purchase):** Salam contracts involve the advance payment of the purchase price for goods to be delivered at a future date. Frequently used in agriculture and manufacturing, Salam provides producers with upfront financing while ensuring delivery of goods in the future.
- **Istisna'a (Manufacturing/Construction Financing):** Istisna'a is applied in manufacturing and construction projects. The buyer commissions the seller to produce or construct an asset according to specified requirements, with payment terms agreed in advance (lump-sum, installment, or upon delivery). This contract is widely used for infrastructure, housing, and industrial projects.
- **Ijarah (Leasing):** Ijarah is a leasing arrangement whereby the bank purchases and leases an asset to a client in return for rental payments. The bank retains ownership, while the lessee acquires usage rights. A variant, Ijarah Muntahia Bittamleek, allows for eventual transfer of ownership to the client.
- **Bai' al-Sarf (Currency Exchange):** Bai' al-Sarf refers to the exchange of monetary units, such as foreign currencies or gold and silver, under strict Shariah conditions. Identical currencies must be exchanged in equal amounts and on the spot, while differing currencies must be exchanged with immediate delivery.
- **Bai' al-Dayn (Debt Trading):** Bai' al-Dayn refers to the sale and purchase of receivables arising from Shariah-permitted trade or service transactions. While it is generally permitted when conducted against assets such as commodities, it is not allowed when conducted against cash. Nevertheless, it has been practiced in Malaysia under specific regulatory frameworks, although its permissibility remains controversial.

- **Wakalah (Agency):** Wakalah is an agency contract whereby a principal appoints an agent (wakeel) to act on its behalf to conduct specified transactions. It is frequently applied in investment services, trade finance, Takaful, and Sukuk structuring. The agent may act with or without remuneration.
- **Supporting and Auxiliary Contracts and Principles:** Islamic banking also employs a number of supplementary contracts and principles. These include:
 - Kafalah (suretyship) and Rahn (pledge) for credit security,
 - Hibah (gift) and Waqf (endowment) for charitable purposes,
 - Wa'd (promise), Hawala (debt transfer), and Ibra' (rebate) for operational flexibility.

2.5 Governance in Islamic Banks

Unlike conventional banks, Islamic banks integrate religious accountability with corporate responsibility, ensuring that every operation complies with regulatory requirements and Islamic principles. At the heart of this system is strong Shariah governance, which is essential not only for compliance but also for building public trust, aligning financial activities with ethical objectives, and anchoring them in Maqasid al-Shariah. Governance in Islamic banks is therefore crucial for maintaining Shariah compliance, promoting ethical conduct, and safeguarding stakeholder interests. A well-designed governance framework is vital for enhancing credibility among depositors, investors, regulators, and the wider public. It establishes mechanisms for risk management, oversight, transparency, and continuous compliance with Shariah rulings.

The governance framework in Islamic banks operates through two interdependent dimensions. The first is corporate governance, which emphasizes accountability, efficiency, and strategic direction. The second is Shariah governance, which ensures that every transaction adheres to Islamic principles. Together, they form a cohesive system that promotes operational excellence, religious integrity, and long-term sustainability. The effectiveness of this governance model relies on the synergy between these components, with each element reinforcing the others. Conversely, weaknesses in any of these areas risk exposing the entity to Shariah non-

compliance, financial instability, and reputational damage. Figure 2.1 provides a comparison of the governance components of Islamic banks to those of conventional banks.

2.5.1 Corporate Governance Structure in Islamic Banks

The corporate governance structure of Islamic banks functions as a safeguard against mismanagement and unethical practices, while also ensuring alignment with Shariah principles. Its foundations lie in accountability, transparency, and effective oversight.

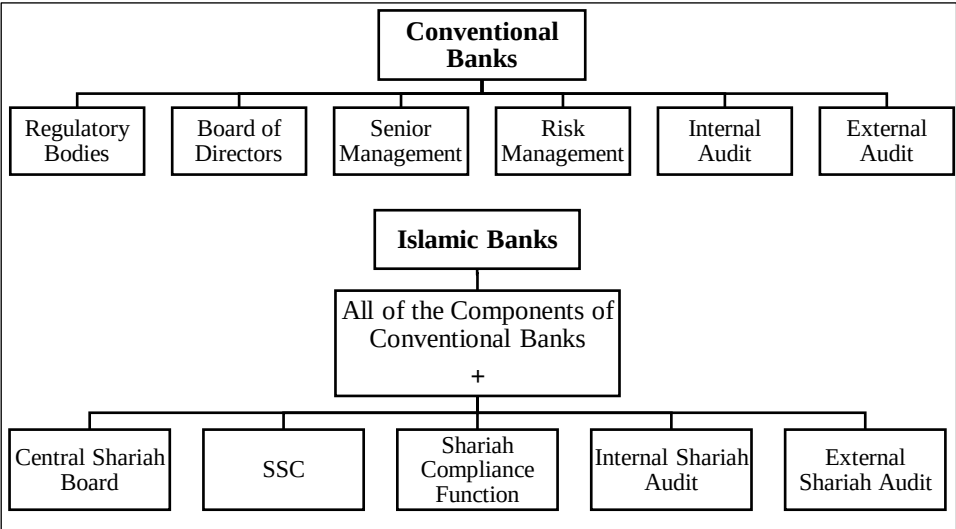
- **Regulatory Authorities** act as the overarching guardians of the financial system. The central bank enforces prudential guidelines and ensures compliance with both conventional and Shariah-based frameworks.
- **Board of Directors (BoD)** provides strategic leadership and supervises policy decisions. Beyond the conventional mandate, they must also demonstrate competence in overseeing Shariah-related matters.
- **Senior Management Team (SMT)** is responsible for implementing the BoD's strategic directions. They establish internal controls, risk frameworks, and ensure business operations remain within Shariah boundaries. Regulators and standard-setting bodies often require senior managers to possess additional qualifications suited to Islamic financial products and activities.
- **Risk Management Function** identifies, assesses, and mitigates financial and operational risks. Importantly, it also addresses Shariah non-compliance risk, which is a distinct component of an Islamic bank's risk structures.
- **Internal Audit** operates independently to evaluate the effectiveness of internal controls and governance. As a third line of defense, it reinforces system robustness.
- **External Audit** provides impartial assurance on financial statements and compliance with reporting and governance standards.

2.5.2. Shariah Governance Structure in Islamic Banks

Beyond corporate governance, Islamic banks require a specialized Shariah governance framework to ensure full compliance with Islamic principles. This framework includes both national or regulator and entity-level components through dedicated structures and functions:

- **Central Shariah Board (CSB):** At the national or regulator level, the CSB issues overarching guidelines and policy advice to harmonize Shariah practices across Islamic banks.
- **Shariah Supervisory Committee (SSC):** At the institutional level, SSCs review and approve products, transactions, and policies. They conduct both ex-ante and ex-post reviews to ensure compliance.
- **Shariah Compliance Function:** Integrated into daily operations, this function advises management, monitors activities, and mitigates Shariah non-compliance risk. It acts as the second line of defense.
- **Internal Shariah Audit:** Operating independently from management, this function evaluates Shariah compliance in documentation, contracts, and procedures. It functions as the third line of defense under the direct supervision of the SSC.
- **External Shariah Audit:** Still emerging, this mechanism provides independent assurance of Shariah compliance, complementing conventional external audits and enhancing stakeholder confidence.

Figure 2.1: Governance Components of IBs Compared to CBs



Source: Hossain and Ahmed (2025)

Section 3: Review of the Literature

The contemporary literature on Islamic finance reflects a dynamic interplay between innovation and tradition, as scholars and practitioners navigate the opportunities and challenges of an expanding industry. Recent studies highlight the transformative role of fintech in promoting financial inclusion, the increasing integration of green and sustainable finance, and the potential of blended models that combine social and commercial objectives. At the same time, critical debates emphasize the risks of excessive financialization, the importance of regulatory harmonization, and the need to maintain ethical integrity through robust Shariah governance. Within this global discourse, the Bangladeshi experience stands out as both a success story in rapid market share expansion and a cautionary tale of ongoing governance, regulatory, and trust-related challenges. Overall, the literature provides a framework for understanding how Islamic banking is evolving across jurisdictions while underscoring the specific reform imperatives necessary for Bangladesh to align with global best practices and *Maqasid al-Shariah*.

3.1 Literature on Global Trend and Discourse

This literature review critically examines current discourse in global Islamic finance, highlighting scholarly discussions, insights, industry trends, and recommendations. It identifies the growing demand for Shariah-compliant financial instruments, ethical investments, and sustainable finance practices as key drivers of significant growth in Islamic finance over the past decade. However, the literature reveals a tension between tradition and innovation, particularly the divide between Islamic social finance and commercial finance, despite their shared ethical foundations. Additionally, the literature highlights the importance of digital transformation while advocating for greater attention to sustainability and ethical governance. Ongoing debates focus on the challenges of maintaining ethical and Islamic principles in global markets as digital tools facilitate greater access to Islamic financial services.

The literature identifies three key trends: first, new technologies are enabling Islamic banks to better serve small businesses and individuals in developing economies; second, environmental considerations are influencing the design of financial products, with green and other impact investing emerging as significant innovations; and third, fundamental questions remain about balancing profitability with the core socio-economic objectives of Islamic finance. As the Islamic finance industry evolves from theoretical discussions to practical solutions through fintech and innovation, notable challenges also arise, which are further discussed below.

3.1.1 Islamic Fintech and Digital Transformation

The rapid growth of Islamic fintech and digital solutions aligns closely with technological disruption and the core principles of Islamic finance (Supriyono et al., 2024). This digital transformation reflects global financial trends and addresses specific ethical considerations, as evidenced by a 30% increase in research on fintech within Islamic finance since 2020 (Beg et al., 2024). Recent studies highlight the crucial role of Islamic fintech in promoting financial inclusion while adhering to Shariah principles. Key markets such as Indonesia and Malaysia demonstrate how Shariah-compliant digital platforms can enhance access to financing for small and medium-sized enterprises (SMEs) while ensuring compliance with Islamic law (Othman et al., 2024).

Regulatory innovations, particularly sandbox frameworks, have supported this growth by enabling controlled testing of new business models (International Monetary Fund (IMF), n.d.), although fragmentation persists across jurisdictions. Supriyono et al. (2024) investigate how Shariah-compliant digital banking improves financing access for SMEs in Indonesia while upholding Islamic ethical standards. Similarly, Othman et al. (2024) examine the integration of digital Islamic finance with the Sustainable Development Goals (SDGs), emphasizing the importance of *Maqasid al-Shariah*—the higher objectives of Islamic law aimed at preserving faith, life, intellect, lineage, and wealth—and *Maslahah* (public interest) in fintech innovations. Furthermore, Alsmadi (2025) explores the link between Islamic fintech and corporate social responsibility (CSR), suggesting that

digital financial solutions can enhance financial inclusion while ensuring ethical compliance. However, the literatures caution that adopting technology must not undermine the foundational values of Islamic finance (Alsmadi, 2025), emphasizing the need to balance innovation with adherence to these principles.

3.1.2 Green and Sustainable Islamic Finance

Sustainability has become a central theme in Islamic finance. Integrating Islamic finance principles with green finance presents significant opportunities for funding climate resilience projects, particularly in developing markets where infrastructure needs align with Islamic investment preferences (Maulina et al., 2023). Academics and industry experts are exploring potential synergies between these fields, as they share many core values. For instance, Zhang et al. (2025) examine how Islamic finance can promote inclusive and sustainable economic growth, while Shahimi and Zahari (2025) investigate the sustainability principles inherent in Islamic finance, emphasizing the need for financial instruments that comply with both Shariah and environmental, social, and governance (ESG) criteria. Meanwhile, Sofiadin (2025) highlights the importance of innovation and education in advancing green Islamic financing, and the World Bank (2022) emphasizes the crucial role of Islamic green finance in supporting renewable energy and climate-resilient initiatives, with countries like Malaysia, Saudi Arabia, and the United Arab Emirates leading the way. The World Bank (2022) also underscores the necessity of an Islamic green finance ecosystem, identifying sukuk and green investment funds as vital tools.

The Islamic capital market is rapidly expanding through the issuance of green and sustainability-linked sukuk. Recent developments in sustainability-linked sukuk structures demonstrate increased sophistication in aligning financial returns with measurable ecological outcomes (Sofiadin, 2025). Malaysia has emerged as a leader in issuing renewable energy sukuk, providing a strong framework for climate-conscious investments that adhere to Sharia principles (Shahimi & Zahari, 2025). Countries in the Gulf Cooperation Council (GCC) are also adopting similar

frameworks (Abdullah & Ismail, 2022). This trend reflects a growing demand for ethical assets and illustrates the compatibility of Islamic finance with environmental stewardship, even though these investments currently constitute less than 5% of the global sukuk market (Zhang et al., 2025). Nonetheless, challenges remain in standardizing ESG metrics across Muslim-majority economies (Asutay & Yilmaz, 2024).

3.1.3 Integration of Social and Commercial Finance

The integration of Islamic social finance instruments, such as Zakat and Waqf, with commercial banking presents significant opportunities and challenges for the Islamic finance industry. Recent research highlights a growing interest in blended finance models that combine philanthropic and market-oriented approaches (Maulina et al., 2023). This integration could help close longstanding gaps in financial inclusion while adhering to Shariah principles, particularly for marginalized populations (World Bank, 2022).

Several pioneering initiatives illustrate this potential. In Indonesia and Malaysia, IFIs are developing hybrid products that combine Zakat distribution with traditional financing models (Supriyono et al., 2024). Meanwhile, Gulf Cooperation Council (GCC) countries are establishing Waqf-based investment funds designed to generate both social impact and financial returns (Othman et al., 2024). These innovations aim to enhance the effectiveness of Islamic finance in achieving its original redistributive goals while maintaining commercial viability (Shahimi & Zahari, 2025). However, significant challenges remain. Structural barriers include mismatched timelines between social programs that require quick disbursement and commercial investments focused on long-term returns (Beg et al., 2024). Additionally, regulatory frameworks in many jurisdictions often separate social and commercial finance, creating legal hurdles for integration (IMF, n.d.). Concerns about mission drift have also been raised; Alsmadi (2025) warns that excessive commercialization may undermine the social welfare objectives inherent in Zakat and Waqf systems.

Moving forward requires a careful balance. Literatures argue that successful integration depends on developing standardized measurement frameworks for social impact, strengthening governance structures, and creating supportive regulatory environments (Beg et al., 2024). As the industry evolves, integrating social and commercial finance could be crucial in demonstrating the unique value of Islamic banking in addressing both economic and ethical objectives (Zhang et al., 2025).

3.1.4 Financialization and Ethical Concerns

The financialization of Islamic finance is a key topic in academic discussions, with some literature arguing that market-driven practices threaten its ethical foundations. Research by Qanas and Sawyer (2022) explores how Islamic financial markets are integrating with global finance, raising critical questions about profit motives and adherence to ethical standards. The Islamic finance industry currently faces significant tensions between financialization and the need to uphold its core principles, which challenges its identity and operational framework. This dual focus is vital as Islamic finance products evolve and become more interconnected with conventional markets (Asutay & Yilmaz, 2024). However, Asutay and Yilmaz (2024) caution against excessive financialization, advocating for a focus on real economic activities rather than speculative transactions. Critics argue that as the sector expands globally, market-driven practices increasingly resemble those of conventional finance, undermining the foundations of Islamic finance (Asutay & Yilmaz, 2024). This tension is particularly evident in the structuring of financial products, where profit maximization often takes precedence over strict adherence to Shariah principles (Alsmadi, 2025).

Recent studies have raised concerns about the Islamic finance practices that violate prohibitions against Riba when looked at their substance (Asutay & Yilmaz, 2024). Observers note that competitive pressures have led some banks to adopt complex financial engineering techniques while only superficially complying with Shariah (Maulina et al., 2023). This trend raises important questions about Islamic finance's ability to maintain its distinctiveness in a global context (Shahimi & Zahari, 2025). Regulatory

bodies and academics are calling for improved governance mechanisms, emphasizing enhanced Shariah audit processes and greater transparency in profit-sharing arrangements (Othman et al., 2024). Some researchers propose reorienting the *Maqasid al-Shariah* framework in product development and risk management to mitigate the effects of excessive financialization (IMF, n.d.).

This ongoing discourse reflects broader tensions within ethical finance systems operating under global capitalist paradigms. As Supriyono et al. (2024) noted, Islamic finance institutions must navigate the dual imperatives of market competitiveness and adherence to Islamic principles. The sector's ability to reconcile these tensions may ultimately determine its long-term viability as both a faith-based alternative and a mainstream financial option (World Bank, 2022).

3.1.5 Regulatory and Standardization Efforts

The global Islamic finance industry faces significant challenges in regulatory harmonization and standardization, despite substantial institutional initiatives (IMF, n.d.). Key standard-setting organizations, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the IFSB, are refining Shariah governance frameworks, particularly in emerging areas like fintech and sustainable finance (Othman et al., 2024). However, jurisdictional fragmentation remains a critical issue, marked by varying interpretations of compliance requirements across different markets (Asutay & Yilmaz, 2024). The environmental finance sector exemplifies these standardization challenges. For example, although green sukuk issuance has increased since 2018, the lack of unified ESG reporting in the context of Islamic finance complicates impact assessments and investor decision-making (World Bank, 2022). This regulatory gap has become more evident as climate-aligned products grow within Islamic capital markets (Shahimi & Zahari, 2025).

Nonetheless, innovative regulatory approaches are emerging to address the complexities. Recent research suggests that regulatory sandbox models, successfully implemented in Malaysia and Bahrain, may effectively balance innovation with adherence to Shariah principles (Supriyono et al., 2024).

These experimental frameworks demonstrate how balanced regulation can foster innovation in areas such as digital assets and sustainability-linked instruments without compromising Islamic tenets (Alsmadi, 2025). Literature argues that future standardization initiatives must address both technical and financial requirements and broader ethical objectives. As Maulina et al. (2023) state, effective regulation should integrate *Maqasid al-Shariah* principles while accommodating the increasing globalization of the sector. The ongoing development of digital banking and climate finance instruments will likely require continuous regulatory adaptation in the coming years (IMF, n.d.).

3.2 Literature on the Bangladesh Market

Islamic banking in Bangladesh began in 1983 and has evolved from a niche initiative into a significant part of the country's financial system. Currently, Islamic banks account for over one-fourth of total deposits and financing, as well as nearly half of inward remittances, establishing themselves as key players in both retail and corporate markets (Mustafa et al., 2022). While the industry has demonstrated resilience and strong depositor appeal, literature consistently highlights ongoing deficiencies in governance, product diversity, regulatory clarity, and risk management (Ahmed, 2018; Alam et al., 2020b). Despite its size, the industry remains structurally constrained and is supported by an evolving regulatory framework, requiring substantial institutional strengthening to realize its transformative potential.

- **Shariah Governance:** Shariah governance is recognized as a fundamental pillar of Islamic banking. Literature emphasizes the need for greater independence of SSCs, enhanced transparency, and the implementation of external Shariah audits to maintain credibility and public trust (Ahmed, 2017, 2020; Alam et al., 2023a). Legal and institutional reforms are also highlighted, particularly the need to balance inclusivity through Islamic windows and subsidiaries with integrity, necessitating phased conversion and robust supervision (Ahmed et al., 2024).

Despite the presence of SSCs in every Islamic bank, concerns persist regarding their independence, expertise, and accountability (Alam & Thakur, 2022). Shariah officers often report directly to bank management rather than SSCs, compromising their autonomy and effectiveness (Alam et al., 2023b). Current Shariah audits cover only 10–20% of transactions, leaving institutions vulnerable to compliance risks (Alam et al., 2023b). Ahmed (2017, 2020) argued that external Shariah audits should be regarded as a necessity, a position reiterated in subsequent works (Ahmed et al., 2024; Hossain & Ahmed, 2024). The literature broadly supports mandatory external Shariah audits and ratings, enhanced by continuous internal audit mechanisms, as essential measures to boost sector credibility.

- **Debt-Mimicking Practices and the Risk of Convergence:** A recurring concern is the sector’s significant reliance on debt-mimicking contracts such as Murabahah, Bai-Muajjal, and Hire Purchase under Shirkatul Melk (HPSM), while equity-based modalities like Musharakah and Mudarabah remain marginal (Ahmed et al., 2025). Literature warns that this trend risks convergence with conventional banking, undermining the ethical mandate of Islamic finance and necessitating a greater focus on risk-sharing instruments (Ahmed, 2025c; Hossain & Ahmed, 2024). Additionally, accounting practices that mimic conventional banking raise concerns (Ahmed et al., 2025).

Another critique focuses on the reliance on conventional benchmarks, notably the Six-Month Moving Average Treasury Bill Rate (SMART), to determine profit rates. Critics argue that such practices erode the authenticity of Islamic banking returns and compromise credibility (Hossain et al., 2024). Critics caution that dependence on such mechanism’s risks reducing Islamic banking to a “Shariah-wrapped” version of conventional finance. In response, literature advocates for developing Shariah-based benchmarks, increased contract standardization, and broader adoption of risk-sharing structures (Hossain & Ahmed, 2024; Hossain et al., 2024).

- **Limited Diversification and Weak Capital Market Integration:** The trajectory of Islamic finance in Bangladesh has been predominantly quantitative rather than qualitative. In contrast to Malaysia or Bahrain, where Islamic finance has diversified into capital markets, takaful, and Islamic funds, Bangladesh remains overwhelmingly banking-centric (Mustafa et al., 2022). This narrow focus has constrained the industry's developmental role and limited financial deepening.

The integration between Islamic banking and the capital market is weak. Sukuk issuance faces obstacles such as high transaction costs, bureaucratic delays, underdeveloped secondary markets, and limited awareness (Mustafa et al., 2021, 2022; Alamgir et al., 2024). However, sovereign sukuk programs have demonstrated the potential of Shariah-compliant instruments for infrastructure financing and liquidity management (Ahmed, 2025a; Ahmed & Hossain, 2023). Policy reviews stress the need to scale up government sukuk issuance, expand retail investor access, and establish dedicated trading platforms to cultivate a vibrant Islamic capital market.

- **Legal and Regulatory Framework:** The legal framework has not kept pace with industry expansion. Islamic banks operate under the Bank Companies Act of 1991, supplemented by ad hoc Bangladesh Bank circulars, often resulting in fragmented governance and inconsistencies with Shariah principles (Ahmed, 2018). The Draft Islamic Bank Companies Act 2024 represents a long-awaited effort to provide clarity, but gaps remain. Reviews highlight the need for amendments to the draft to enhance Shariah governance, depositor representation, robust audit mechanisms, and restrictions on ownership concentration (Ahmed et al., 2024; Hossain & Ahmed, 2024).

While the draft codifies certain Shariah contracts, Ahmed et al. (2024) caution that rigid codification may stifle innovation. They advocate principle-based legislation. Recommendations also include establishing a dedicated department within Bangladesh Bank, appointing a Deputy Governor for Islamic banking, and aligning with international standards such as those set by the IFSB and the AAOIFI.

- **Risk Management:** The literature identifies structural vulnerabilities in credit and liquidity risk, stemming from underdeveloped Islamic money and capital markets (Ahmed et al., 2022). Calls have been made for liquidity support tools and a functional Islamic money market (Hossain & Ahmed, 2024). Operational risks—including governance lapses, cyber threats, and related-party exposures—remain pressing concerns (Habib et al., 2025). The COVID-19 pandemic accelerated digitalization but also exposed institutional fragilities (Habib et al., 2021). Ownership transfer mechanisms for underlying assets further complicate establishing legal ownership where the bank is the owner (Ahmed et al., 2025). The recent merger decision of five troubled Islamic banks into a state-backed bridge bank illustrates proactive crisis management; however, without deeper governance and Shariah reforms, such measures risk becoming temporary fixes (Ahmed, 2025c).
- **Human Capital and Institutional Capacity:** Weaknesses in human capital represent another persistent challenge. Many Islamic bankers lack specialized Shariah training, while Shariah scholars may lack financial expertise, creating a dual skills gap (Malik et al., 2020). This undermines credibility and limits innovation. Recommendations include mandatory competency development for directors, establishing a dedicated Islamic finance university, and promoting collaboration between academia and industry (Hossain & Ahmed, 2024). Hossain and Ahmed (2024) emphasize that long-term success will depend on developing an ecosystem for training, research, and regulatory expertise, comparable to Malaysia's International Center for Education in Islamic Finance (INCEIF) model.
- **Depositor Confidence:** Depositor confidence is the ultimate measure of sustainability. Failures in governance, lapses in Shariah compliance, high levels of non-performing investments, and withdrawal restrictions have eroded trust in several Islamic banks (Ahmed, 2025c). Restoring confidence requires transparency, depositor representation in governance, and credible oversight. Proposed reforms include external Shariah audits, enhanced disclosure, whistleblowing mechanisms, and stronger compliance reporting (Hossain & Ahmed, 2024; Hossain et al., 2024).

In summary, the literature presents an industry that has achieved significant scale but continues to face foundational weaknesses. Literature consistently emphasizes that legal reform, strengthened Shariah governance, development of the capital market, expansion of equity-based instruments, and investment in human capital are critical to unlocking the sector’s potential. Grounded in academic insights and policy recommendations (Hossain & Ahmed, 2024; Ahmed et al., 2024), Islamic banking in Bangladesh has the potential to evolve into a cornerstone of sustainable and ethical finance—aligned with Maqasid al-Shariah and capable of contributing meaningfully to broader socioeconomic development. Table 3.2.1 summarises the challenges and recommendations identified in the literature on Islamic banking in Bangladesh.

Table 3.2.1: Challenges and Recommendations in the Literature on Islamic Banking in Bangladesh

Theme	Key Challenges Identified in the Literature	Recommendations / Proposed Reforms
Shariah Governance	• Weak independence and accountability of SSCs. • Shariah officers reporting to management instead of SSCs, limiting autonomy. • Shariah audits cover only 10–20% of transactions, exposing compliance risks.	• Strengthen the independence of SSCs. • Introduce mandatory external Shariah audits and ratings. • Enhance internal audit mechanisms. • Implement legal reforms that balance inclusivity with integrity.
Debt-Mimicking Practices & Benchmarking	• Heavy reliance on Murabahah, Bai-Muajjal, and HPSM. • Neglect of equity-based contracts such as	• Promote risk-sharing instruments. • Develop Shariah-based benchmarks. • Standardize contracts to improve acceptability.

	Musharakah and Mudarabah. • Dependence on conventional benchmarks (e.g., SMART) for pricing.	
Diversification & Capital Market Integration	• Industry remains overly banking-centric with limited diversification. • Barriers to sukuk issuance such as high costs, weak infrastructure, and bureaucratic delays. • Limited retail participation and investor awareness.	• Scale up sovereign sukuk issuance and strengthen secondary markets. • Expand retail investor access. • Establish dedicated Islamic capital market platforms.
Legal & Regulatory Framework	• Continued reliance on outdated laws and ad hoc regulatory circulars. • Draft Islamic Bank Companies Act risks over-codification.	• Adopt principle-based legislation. • Strengthen Shariah governance and depositor representation. • Limit ownership concentration. • Establish a dedicated department and a Deputy Governor post. • Align with international standards such as IFSB and AAOIFI.
Risk Management	• Structural exposure to credit and liquidity risks due to underdeveloped Islamic money and capital markets.	• Develop Islamic money and liquidity markets. • Strengthen governance and accounting practices.

	• Absence of Shariah-compliant liquidity support tools. • Operational risks from governance lapses, cyber threats, and related-party exposures. • Crisis responses (e.g., bank mergers) risk being temporary fixes.	• Institutionalize systemic risk frameworks beyond ad hoc fixes.
Human Capital & Institutional Capacity	• Persistent dual skills gap: bankers lack Shariah expertise, while Shariah scholars lack financial expertise. • Weak training and research ecosystem.	• – Introduce mandatory training and competency development for directors and Shariah officers. – Establish a dedicated Islamic finance university. – Promote collaboration between academia and industry.
Depositor Confidence	• Declining trust due to governance failures, high NPIs, and withdrawal restrictions. • Absence of depositor representation in governance.	• Introduce external Shariah audits and ratings. • Enhance disclosure and compliance reporting. • Implement whistleblowing mechanisms. • Ensure depositor representation in governance structures.

Source: Authors' own.

Section 4: Regulatory Framework of Islamic Banking

Islamic banking operates under a distinctive regulatory structure that integrates divine guidance with modern supervisory practices. Unlike conventional banking, where regulation is grounded primarily in secular laws and economic theories, Islamic banking derives its foundations from the Qur'an, Sunnah, and subsequent scholarly interpretations. To safeguard sound governance, financial stability, and Shariah compliance, governance frameworks have evolved at both international and domestic levels. While global institutions promote standardization and cross-border harmonization, national authorities adapt and implement these principles within their respective contexts.

In Bangladesh, the regulatory framework for Islamic banking is steadily evolving, though still fragmented. While AAOIFI and IFSB provide comprehensive international standards, Bangladesh relies heavily on general banking legislation supplemented by regulatory circulars. This transitional approach leaves gaps in areas such as Shariah compliance interpretations, product standardization, and Shariah governance. The absence of a dedicated Islamic Banking Act remains a pressing challenge. Strengthening the domestic framework—while aligning with global best practices—is essential to ensure the credibility, competitiveness, and stability of Islamic banking in Bangladesh. As a member of both AAOIFI and IFSB, Bangladesh Bank is well-positioned to gradually adopt international standards and reinforce its role as an emerging hub for Shariah-compliant finance.

4.1 International Standard Setters and Supporting Institutions

The rapid global expansion of Islamic finance has created demand for internationally recognized standards to ensure consistency, stability, and credibility across jurisdictions. Several specialized institutions have therefore emerged to provide guidance on accounting, prudential supervision, governance, and liquidity management for IFIs.

4.1.1 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Established in 1991 in Bahrain, AAOIFI is the foremost standard-setting body for the Islamic finance industry. To date, it has issued more than 115

standards covering accounting, auditing, governance, ethics, and Shariah rules. These standards provide detailed guidance on permissible contracts—including Murabahah, Mudarabah, Musharakah, Ijarah, Wakalah, Salam, and Istisna'a—ensuring that financial operations remain Shariah-compliant. Many jurisdictions have adopted AAOIFI standards fully, partially, or as references. Beyond standard-setting, AAOIFI also provides fellowship programs, certifications, and training to strengthen professional expertise and promote uniform implementation across borders.

4.1.2 Islamic Financial Services Board (IFSB)

Headquartered in Malaysia, the IFSB plays a role comparable to the Basel Committee in conventional banking. It develops prudential standards on capital adequacy, liquidity risk, stress testing, and corporate governance, specifically designed for Islamic banks, Takaful operators, and Islamic capital market participants. By 2024, the IFSB had issued more than 31 standards and guiding principles, serving as benchmarks for regulators worldwide. Its contributions strengthen financial resilience, enhance supervisory consistency, and assist member states in integrating Islamic banking into their national frameworks while upholding Shariah principles.

4.1.3 Supporting Global Institutions

In addition to AAOIFI and IFSB, several institutions contribute to the international regulatory ecosystem of Islamic finance:

- **General Council for Islamic Banks and Financial Institutions (CIBAFI):** Facilitates policy dialogue, training, and advocacy.
- **International Islamic Financial Market (IIFM):** Standardizes contracts and documentation for Islamic capital markets, particularly Sukuk and hedging products.
- **International Islamic Liquidity Management Corporation (IILM):** Issues high-quality, short-term Islamic instruments to support liquidity management.
- **Islamic International Rating Agency (IIRA):** Provides Shariah-compliant ratings, enhancing transparency and investor confidence.
- **International Islamic Fiqh Academy (IIFA):** Issues jurisprudential rulings on new financial products to ensure Shariah alignment.

Collectively, these organizations form a robust global infrastructure that harmonizes practices across jurisdictions while safeguarding the ethical and religious identity of Islamic finance.

4.2 Domestic Regulatory Framework in Bangladesh

While international standards provide broad direction, domestic regulations ensure their practical implementation within the country's legal and socio-economic context. In Bangladesh, Islamic banking operates under a hybrid framework: conventional banking laws form the legal foundation, while specific guidelines and circulars from Bangladesh Bank provide operational direction for Shariah-compliant activities.

4.2.1 Bank Company Act, 1991

This remains the primary legislation governing all banks, including Islamic banks. Amendments to this have recognized Shariah-based practices by allowing instruments such as Mudarabah and Musharakah. This also authorizes Islamic banks to issue profit-sharing certificates and engage in trade-based activities, distinguishing them from interest-based transactions. However, it lacks a comprehensive section devoted exclusively to Islamic banking, underscoring the need for a dedicated Islamic Banking Act. Notably, Bangladesh Bank issued a draft Islamic Bank Companies Act in 2024 and invited public opinion.

4.2.2 Companies Act, 1994

As corporate entities, Islamic banks are also governed by this legislation. This legislation governs incorporation, corporate governance, and shareholder relations. While it does not explicitly address Shariah compliance requirements, these aspects are managed through internal Shariah Supervisory Committees (SSCs) and oversight by Bangladesh Bank.

4.2.3 Guidelines for Conducting Islamic Banking (2009)

Bangladesh Bank issued this in 2009 through BRPD Circular No. 15, marking a significant step in regulating the sector. The guidelines cover licensing, deposit and investment operations, liquidity requirements (CRR and SLR), financial reporting, and profit-sharing ratios. They also recognized the role of SSC while identifying that the board of directors

remains bearing the ultimate responsibility for ensuring Shariah compliance. As of 2025, Bangladesh Bank is in the process of revising these guidelines to address emerging challenges and align practices more closely with international standards.

4.2.4 Guidelines on Internal Control and Compliance (2016)

To strengthen oversight, Bangladesh Bank introduced new provisions in 2016 that incorporated Shariah audits into the broader risk management framework. A central emphasis was placed on mitigating Shariah non-compliance risk. Under this framework, banks are required to conduct periodic Shariah reviews, submit their findings to both the SSCs and boards of directors, and implement corrective measures where necessary. While the initiative has enhanced accountability and improved governance structures, harmonizing practices across institutions continues to be a challenge.

4.2.5 Finance Company Act, 2023

This legislation broadened the scope of finance companies to include Islamic finance services. It formally recognized Islamic finance terminology, mandated the use of profit-based nomenclature, and permitted investment in Shariah-compliant instruments. This legislation reflects Bangladesh's commitment to providing a more inclusive legal foundation for Shariah-compliant financial services beyond conventional banks.

4.2.6 Other Circulars and Initiatives

Bangladesh Bank has also issued several circulars to strengthen Islamic banking operations. These include refinance schemes for farmers and small traders, liquidity facilities such as the Mudarabah Liquidity Support (MLS), and incentives for green and environmentally friendly investments. The establishment of the Islami Bank Liquidity Fund (IBLF) has further enhanced short-term liquidity management.

4.2.7 Islamic Banking Regulation and Policy Department (IBRPD)

A major milestone came on 3 March 2025, when Bangladesh Bank issued an office circular announcing the creation of IBRPD to oversee the development of the sector. The establishment of the IBRPD marks an achievement of a long-standing demand within Bangladesh's Islamic banking sector, including reform calls raised in the aftermath of the July Revolution (Hossain & Ahmed, 2024). The establishment of the department

represents a critical step toward strengthening the regulatory framework for Islamic banking.

The department has been entrusted with wide-ranging responsibilities, including formulating policies and opinions on the establishment of full-fledged Islamic banks, as well as Islamic banking branches and windows within conventional banks. It will also supervise the preparation, amendment, and enhancement of regulations governing Islamic banking, and initiate measures to strengthen sectoral operations.

In addition, the IBRPD will provide regulatory guidance across Bangladesh Bank's departments, review and implement IFSB standards, and supply feedback on documents prepared before and after meetings of the IFSB council, technical committee, executive committee, Prudential and Structural Islamic Financial Indicators (PSIFIs), and task forces. The department will also assist in organising engagements with the IFSB and respond to its periodic surveys. Moreover, it will liaise with international organisations such as the Islamic Development Bank (IsDB) and the AAOIFI, while undertaking initiatives to adopt and implement AAOIFI standards domestically.

Section 5: Data Analysis and Findings

This section synthesises empirical evidence on the state of Islamic banking and finance at both global and domestic levels, drawing on comparative datasets to highlight structural patterns, leadership trends, and future trajectories. The analysis is anchored in Tables 5.1.1 to 5.2.3, which capture the breakdown of global Islamic finance assets, development indicators, country rankings, domestic market shares, and contractual modes of financing. Together, these tables provide a comprehensive view of Islamic banking and finance as an evolving ecosystem shaped by governance frameworks, market depth, demographic potential, and awareness initiatives. By situating Bangladesh within this broader landscape, the findings identify its current strengths and vulnerabilities while assessing its prospective role.

To complement the secondary data analysis, this section also draws on primary evidence collected through a questionnaire distributed to all Islamic banks in Bangladesh, including both full-fledged and dual banking institutions. The survey responses provide valuable insights into the operational realities of Islamic banking, covering human capital composition, general banking activities, investment and financing operations, Shariah governance, and other institutional practices. Since not all banks were able to provide complete datasets, the findings presented here are based on consolidated responses from the participating institutions, ensuring a representative overview while acknowledging certain data limitations.

5.1 Secondary Data: Global Context

5.1.1 Growth of Global Islamic Finance

Over the past decade, the global Islamic finance industry has experienced remarkable expansion, more than doubling in size from USD 2.02 trillion in 2014 to USD 4.93 trillion in 2023, with projections suggesting it will reach USD 7.53 trillion by 2028. Islamic banking continues to dominate this landscape, consistently accounting for over 70% of global Islamic finance assets, increasing from USD 1.44 trillion in 2014 to USD 3.57 trillion in 2023. The Sukuk market has also demonstrated impressive growth, more than tripling from USD 346 billion to USD 863 billion over the same period,

reflecting strong global demand for Shariah-compliant instruments. By contrast, Islamic funds (USD 254 billion) and Takaful (USD 86 billion) remain relatively smaller segments, though they have expanded at a steady pace.

Table 5.1.1: Growth of Global Islamic Finance

Year	Global Islamic Banking Assets		Global Sukuk Outstanding		Islamic Funds Outstanding		Global Takaful Assets		Global OIFI Assets		Total Islamic Finance Assets	
	USD Billion	Growth (%)	USD Billion	Growth (%)	USD Billion	Growth (%)	USD Billion	Growth (%)	USD Billion	Growth (%)	USD Billion	Growth (%)
2014	1443	(7.38)	346	133.78	66	8.20	36	0.00	131	9.17	2022	5.15
2015	1603	11.09	306	(11.56)	71	7.58	47	30.56	143	9.16	2170	7.32
2016	1769	10.36	349	14.05	99	39.44	48	2.13	143	0.00	2408	10.97
2017	1831	3.50	420	20.34	123	24.24	46	(4.17)	145	1.40	2565	6.52
2018	1882	2.79	470	11.90	116	(5.69)	47	2.17	152	4.83	2667	3.98
2019	2133	13.34	539	14.68	150	29.31	54	14.89	154	1.32	3030	13.61
2020	2453	15.00	626	16.14	183	22.00	63	16.67	162	5.19	3487	15.08
2021	2875	17.20	713	13.90	244	33.33	77	22.22	158	(2.47)	4067	16.63
2022	3244	12.83	788	10.52	220	(9.84)	90	16.88	167	5.70	4509	10.87
2023	3569	10.02	863	9.52	254	15.45	86	(4.44)	153	(8.38)	4925	9.23
2028 (Projected)	5248	47.04	1521	76.25	396	55.91	138	60.47	225	47.06	7528	47.5
Share in 2023 (%)	72.5%		17.5%		5.16%		1.75%		3.11%		100%	

Source: ICD-LSEG Islamic Finance Development Report 2024

5.1.2 Global Islamic Finance Development Indicator (IFDI)

The IFDI for 2024 demonstrates the continuing dominance of Malaysia, which secured the top global position with a score of 144, up significantly from 103 in 2023 (Table 5.1.2). Malaysia’s leadership is reinforced by outstanding scores across all parameters: Financial Performance (157), Governance (101), Sustainability (128), Knowledge (147), and a maximum Awareness score of 200. Saudi Arabia follows closely in second place, improving from 70 in 2023 to 119 in 2024, largely driven by robust Financial Performance (146) and high Awareness (177), though its Knowledge score (90) lags Malaysia. The UAE, which jumped from sixth to third, posted a total score of 88 with perfect Awareness (200) and strong Governance (85), reflecting the country’s emphasis on outreach and regulatory frameworks.

Bangladesh, meanwhile, attained a total score of 41 in 2024, up modestly from 34 in 2023, placing it in tenth position. Its relative strength lies in Governance (85), where it is comparable to more advanced peers such as

Turkey (63) and Qatar (65). However, the Governance scoring of Bangladesh can be challenged based on the unveiling realities. Nonetheless, Bangladesh lags severely in Financial Performance (33) and Knowledge (20), indicating shallow capital market activity and a lack of research and human capital infrastructure. Its Awareness score (17) is among the lowest in the top 15 jurisdictions, suggesting limited global visibility. By contrast, Pakistan, in fifth place, achieved a score of 75, supported by stronger Governance (78), Knowledge (119), and Awareness (200). The comparison underscores that while Bangladesh is visible in global rankings, its advancement is hindered by weak awareness, research capacity, and low financial depth.

Table 5.1.2: Global Islamic Finance Development Indicator (IFDI)

Country	Ranking		Parameter-Wise Score in 2024				
	2023 (Score)	2024 (Score)	Financial Performance	Governance	Sustainability	Knowledge	Awareness
Malaysia	1 (103)	1 (144)	157	101	128	147	200
Saudi Arabia	2 (70)	2 (119)	146	72	96	90	177
UAE	6 (53)	3 (88)	77	85	39	68	200
Indonesia	3 (58)	4 (85)	63	79	33	200	107
Pakistan	7 (51)	5 (75)	40	78	24	119	200
Kuwait	5 (54)	6 (70)	55	80	28	24	191
Bahrain	4 (54)	7 (68)	45	85	28	37	185
Iran		8 (65)	123	55	0	10	5
Qatar	10 (38)	9 (45)	30	65	27	15	101
Turkey	13 (33)	9 (45)	41	63	22	58	28
Bangladesh	11 (34)	10 (41)	33	85	23	20	17
Oman	8 (51)	11 (35)	14	75	24	23	46
Brunei		12 (29)	11	71	14	23	24
Jordan	9 (40)	13 (29)	15	50	46	37	6
Nigeria	14 (27)	14 (28)	7	68	22	18	27
Global Average		(12)	8	21	8	9	13

Source: ICD-LSEG Islamic Finance Development Report 2023 & 2024

5.1.3 Islamic Finance Country Index (IFCI) 2015–2024

The IFCI illustrates the shifting global leadership landscape over the past decade (Table 5.1.3). Malaysia dominated the IFCI rankings for much of the period, holding first place from 2016 to 2018 and again in 2020. However, Iran overtook Malaysia in 2015 and 2024, while Indonesia briefly reached the top in 2019 and 2021. In 2024, the top three comprised Iran (Rank 1), Saudi Arabia (Rank 2), and Sudan (Rank 3), with Malaysia falling to Rank 4 and Brunei entering the top five for the first time.

Bangladesh’s performance in the IFCI reflects both resilience and volatility. Absent from the top ten in 2015, it entered the rankings in 2016 and gradually advanced, peaking at Rank 6 in 2022. By 2024, it stabilized at Rank 10, maintaining visibility but trailing behind larger markets such as Indonesia (Rank 6) and Pakistan (Rank 8). The data suggests Bangladesh has carved out a place in the global Islamic finance ecosystem, but its ascent remains fragile compared to the sustained dominance of Iran, Malaysia, and Saudi Arabia.

Table 5.1.3: Islamic Finance Country Index (IFCI) 2015-2024

Rank	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	Iran	Malaysia	Malaysia	Malaysia	Indonesia	Malaysia	Indonesia	KSA	KSA	Iran
2	Malaysia	Iran	Iran	Iran	Malaysia	Indonesia	KSA	Malaysia	Malaysia	KSA
3	KSA	KSA	KSA	KSA	Iran	Iran	Malaysia	Indonesia	Pakistan	Sudan
4	UAE	UAE	UAE	UAE	KSA	KSA	Iran	Iran	Indonesia	Malaysia
5	Kuwait	Kuwait	Kuwait	Kuwait	Sudan	Sudan	Pakistan	Pakistan	Iran	Brunei
6	Bahrain	Indonesia	Pakistan	Indonesia	Brunei	Pakistan	Sudan	Sudan	Bangladesh	Indonesia
7	Indonesia	Qatar	Indonesia	Pakistan	UAE	Brunei	Brunei	Bangladesh	Sudan	Kuwait
8	Qatar	Bahrain	Bahrain	Bahrain	Bangladesh	UAE	Bangladesh	Brunei	Brunei	Pakistan
9	Sudan	Pakistan	Qatar	Qatar	Kuwait	Bangladesh	UAE	UAE	UAE	Bahrain
10	Pakistan	Bangladesh	Bangladesh	Bangladesh	Pakistan	Kuwait	Kuwait	Kuwait	Kuwait	Bangladesh

Source: Global Islamic Finance Report (GIFR) 2024

5.1.4 Islamic Finance Country Index (IFCI) Projections to 2050

The projections of the IFCI (Table 5.1.4) highlight a major reordering of global Islamic finance by 2050. Pakistan is projected to rise from Rank 8 in 2024 to Rank 1 in 2050, supported by its large Muslim population and a projected IFCI score of 143.31, up from 40.44. Indonesia is expected to climb from Rank 6 in 2024 to Rank 2 in 2050, with its score increasing from 50.74 to 136.21. Malaysia, though slipping from second-tier leadership, is forecast to remain strong, improving from 61.59 in 2024 to 129.91 in 2050, maintaining Rank 3. Bangladesh is expected to record one of the most significant leaps, moving from Rank 10 in 2024 (IFCI score 34.62) to Rank 4 by 2050 with a projected score of 113.57.

This trajectory places it ahead of traditional leaders such as Saudi Arabia, which is projected to fall from Rank 2 in 2024 (88.58) to Rank 5 in 2050 (99.53), and Brunei, which will drop from Rank 5 in 2024 (53.28) to Rank 8 in 2050 (81.38). Iran, currently at the top in 2024 with a score of 90.3, is projected to decline to Rank 9 by 2050. Collectively, these shifts indicate that South and Southeast Asia—specifically Pakistan, Indonesia, Malaysia,

and Bangladesh—have the potential to emerge as the global epicenter of Islamic banking and finance by mid-century.

Table 5.1.4: Islamic Finance Country Index (IFCI) Projections to 2050

No.	Country	IFCI Future 2050	IFCI 2024	IFCI Future 2050 Rank	IFCI 2024 Rank
1	Pakistan	143.31	40.44	1	8
2	Indonesia	136.21	50.74	2	6
3	Malaysia	129.91	61.59	3	4
4	Bangladesh	113.57	34.62	4	10
5	Saudi Arabia	99.53	88.58	5	2
6	UAE	97.07	27.4	6	11
7	Turkey	84.88	8.62	7	16
8	Brunei	81.38	53.28	8	5
9	Iran	79.99	90.3	9	1
10	Bahrain	77.07	36.54	10	9
11	Kuwait	74.51	42.9	11	7
12	Qatar	69.97	19.75	12	12
13	Oman	61.95	12.59	13	13
14	Sudan	58.88	66.47	14	3
15	Jordan	56.62	11.5	15	14
16	Nigeria	49.49	0.56	16	29
17	Egypt	44.64	2.02	17	22
18	UK	37.65	0.21	18	34
19	Ethiopia	37.64	0.85	19	27
20	Kazakhstan	37.07	0.42	20	31
21	Somalia	36.08	4.07	21	18
22	Djibouti	34.74	9.8	22	15
23	Morocco	32.91	0.74	23	28
24	Tunisia	30.99	1.75	24	23
25	Kenya	26.53	0.3	25	32
26	South Africa	26.19	0.15	26	37
27	USA	24.99	0	27	47
28	Senegal	24.68	2.79	28	20
29	Lebanon	22.35	3.03	29	19
30	Afghanistan	19.02	2.15	30	21
31	Maldives	18.27	1.03	31	26
32	Sri Lanka	18.13	0.2	32	35

Source: Global Islamic Finance Report (GIFR) 2024

5.1.5 Domestic Islamic Banking Share in Total Assets

The domestic share of Islamic banking in national financial systems provides further comparative insights (Table 5.1.5). In 2023, global averages indicate that Islamic banking accounted for 72.5% of financial assets in highly Islamized markets, 17.5% in emerging dual systems, and less than 10% in marginal markets.

Bangladesh demonstrates a notable presence, with Islamic banks accounting for roughly 25–30% of total banking assets in 2024. This figure places Bangladesh ahead of Turkey and Nigeria, where the shares remain below 10%, and broadly comparable to Pakistan, whose Islamic share has crossed 30% as part of its 2028 conversion roadmap. However, Bangladesh’s share remains below countries such as Saudi Arabia, where Islamic banking constitutes over 60%, and Sudan and Brunei, where Islamic banking dominates national systems almost entirely. Malaysia, despite being a global leader, reports a domestic share of approximately 30–35%, reflecting its strategy of balancing banking with Sukuk and funds markets. This comparison underscores the duality of Bangladesh’s position. Domestically, it has established Islamic banking as a significant pillar of its financial system. Internationally, however, its reliance on bank-based finance—without equivalent depth in Sukuk, funds, or takaful—limits its competitiveness against more diversified jurisdictions.

Table 5.1.5: Islamic Banking Share in Total Banking Assets (2024)

Countries Where Islamic Banking Achieved Systemic Importance Within the Domestic Market (>15%)			Other Countries		
No.	Country	Islamic Banking Share (%)	No.	Country	Islamic Banking Share (%)
1	Iran	100	1	Maldives	13.5
2	Somalia	100	2	Afghanistan	12.4
3	Sudan	100	3	Iraq	9.4
4	Saudi Arabia	75.3	4	Türkiye	8.2
5	Brunei	62.8	5	Libya	7.5
6	Kuwait	60.6	6	Indonesia	7.3
7	Mauritania	43.7	7	Tunisia	6.9
8	Malaysia	33.2	8	Egypt	5
9	Bahrain	31.6	9	Algeria	2.4

10	Qatar	28.4	10	Morocco	1.9
11	Djibouti	25	11	Kyrgyz Republic	1.4
12	UAE	22.9	12	Nigeria	1.3
13	Bangladesh	22.5	13	Kenya	1.3
14	Jordan	19	14	Sri Lanka	0.9
15	Pakistan	18.7	15	Tanzania	0.5
16	Oman	17.3	16	Thailand	0.4
17	Palestine	16	17	Kazakhstan	0.4
			18	South Africa	0.1
			19	Lebanon	0.1
			20	UK	0.1

Source: *Islamic Financial Services Industry Stability Report 2025, IFSB*

5.1.6 Global Trends in Islamic Financing Contracts: 2021–2024

The global distribution of Islamic financing contracts between 2021 and 2024 reflects a pronounced reliance on Murabahah and Tawarruq, which together consistently account for nearly 80% of total contracts. Murabahah, while remaining the dominant contract, shows a gradual decline from 47.4% in 2021 to 44.5% in 2024. Tawarruq, conversely, has grown strongly, rising from 25.7% in 2021 to 34.5% in 2024. This suggests a growing preference for Tawarruq over traditional Murabahah.

Ijarah/Ijarah Muntahia Bittamlik (leasing-based contracts) remained relatively stable around 10%, demonstrating continued global appetite for asset-backed structures. Interestingly, Salam contracts showed a spike in 2023 (12.6%) before settling at 10.6% in 2024.

Other profit-and-loss sharing (PLS) contracts, such as Musharakah and Mudarabah, continue to remain marginal, rarely exceeding 3% in aggregate, despite being considered closer to the spirit of Islamic finance. Similarly, contracts like Diminishing Musharakah (1–2%), Istisna’a (below 1%), and Qard Hasan (0.1–0.2%) remain peripheral.

The concentration of debt-like structures (Murabahah and Tawarruq) highlights the persistent gap between Islamic finance’s theoretical ideals (risk-sharing) and its practical operations (risk-transfer, credit-based models).

Table 5.1.6: Global Trends in Islamic Financing Contracts: 2021–2024

No.	Mode	2021	2022	2023	2024
1	Murabahah	47.4	44.0	42	44.5
2	Tawarruq	25.7	32.2	36	34.5
3	Ijarah/Ijarah Muntahia Bittamlik	10.2	10.2	9.4	10.4
4	Salam	4.1	3.8	12.6	10.6
5	Musharakah	2.8	2.4		
6	Diminishing Musharakah	1.3	1.9		
7	Mudarabah	0.2	0.2		
8	Istisna'a	0.7	0.6		
9	Wakalah	0.1	0.8		
10	Qard Hasan	0.1	0.2		
11	Others	7.4	3.6		
	Total	100	100	100	100

Source: <https://data.ifsb.org/dashboards/islamic-banking>, accessed on August 17, 2025

5.1.7 Modes of Islamic Financing Contracts in Pakistan

In contrast to global patterns, Pakistan’s Islamic finance market has shown a more dynamic embrace of risk-sharing and participatory modes. Between 2015 and 2024, diminishing Musharakah emerged as the dominant contract, increasing from 31.7% in 2015 to 44.8% in 2024. Musharakah contracts also expanded significantly, peaking at 25.3% in 2023 before declining to 12.8% in 2024, likely reflecting market adjustments, heightened risk aversion, or changing regulatory incentives.

Mudarabah, Salam, and Istisna’a maintained a modest yet steady presence, together accounting for around 20–25% in certain years. By contrast, Murabahah, which stood at 24.5% in 2015, declined consistently to about 13% in 2024. Ijarah contracted slightly (from 6.6% in 2015 to 5.2% in 2024) but continues to play an important role in vehicle and equipment leasing. Overall, Pakistan’s financing structure demonstrates a stronger orientation toward profit-and-loss sharing (PLS) modes than global trends, marking a departure from the prevailing dominance of Murabahah and Tawarruq and positioning Pakistan as a noteworthy case of balancing Shariah ideals with market pragmatism.

Table 5.1.7: Modes of Islamic Financing Contracts in Pakistan

Year	Murabahah	Ijarah	Musharakah	Diminishing Musharakah	Mudarabah	Salam	Istisna'a	Others
2015	24.5	6.6	14.0	31.7	-	5.3	8.6	9.3
2016	15.8	6.8	15.6	34.7	-	4.4	8.4	14.3
2017	13.2	6.4	22.0	30.7	-	2.8	8.2	16.7
2018	13.6	6.2	19.9	33.3	-	2.4	9.1	15.5
2019	12.9	5.8	19.8	34.2	-	2.6	9.6	14.8
2020	13.7	4.8	22.7	33.6	-	1.9	8.3	15
2021	13.6	4.4	24.9	33.8	-	2.0	8.3	13
2022	12.0	4.2	25.2	34.8	-	1.6	9.3	12.9
2023	13.1	4.1	25.3	32.1	-	2.1	10.6	13.0
2024	13.6	5.2	12.8	44.8	-	2.3	15.8	5.8

Source: Islamic Banking Bulletin, SBP. Retrieved from: www.sbp.org.pk on August 18, 2025

5.2 Secondary Data: Bangladesh Context

The Islamic banking industry in Bangladesh continued to expand in 2024, though performance varied across different indicators (see Table 5.2.1). Total deposits grew moderately by 3.1%, reaching BDT 4,355,575 million, driven largely by significant increases in Islamic banking branches (40.15%) and windows of conventional banks (20.33%). Full-fledged Islamic banks saw only a marginal increase of 0.29%. Total investments, including in Sukuk, rose by 10.22% to BDT 5,262,709 million, with branches showing the highest growth rate at 38.48%.

Workers' remittances processed by Islamic banks totaled USD 150,674 million, marking an overall increase of 6.21%. However, full-fledged Islamic banks experienced a notable decline of 44.66%, partially offset by substantial increases from branches (896.82%) and windows (39.99%). Export receipts surged by 31.81% to USD 774 million, primarily due to growth from full-fledged Islamic banks (33.13%) and branches (53.51%), while windows saw a decline of 20.69%. Similarly, import payments rose by 29% to USD 1,208 million, with branches leading the growth (179.07%), contrasted with modest gains from full-fledged banks (22.62%) and a decrease in windows (-18.55%).

Agent banking deposits increased by 11.55% to BDT 216,316 million, mainly supported by full-fledged banks. Total assets expanded by 10.68% to BDT 8,432,907 million, with branches experiencing the largest increase (57.04%). In contrast, corporate social responsibility (CSR) expenditure declined by 39.25%, primarily due to reduced spending by full-fledged IB.

Table 5.2.1: Overall Islamic Banking Scenario in Bangladesh

(Remittance, Export, and Import are in USD mn; all other figures are in BDT mn)

Indicators	December 2024	December 2023	Growth (%)
1. Total Deposits (excluding Inter-bank & EDF)	4355575	4224637	3.10
a) Full-fledged Islamic Banks	3852507	3841360	0.29
b) Islamic Banking Branches of CBs	295972	211177	40.15
c) Islamic Banking Windows of CBs	207096	172100	20.33
2. Total Investments (including Sukuk/Islamic Bond)	5262709	4774561	10.22
a) Full-fledged Islamic Banks	4865000	4454304	9.22
b) Islamic Banking Branches of CBs	247035	178396	38.48
c) Islamic Banking Windows of CBs	150674	141861	6.21
3. Total Worker's Remittances (USD)	533	954	-44.10
a) Full-fledged Islamic Banks	526	951	-44.66
b) Islamic Banking Branches of CBs	3.14	0.32	896.82
c) Islamic Banking Windows of CBs	3.99	2.85	39.99
4. Total Export Receipts (excl. local export) (USD)	774	587	31.81
a) Full-fledged Islamic Banks	704	528	33.13
b) Islamic Banking Branches of CBs	49.07	31.97	53.51
c) Islamic Banking Windows of CBs	21.06	26.56	-20.69
5. Total Import Payment (excl. local import) (USD)	1208	936	29.00
a) Full-fledged Islamic Banks	991	808	22.62
b) Islamic Banking Branches of CBs	158.92	56.94	179.07
c) Islamic Banking Windows of CBs	58.13	71.36	-18.55
6. Total Agent Banking Deposits	216316	193917	11.55
a) Full-fledged Islamic Banks	215744	193488	11.50
b) Islamic Banking Branches of CBs	547.76	408.42	34.12
c) Islamic Banking Windows of CBs	24.62	20.50	20.11
7. Total Assets (excluding Contra. & OBU)	8432907	7619498	10.68
a) Full-fledged Islamic Banks	7784163	7144874	8.95
b) Islamic Banking Branches of CBs	386550	246153	57.04
c) Islamic Banking Windows of CBs	262194	228471	14.76
8. Total CSR Expenditure	1941	3196	-39.25
a) Full-fledged Islamic Banks	1920	3190	-39.81
b) Islamic Banking Branches of CBs	5.50	0.99	456.88
c) Islamic Banking Windows of CBs	15.57	4.76	227.12

Source: Islamic Banking and Finance Statistics (IBFS) of Bangladesh, December 2024

As of 2024, full-fledged Islamic banks in Bangladesh consist of ten banks with a combined network of 3,721 branches, up from 3,693 in 2023, indicating modest growth (see Table 5.2.2). Islami Bank Bangladesh PLC (IBB), the largest Islamic bank in the country, leads the sector with 400 branches and a workforce of 21,864 employees, reflecting ongoing growth in both outreach and staffing. Other notable institutions, including Al-Arafah Islami Bank PLC (226 branches), First Security Islami Bank PLC

(206 branches), and Social Islami Bank PLC (180 branches), also maintain substantial networks; however, employee data for some banks is unavailable. Collectively, the sector employed 52,565 staff in 2024, an increase from 48,242 in 2023, underscoring a significant rise in human resources to support expanding operations. These figures suggest that Islamic banks in Bangladesh are not only growing their branch networks but also strengthening their workforce, indicative of gradual consolidation within the industry.

Table 5.2.2: Number of Branches and Employees of Full-Fledged IBs

No.	Name of Islamic Banks	Year of Establishment		Number of Branch*		Number of Employees	
		Bank	IB	2024	2023	2024	2023
1	Islami Bank Bangladesh PLC (IBB)	1983	1983	400	394	21864	20,809
2	ICB Islamic Bank Limited (ICB)	1987	1987	33	33	NA	374
3	Social Islami Bank PLC (SIB)	1995	1995	180	179	N/A	4,039
4	Al-Arafah Islami Bank PLC (AAIB)	1995	1995	226	215	N/A	5,184
5	Shahjalal Islami Bank PLC (SJIB)	1997	1997	141	140	N/A	2,835
6	Export Import Bank of Bangladesh PLC (EXIM)	1999	2004	155	151	3487	3,357
7	First Security Islami Bank PLC (FSIB)	1999	2009	206	205	N/A	5,406
8	Union Bank PLC (Union)	2013	2013	114	114	1670	1,776
9	Standard Bank PLC (Standard)	1999	2021	138	138	2143	2,239
10	Global Islami Bank PLC (GIB)	2013	2021	104	101	2486	2,223
	Total			3721	3693	52565	48242

**Quarterly Report on Islamic Banking of Bangladesh, December 2024*

Source: Annual Report of Concerned Banks.

Table 5.2.3 indicates that 30 conventional banks in Bangladesh are offering Islamic banking services through their dedicated branches and/or windows. Out of a total of 6,118 branches, about 863 (14.11%) are engaged in Islamic banking activities. The number of Islamic branches and windows increased from 654 in 2023 to 863 in 2024, reflecting a significant growth of nearly 32%.

Table 5.2.3: Number of Branches of Dual Islamic Banks

No.	Name of Banks	Type of Islamic Bank	Year of Establishment		Number of Branch + Window 2024		Number of Branch + Window 2023	
			Bank	IB	Bank	IB*	Bank	IB*
1.	United Commercial Bank PLC (UCB)	Branch+Window	1983	2020	231	1+60	228	1+10
2.	ONE Bank PLC (ONE)	Branch+Window	1999	2020	112	2+14	111	2+14
3.	The Premier Bank PLC (Premier)	Branch+Window	1999	2003	147	2+25	136	2+25
4.	City Bank PLC (City)	Branch+Window	1983	2003	134	1+60	134	1+0
5.	NRB Bank (NRB)	Branch+Window	2013	2021	54	1+28	51	1+0
6.	Pubali Bank PLC (Pubali)	Branch+Window	1983	2010	508	3+25	504	0+19
7.	Prime Bank PLC (Prime)	Branch	1995	1995	146	5+0	146	5+0
8.	Dhaka Bank PLC (Dhaka)	Branch	1995	2003	119	2+0	118	2+0
9.	Southeast Bank PLC (SEBPLC)	Branch	1995	2003	135	5+0	135	5+0
10.	Jamuna Bank PLC (Jamuna)	Branch	2001	2003	169	2+0	167	2+0
11.	Bank Alfalah (Al Falah)	Branch	2005	2005	7	1+0	7	1+0
12.	AB Bank PLC (AB)	Branch	1982	2006	105	1+1	105	1+0
13.	National Credit and Commerce Bank PLC (NCC)	Branch	1993	2022	130	1+0	128	1+0
14.	Bangladesh Commerce Bank (BCB)	Branch	1998	2022	74	2+0	74	2+0
15.	Bengal Commercial Bank PLC (Bengal)	Branch	2021	2022	21	4+0	19	3+0
16.	IFIC Bank PLC (IFIC)	Branch	1983	2024	189	1+0	187	N/A
17.	Standard Chartered Bank (SCB)	Window	1948	2004	18	0+1	18	0+1
18.	Trust Bank (Trust)	Window	1999	2008	119	0+30	116	0+30
19.	Bank Asia PLC (BAPLC)	Window	1999	2008	139	0+5	135	0+5
20.	Sonali Bank PLC (Sonali)	Window	1972	2010	1233	0+58	1232	0+58
21.	Agrani Bank PLC (Agrani)	Window	1972	2010	978	0+61	974	0+60
22.	Meghna Bank PLC (Meghna)	Window	2013	2020	54	0+10	51	0+10
23.	Mutual Trust Bank PLC (MTB)	Window	1999	2020	175	0+15	120	0+15
24.	Mercantile Bank PLC (Mercantile)	Window	1999	2020	152	1+45	152	1+45
25.	Midland Bank Limited (Midland)	Window	2013	2020	39	0+1	39	0+1

26.	NRBC Bank PLC (NRBC)	Window	2013	2020	109	0+354	106	0+320
27.	SBAC Bank PLC (SBAC)	Window	2013	2021	90	0+10	89	0+10
28.	Padma Bank PLC	Window	2019	2023	60	0+5	60	N/A
29.	Rupali Bank	Window	1972	2023	586	0+2	586	0+1
30.	Eastern Bank PLC (EBPLC)	Window	1992	2024	85	0+20	85	N/A
	Total				6118	863	6013	654

**Quarterly Report on Islamic Banking of Bangladesh (December 2023 & 2024), BBB*

Source: Annual Reports of Concerned Banks

Table 5.2.4 presents the distribution of Islamic banking deposits in Bangladesh from 2015 to 2024. Mudarabah Term Deposits consistently dominated, averaging around 45–49% of total deposits, with the highest share of 48.9% in 2024. Mudarabah Savings Deposits remained the second-largest category, stable at about 18–19%. Other Deposits (margin deposit, government revenue and utility bill collection, uncashed pay order, etc. under Wadiah/Qard mechanism) also accounted for a significant share, rising from 15.8% in 2015 to 18.4% in 2024. Wadiah CA Deposits showed gradual growth from 3.8% in 2015 to over 4% in recent years.

Table 5.2.4: Islamic Banking Deposits by Contracts in Bangladesh (%)

	Wadiah CA Deposits	Mudarabah Savings Bond	Mudarabah Special Scheme	Mudarabah Hajj Deposits	Mudarabah Term Deposits	Mudarabah SND	Mudarabah Savings Deposits	Other Deposits
Dec-15	3.83	1.02	7.80	1.74	48.46	2.94	18.32	15.79
Dec-16	4.05	0.90	8.98	0.28	47.35	3.20	18.61	16.63
Dec-17	4.41	0.75	8.71	0.22	47.45	3.76	18.38	16.32
Dec-18	3.89	0.66	8.70	0.21	49.23	3.68	18.38	15.25
Dec-19	3.58	0.58	8.62	0.22	48.21	3.94	17.60	17.23
Dec-20	3.91	0.48	9.32	0.23	47.04	4.67	18.77	15.58
Dec-21	4.71	0.37	9.63	0.19	45.55	4.80	19.39	15.36
Dec-22	4.51	0.40	7.60	0.21	45.42	5.24	19.24	17.39
Dec-23	4.57	0.23	7.39	0.21	45.86	4.75	19.21	17.77
Dec-24	4.24	0.13	5.92	0.23	48.93	3.93	18.20	18.43

Source: Quarterly Report on Development of Islamic Banking in Bangladesh, BB

Table 5.2.5 highlights the composition of Islamic banking financing contracts in Bangladesh from 2015 to 2024. Murabahah has consistently dominated, increasing from 44.5% in 2015 to 48.1% in 2024. Total Muajjal and Murabahah accounted for about 70% in 2024. HPSM (Hire Purchase

under Shirkatul Melk) remained significant, fluctuating between 16% and 24%, peaking at 23.6% in 2019 before stabilizing around 17–18% in recent years. Including HPSM, Ijarah recorded about 22% in 2024. Shares of other modes are marginal.

Table 5.2.5: Islamic Banking Financing by Contracts in Bangladesh (%)

	Mura bahah	Muajjal	HPSM	Ijarah	Bai Salam	Bai Istisnaa	Muda rabah	Musha rakah	Qard with Security	Others
Dec-15	44.47	24.93	16.54	6.08	0.76	0.30	0.38	1.54	1.45	3.59
Dec-16	44.64	25.24	15.48	7.41	0.80	0.23	0.32	1.59	1.31	2.98
Dec-17	43.81	25.17	16.94	7.35	0.96	0.22	0.26	1.53	1.32	2.44
Dec-18	44.33	25.63	17.97	5.42	0.99	0.07	0.26	1.43	1.32	2.58
Dec-19	44.60	23.95	23.62	0.02	0.03	1.16	0.32	1.38	0.05	4.87
Dec-20	44.97	23.76	18.74	5.05	1.29	0.01	0.33	0.92	1.67	3.26
Dec-21	46.39	23.24	18.98	4.32	1.23	0.02	0.25	0.49	1.11	3.98
Dec-22	47.71	22.94	17.68	4.04	1.36	0.06	0.26	0.28	0.97	4.70
Dec-23	47.57	22.5	17.88	4.07	1.70	0.06	0.25	0.32	0.88	4.75
Dec-24	48.10	21.44	17.46	4.45	1.81	0.08	0.18	0.34	0.82	5.32

Source: Quarterly Report on Development of Islamic Banking in Bangladesh, BB

The market share of Islamic banks in Bangladesh across different indicators between 2018 and 2024 is depicted in Table 5.2.6. Financing share rose from 23.1% in 2018 to a peak of 26.3% in 2022 before declining slightly to 24.8% in 2024. Deposits showed steady growth, increasing from 20.1% in 2018 to 28.2% in 2024. Assets and liabilities also expanded, reaching above 22% in recent years, while equity remained relatively modest at around 15–18%. In terms of social and developmental contributions, Islamic banks gained notable share in remittances (from 35.4% in 2018 to a high of 54.5% in 2022, then down to 36.8% in 2024) and agricultural credit (rising sharply from 7.0% in 2018 to nearly 20% in 2022 before easing to 17.5% in 2024). Branch network and employment also grew, with Islamic banks accounting for about 15% of branches and nearly 25% of total banking employees by 2024.

Table 5.2.6: Market Share of Islamic Banking in Bangladesh (%)

Particulars	Share of IBs in 2018	Share of IBs in 2019	Share of IBs in 2020	Share of IBs in 2021	Share of IBs in 2022	Share of IBs in 2023	Share of IBs in 2024
Financing/Investment	23.1	23.14	24.0	25.8	26.28	25.93	24.75
Deposit (Mudarabah & Others)	20.1	20.96	21.6	23.5	23.03	22.18	28.15
Assets	19.1	19.58	20.1	22.1	22.63	22.47	22.1
Liabilities	19.4	19.85	20.4	22.3	22.93	22.75	22.5
Equity	15.6	15.57	15.4	17.8	17.73	17.85	16.1
Off-Balance Sheet Items	10.6	12.08	12.2	12.5	12.95	11.78	12.4
Profit Income (Interest Income)	34.31	24.32	26.3	28.6	27.58	27.45	26.38
Profit (Interest) Paid to Depositor	23.13	23.04	23.2	25.1	25.61	25.16	24.89
Non-Profit Income	9.25	10.1	7.7	8.8	11.68	10.02	10.38
Operating Expenses	17.12	18	18.1	19.7	20.07	20.37	20.61
Net Profit After Tax	38.32	24.01	36.7	40.4	18.14	18.33	5.54
Remittances*	35.38	35.34	40.51	49.18	54.53	54.30	36.76
Agricultural Credit*	7.01	2.57	13.41	16.94	19.85	19.04	17.46
Number of Bank Branches*	12.06	13.05	14.25	19.02	19.75	20.71	15.24
Number of Employees in IB	18.66 (33,027 of 177,000)	20.06 (35,906 of 179,000)	21.32 (38,784 of 181,937)	23.93 (45,260 of 189,161)	25.42 (49,851 of 196,102)	24.70 (50,306 of 203,696)	24.53 (52,565 of 214,245)

Source: Financial Stability Report, BB and *Quarterly Report on Development of IB in BD, BB

Table 5.2.7 shows that Islamic banks consistently outperformed the overall banking sector in profitability and asset quality between 2020 and 2023. The Financial Stability Report of Bangladesh Bank for 2024 has not been published yet; therefore, this study could not analyze these figures. ROA and ROE of Islamic banks were almost double the sector average, while net profit margin and profit income ratios were also higher. Due to crises created for the banking sector, the indicators may be drastically changed in 2024.

Table 5.2.7: Selected Indicators of Banking Sector of Bangladesh (%)

Indicators	2020 (All)	2020 (IBs)	2021 (All)	2021 (IBs)	2022 (All)	2022 (IBs)	2023 (All)	2023 (IBs)	2024 (All)	2024 (IBs)
Return on Assets (ROA)	0.30	0.50	0.20	0.50	0.60	0.50	0.60	0.50	0.43	0.12
Return on Equity (ROE)	4.30	10.20	4.40	9.90	10.70	11.50	11.10	11.60	8.70	3.18
Net Profit Margin	1.40	2.40	1.30	2.30	1.40	2.00	1.60	2.30	1.30	1.89

Indicators	2020 (All)	2020 (IBs)	2021 (All)	2021 (IBs)	2022 (All)	2022 (IBs)	2023 (All)	2023 (IBs)	2024 (All)	2024 (IBs)
Interest (Profit) Income to Total Assets	4.90	6.40	4.30	5.50	4.40	5.40	4.90	6.00	5.58	6.66
Net Interest (Profit) Income to Total Assets	1.20	2.10	1.10	2.00	1.20	1.80	1.40	2.00	1.12	1.65
Non-Interest (Profit) Income to Total Assets	2.00	0.80	2.00	0.80	2.10	1.10	2.00	0.90	2.43	1.14
Advance (Investment) to Deposit	81.4 0	83.3 0	73.2 0	84.7 0	79.0 0	91.4 0	80.4 0	95.3 0	81.5 5	97.0 6
Capital to Risk-Weighted Assets (CRAR)	11.6 0	12.7 0	11.1 0	12.8 0	11.8 0	12.7 0	11.6 0	12.7 0	3.08	-4.95
Classified Loans to Advances	8.10	4.10	7.90	4.00	8.20	4.10	9.40	4.80	20.2 0	23.1 8
Classified Loans to Capital	80.7 0	67.2 0	80.7 0	67.2 0	95.0 0	72.1 0	107.8 0	81.70	263.0 4	489.5 0

Source: Financial Stability Report, Bangladesh Bank

5.3 Islamic Banking Operations in Bangladesh: Summary of Questionnaire Survey

To complement the earlier secondary data analysis, this section draws on primary evidence collected through a questionnaire distributed to all full-fledged Islamic banks as well as dual banks in Bangladesh. The survey was designed to capture operational realities not always evident in published reports, with particular attention to human capital, deposit mobilization, investment practices, Shariah governance, and institutional challenges. The responses form the basis for the present analysis. As some banks were unable to provide the full set of requested information, the findings are presented as a consolidated overview of the participating banks, ensuring representativeness while acknowledging certain data limitations.

The results highlight that while Islamic banks have expanded in scale, qualitative challenges remain persistent. Shariah governance frameworks, though formally established in all banks, reveal gaps in expertise, independence, and institutional resources. Secretariats are often underdeveloped, and overlapping responsibilities weaken oversight functions. Additional concerns include the continued reliance on conventional core banking systems that are insufficiently customized for Islamic products, limited product innovation, and customer reluctance—

often due to lack of awareness—in complying with Shariah documentation requirements. In dual banks, Islamic operations are frequently treated as secondary, which further undermines credibility and performance. Human capital constraints are equally evident: training in Islamic finance is uneven across the banks, particularly within dual banks, where staff frequently lack adequate knowledge of Shariah contracts.

Deposit mobilization remains heavily reliant on Mudarabah arrangements, which expose banks to displaced commercial risk while profit-smoothing practices further reinforce depositor misconceptions that these deposits yield fixed returns. Financing portfolios are still concentrated in Murabahah, Bai-Muajjal, and HPSM, while profit-and-loss sharing modes such as Mudarabah and Musharakah remain marginal—raising broader concerns regarding the distinctiveness of Islamic banking practices.

Taken together, these findings suggest that despite achieving substantial quantitative growth, Islamic banks in Bangladesh continue to face structural weaknesses in human resources, governance, product diversification, and technological infrastructure. Addressing these deficiencies is critical not only for strengthening institutional resilience and restoring depositor confidence, but also for aligning the sector more closely with the Maqasid al-Shariah. The details of the survey findings are provided next.

5.3.1 Composition of Human Capital of Islamic Banks in Bangladesh

Table 5.3.1 presents the manpower composition of full-fledged Islamic banks in 2023 and 2024. Male employees accounted for the overwhelming majority, increasing slightly from 89.8% in 2023 to 90.2% in 2024, while female representation declined from 10.2% to 9.9%. The share of Muslim employees remained dominant, which is very usual, though it fell marginally from 98.5% in 2023 to 97.7% in 2024, with a corresponding increase in non-Muslim employees from 1.5% to 2.3% in the Islamic banking industry of Bangladesh. The most significant change was observed in employment status. Permanent employees dropped sharply from 98.1% in 2023 to 88% in 2024, while temporary employees rose from 1.9% to 12%. This shift indicates a notable reliance on temporary staffing in 2024 compared to the previous year.

Table 5.3.1: Manpower Composition of IBs (Based on Full-Fledged Banks only)

No.	Particulars	2024	2023
1	Male employees for IB (%)	90.15	89.80
2	Female employees for IB (%)	9.85	10.20
3	Muslim employees for IB (%)	97.66	98.50
4	Non-Muslim employees for IB (%)	2.34	1.50
5	Permanent employees for IB (%)	88.00	98.10
6	Temporary employees for IB (%)	12.00	1.90

Source: Survey Data

The average number of employees per branch in full-fledged Islamic banks increased slightly from 13 in 2023 to 14 in 2024 (Table 5.3.2). In contrast, conventional banks saw a decline in staff per branch, from 19 in 2023 to 17 in 2024. For Islamic branches or windows within conventional banks, manpower remained very limited, though it improved from only 2 employees per branch in 2023 to 4 in 2024.

Table 5.3.2: Manpower of IBs Considering Branches in Bangladesh

No.	Particulars	2024	2023
1	Number of employees per branch in full-fledged IBs	14	13
2	Number of employees per branch in CBs	17	19
3	Number of employees per Islamic branch/window in CBs	4	2

Source: Survey Data

Table 5.3.3 illustrates the perception of banks regarding capacity and human resource development in Islamic banking. In both 2023 and 2024, all banks (100%) agreed that specialized knowledge is essential for effective Islamic banking operations. Similarly, nearly all respondents emphasized the importance of certification or diploma programs in both the study period. However, satisfaction with the availability of executives possessing adequate Islamic banking knowledge remained low. In 2023, only 16% of banks rated satisfaction above 90%, while the majority (41%) placed it between 60–80%. The situation worsened in 2024, with 69% of banks rating satisfaction below 50% and only 3% expressing satisfaction above 90%. It may be a reason that in 2024 banks put their opinion from the industry perspective instead of concerned bank only.

Table 5.3.3: Perception Regarding Capacity and Human Resource Development in Islamic Banks

No.	Aspect	2024 (%)	2023 (%)
1	Banks that perceive specialized knowledge is required to perform Islamic banking effectively	100	100
2	Banks that consider certification/diploma programs in Islamic banking preferable for all mid-level executives	98	96
3	Satisfaction with the sufficiency of executives possessing adequate Islamic banking knowledge (Industry Perspective)		
	• Above 90%	3	16
	• 80–90%	6	19
	• 60–80%	16	41
	• 50–60%	6	13
	• Below 50%	69	13

Source: Survey Data

5.3.2 General Banking Operations in Islamic Banks of Bangladesh

Table 5.3.4 highlights key aspects of general banking operations and deposit mobilization in Islamic banks. In 2024, majority of banks opine that there is a difference in in opening Islamic deposit accounts. Fewer banks reported regulatory or policy difficulties in deposit collection, falling from 28% in 2023 to 14% in 2024. Around 24% of banks introduced Islamic bonds or Sukuk for long-term funding, while the average number of deposit products stood at 22.

SSCs played an important role in product oversight, with 50% of banks reviewing all deposit products in the last year, though 30% had did not conducted such a review within last 5 years. Product diversification was also evident, with 58% offering special products for women, 21% for farmers, 25% for garment workers, and 15% for underprivileged children. Despite this, 22% of banks acknowledged deficiencies in deposit products to meet customer needs, slightly higher than 17% in 2023. In terms of rate of return, the weightage-based method gained dominance in 2024 (86%) compared to 58% in 2023, while use of the Income Sharing Ratio (ISR) method declined.

Table 5.3.4: General Banking Operations Including Deposit Mobilization in Islamic Banks

No.	Aspect	2024 (%)	2023 (%)
1	Banks reporting differences in procedures for opening deposit accounts in IB	85	N/A
2	Banks facing regulatory/policy difficulties in deposit collection	14	28
3	Banks issuing Islamic bonds/Sukuk for long-term funding	24	N/A
4	Average number of deposit products under Islamic mode (per bank)	22	N/A
5	Banks where all deposit products were reviewed by SSC		
	• In last year	50	N/A
	• Within last two years	10	N/A
	• Within last five years	10	N/A
	• Not reviewed	30	N/A
6	Banks offering special deposit products for women	58	N/A
7	Banks offering special deposit products for farmers	21	N/A
8	Banks offering special deposit products for garment workers	25	N/A
9	Banks offering special deposit products for underprivileged children	15	N/A
10	Banks perceiving deficiencies in deposit products to meet customer needs	22	17
11	Framework for rate of return calculation on Mudaraba deposits		
	• Weightage-based method	86	58
	• Income Sharing Ratio (ISR) method	14	39
12	Banks introducing new deposit products		
	• In the previous year	67	68
	• Within previous two years	14	62
	• Within previous five years	5	58
	• Not introduced	14	0
13	Banks offering special religious-deposit products		
	• Hajj savings deposit	86	88
	• Muhor savings deposit	52	75
	• Cash Waqf deposit	52	83
	• Others (Marriage, Zakat, Sadaqah, etc.)	20	34

Source: Survey data

5.3.3 Investment (Financing) Operations in Islamic Banks

Table 5.3.5 summarizes the investment (financing) operations of Islamic banks in Bangladesh. In 2024, all banks (100%) reported requiring additional documentation for investment processing, while 19% noted facing regulatory or policy-related challenges. On average, banks offered

23 Islamic financing products, yet half of the respondents believed that current offerings remain insufficient to fully meet customer needs. SSCs were found to play an active role in product oversight, with 58% of banks reviewing all financing products in the last year, though 21% had not conducted any review. Regarding specialized products, one-third of banks currently offer Islamic credit cards, a share similar to 2023.

Table 5.3.5: Investment (Financing) Operations in Islamic Banking of Bangladesh

No.	Aspect	2024 (%)	2023 (%)
1	Banks requiring additional formalities/documents for investment processing	100	N/A
2	Banks facing regulatory/policy difficulties in financing operations	19	N/A
3	Average number of Islamic investment/financing products (per bank)	23	N/A
4	Banks perceiving deficiencies in available products to meet customer needs	50	N/A
5	Review of financing products by the SSC		
	• In the last year	58	N/A
	• Within last two years	21	N/A
	• Within last five years	0	N/A
	• Not reviewed	21	N/A
6	Banks offering Islamic credit cards	33	35
7	Introduction of new Islamic financing products		
	• In the previous year	45	44
	• Within previous two years	20	55
	• Within previous five years	10	41
	• Not introduced	25	0
8	Banks offering charity-oriented financing products		
	• Qard-e-Hasan for employees	15	7
	• Qard-e-Hasan for others	15	7
	• Others (e.g., Qard against MTDR)	0	22
9	Banks offering religious-purpose financing products		
	• Hajj finance	15	N/A
	• Muhor finance	5	N/A
	• Treatment finance	5	N/A
	• Others	5	N/A

Source: Survey data

5.3.4 Shariah Governance of Islamic Banks in Bangladesh

Table 5.3.6 highlights the structure and functioning of SSCs and their secretariats in Islamic banks. In 2024, SSCs had between 3 and 10 members, averaging 6, compared to a higher average of 10 in 2023. On average, only 9% SSC members have banking experience, reflecting poor integration of

banking knowledge in Shariah governance. The number of SSC meetings varied from 1 to 6 annually for the full committee, while sub-committees met between 0 and 7 times.

Training and knowledge sharing remained limited, as no banks organized training for SSC members, though 52% reported SSC-led training for employees. Remuneration for attending each SSC meeting ranged from BDT 8,000 to BDT 10,000, and 68% of banks considered this rational. Most banks opposed including BoD or employees as SSC members, with only 5% and 14% supporting such inclusion, respectively. The manpower of Shariah secretariats varied widely, ranging from 0 to 40 staff, with 1–24 Shariah auditors across banks. Around 80% of Shariah auditors had branch banking experience, slightly down from 87% in 2023. However, only 10% of banks published fatwas or verdicts issued by SSCs for public reference.

Table 5.3.6: Structure and Functioning of SSCs and Their Secretariats

No.	Aspect	2024	2023
1	Average number of SSC members (including chairman)		
	• Maximum	10	13
	• Minimum	3	7
	• Average	6	10
2	SSC members with banking experience (%)	9	N/A
3	Number of SSC meetings held annually (range)		
	• Full Committee	1–6	1–7
	• Sub-Committee	0–7	N/A
4	Banks that organized training/knowledge-sharing programs for SSC members (%)	0	N/A
5	Banks where SSC members organized training/knowledge-sharing programs for employees (%)	52	N/A
6	Remuneration for SSC members per meeting (BDT)		
	• Maximum	10,000	N/A
	• Minimum	8,000	N/A
7	Banks that considered SSC remuneration rational (%)	68	N/A
8	Banks that supported Board of Directors (BoD) members joining SSC (%)	5	N/A
9	Banks that supported management/employees joining SSC (%)	14	N/A
10	Number of staff in Shariah secretariats (range)	0–40	N/A
11	Number of Shariah auditors in banks (range)	1–24	N/A
12	Shariah auditors with branch banking experience (%)	80	87
13	Banks where SSC or secretariat disseminated Shariah knowledge among employees (%)	86	N/A

No.	Aspect	2024	2023
14	Banks where SSC or secretariat disseminated Shariah knowledge among customers (%)	71	N/A
15	Banks that published SSC fatwas/verdicts for public reference (%)	10	N/A
16	Banks with provision for job rotation of Shariah secretariat executives in mainstream banking (%)	62	54
17	Banks reporting discrimination/priority between Shariah secretariat and other units regarding promotion, salary, or benefits (%)	0	N/A

Source: Survey Data

In 2024, 75% of banks reported having a separate Shariah secretariat (Table 5.3.7). Among them, 80% appointed a “Member Secretary” and 20% a “Secretary” to the SSC, though Bangladesh Bank requires a member secretary instead of a secretary among the bank officials. The position of the Head of the Islamic Banking Division (IBD) within the organizational hierarchy ranged from one step to six steps below the MD/CEO. Their banking experience varied widely, from 1 year to a maximum of 30 years, compared to 35 years in 2023.

Table 5.3.7: Head of Shariah Secretariat and Member Secretary of SSC

No.	Aspects	2024	2023
1	Banks having a separate Shariah Secretariat (%)	75	N/A
2	Banks having the member secretary/secretary of SSC (%)		
	• Member Secretary	80	N/A
	• Secretary	20	N/A
3	Position of the Head of IBD in the job ladder (steps below MD/CEO)		
	• Maximum	6	N/A
	• Minimum	1	N/A
4	Banking experience of the Shariah Secretariat head (years)		
	• Maximum	30	35
	• Minimum	1	1
5	Banks having specific written requirements for the post of Secretariat head (%)	32	36
6	Banks where the Secretariat head also performed operational duties (%)	25	37
7	Banks allowing Shariah Secretariat Head / Member Secretary to attend board-level meetings (%)		
	• Full BoD meeting	10	32
	• Executive Committee (EC) meeting	14	33
	• Risk Management Committee (RMC) meeting	19	30
	• Audit Committee of the Board (ACB) meeting	14	23

	• Management Committee/Senior Management Team (MANCOM/SMT)	57	46
	• Others	13	N/A

Source: Survey Data

5.3.5 Other Issues of Islamic Banks

Table 5.3.8 highlights several structural and operational issues in Islamic banking in Bangladesh. In terms of the capital adequacy framework, 55% of banks follow a customized framework blending Basel and IFSB standards, while 40% apply Basel directly, and only 5% follow IFSB prescriptions. Research capacity remains limited, with 43% of banks having dedicated research departments, though this marks an increase from 30% in 2023. Similarly, 30% maintain databases of local Islamic financial products, while only 10% track products from other countries. Market surveys are rare, with just 16% of banks conducting them in the last five years by their internal mechanism.

Product innovation has improved, with 45% of banks introducing pioneering Islamic banking products since 2019. A large majority of banks (84–85%) acknowledged the unique contributions of Islamic banking to the economy and society, beyond what conventional banking can achieve.

On Shariah governance, all banks (100%) reported having internal Shariah rating systems to assess non-compliance risks, and 95% expressed the need for an external rating system. Capacity-related concerns remain critical: 86% of banks cited limited training opportunities in Islamic banking, 95% pointed to a shortage of qualified scholars, and all banks (100%) agreed on strong demand for expansion of the industry. Notably, only 19% of banks reported paying zakat, while none transferred doubtful income to management costs or other purposes.

Table 5.3.8: Other Issues in Islamic Banking in Bangladesh (%)

No.	Aspect	2024	2023
1	Capital Adequacy Framework of Islamic Banks		
	Same as Basel Framework	40	N/A
	As prescribed by IFSB	5	N/A
	Customized mix of Basel and IFSB	55	N/A
2	Banks having a research department (%)	43	30
3	Banks maintaining a database of Islamic financial products/services in Bangladesh (%)	30	20

4	Banks maintaining a database of Islamic financial products/services in other countries (%)	10	11
5	Banks conducting market surveys within the last 5 years (%)	16	19
6	Banks designing new Islamic banking products within last 5 years (%)	45	29
7	Banks discontinuing/dropping old products within last 5 years (%)	29	14
8	Banks perceiving visible economic impact of Islamic banking beyond conventional banking (%)	84	80
9	Banks perceiving visible social impact of Islamic banking beyond conventional banking (%)	85	76
10	Banks with internal Shariah rating system to measure non-compliance risk (%)	100	100
11	Banks expecting an external Shariah rating system (%)	95	81
12	Banks citing limited training opportunities in Islamic banking (%)	86	71
13	Banks reporting shortage of qualified Islamic banking scholars (%)	95	82
14	Banks believing in strong demand for expansion of the Islamic banking industry (%)	100	93
15	Banks paying zakat (%)	19	N/A
16	Banks transferring doubtful income to management cost or other purposes (%)	0	N/A

Source: Survey Data

5.4 Summary Outcome of KII and FGD

5.4.1 KII Insights: Islamic Banking and Policy Department (IBRPD)

During the Key Informant Interview (KII) with officials from the Islamic Banking and Policy Department (IBRPD) of Bangladesh Bank, several key issues were discussed regarding the current regulatory framework and the future direction of Islamic banking in the country. The department currently consists of ten officials, led by a Director.

The officials noted that a separate Islamic Bank Companies Act has been drafted, with input already collected from relevant stakeholders. In parallel, the revision of BRPD Circular No. 15/2009 (Guidelines for Conducting Islamic Banking) is underway. The revised guidelines are expected to include detailed provisions for the Shariah Supervisory Committee (SSC), the Board of Directors (BoD), and strategies to promote product diversification.

For capacity building, it is recommended that both SSC and BoD members participate in at least two training programs, workshops, or similar knowledge-sharing initiatives annually to strengthen their expertise and

oversight capabilities. Regarding remuneration, SSC members may receive a fixed monthly allowance, while a cap on membership is being considered to improve efficiency. To safeguard independence, SSC decisions should be regarded as final, and member dismissals should only be allowed with prior approval from Bangladesh Bank. Each SSC should also include a Member Secretary, who ideally should not be a bank official, to maintain independence. However, there are currently no plans to provide additional allowances or benefits to SSC Chairmen or Member Secretaries.

The department further emphasized the importance of research in Islamic banking, although this element has not yet been formally integrated into the revised guidelines. From a governance perspective, it is recommended that the Head of the Islamic Banking Division in each bank be positioned within three tiers of the Managing Director to ensure both authority and accountability. The review and approval of documents by the SSC, followed by endorsement from Bangladesh Bank, was also considered desirable.

Looking forward, IBRPD outlined its vision of strengthening Shariah compliance through an empowered SSC and promoting good governance by ensuring that managing directors and senior officials possess adequate knowledge of Islamic banking. Finally, the establishment of a Shariah Advisory Committee within Bangladesh Bank is under consideration. In line with this vision, Bangladesh Bank has recently intensified its supervision and monitoring of Islamic banks from a Shariah compliance perspective.

5.4.2 KII Insights: Full-Fledged Islamic Banks Facing Crisis and Recovery Efforts

The review team conducted KII with high-ranking officials from a full-fledged Islamic bank that has made significant efforts to regain the trust and confidence of customers, regulators, and other stakeholders after previously facing crises. One of its most critical achievements has been overcoming liquidity challenges, which are essential for the survival and stability of any bank. By ensuring a regular cash flow, it has successfully met regulatory requirements such as the CRR and SLR. Internally, both the BoD and the Senior Management Team (SMT) have been restructured and are now functioning more effectively. However, most operational staff remain

unchanged, necessitating additional control mechanisms, targeted training, and proper screening to enhance efficiency and compliance.

From an external governance perspective, there is a strong need to change the mindset of government and regulatory authorities. A more robust regulatory framework is required, but equally important is the influence of individuals in government and the central bank, who shape the sector's overall direction. Regarding non-performing financing, individual banks have already initiated corrective measures, but sustained recovery will require stronger support from the central bank and the government as a whole.

The declaration by Bangladesh Bank regarding mergers is also a notable development. This merger will establish a large Islamic bank under government management. While it will increase competition for existing Islamic banks, they have expressed a positive outlook, welcoming the move as it is expected to enhance customer trust and ultimately strengthen the Islamic banking industry in Bangladesh. Overall, stakeholders emphasized that reinforcing Islamic banking is crucial for the national economy. The long-term sustainability and growth of the sector will largely depend on the policies and commitment of the incoming political government.

5.4.3 KII Insights: Full-Fledged Islamic Banks Outside the Crisis but Facing Governance Challenges

The feedback during the KII with full-fledged Islamic banks revealed serious concerns regarding the ongoing crisis and its broader implications for the industry. One major issue relates to the merger regulations, which, according to respondents, do not adequately address the specific features of Islamic banking. While Bangladesh Bank's merger initiatives may appear positive in principle, there are risks of mishandling that could distort the growth trajectory of Islamic banking instead of supporting its expansion if sufficient control mechanisms are not in place.

Ensuring good governance was strongly emphasized, particularly regarding the commitment of directors. It was suggested that Bangladesh Bank should require a greater number of independent directors on the boards of Islamic

banks and ensure that managing directors possess in-depth knowledge of Islamic banking. Similarly, the Chief Risk Officer should have Shariah expertise to effectively manage operational risks. Alongside governance, respondents highlighted the crucial role of Shariah scholars in product innovation and diversification. While developing customer-oriented products is essential in the current competitive environment, maintaining Shariah compliance must remain non-negotiable. Furthermore, the adoption of a risk-based capital adequacy framework consistent with Islamic banking is recommended.

Another recommendation was to establish a registered association of Islamic bankers, similar to the Association of Anti-Money Laundering Compliance Officers of Banks in Bangladesh (AACOBB), to collectively represent the interests of Islamic banks and engage with regulators and government bodies. Participants also pointed to the paradox of Bangladesh being a highly populated country with high unemployment, yet facing a shortage of skilled, honest, and ethical manpower in the banking sector, which poses significant operational challenges.

In addition to internal governance, external elements were seen as equally critical for preventing future financial irregularities. Respondents stressed the importance of ensuring the effective autonomy of the central bank and dynamic leadership to safeguard the sustainability of both the Islamic banking industry and the broader economy. Lessons from past experiences, such as the merger of Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) into Bangladesh Development Bank Limited (BDBL) in 2010, were cited as examples that call for more cautious and well-structured strategies, including carefully designed bail-out processes.

Finally, respondents observed that while the concept of mergers may hold merit, compulsory or imposed mergers carry significant risks. They further stressed that the current crisis is unprecedented in scale and nature, with no comparable example globally. As such, turning around the banking sector in a sustainable manner is imperative. For the progress of Bangladesh's economy, strengthening resilience across the entire banking sector was deemed essential, leaving no alternative but to reinforce governance, capacity, and Shariah compliance.

5.4.4 FGD Insights: Islamic Banking in Conventional Banks

A total of 26 chiefs or deputy chiefs of Islamic banking, or their nominated officials, from dual Islamic banks, along with three representatives from the Shariah Secretariat of full-fledged Islamic banks, participated in the Focus Group Discussion (FGD) conducted by the review team. The discussion addressed several critical issues and identified priority measures to strengthen dual Islamic banking in Bangladesh. These included enhanced Board of Directors (BoD) oversight with Shariah-competent members, increased commitment and accountability from the Senior Management Team (SMT), and clearer structural integration of Islamic banking within dual institutions. Participants also emphasized the importance of dynamic Key Performance Indicators (KPIs) that engage conventional staff in Islamic business, stronger positioning and competency of heads of Islamic banking, and broader awareness and knowledge-sharing initiatives across the industry. Additionally, upgrading Core Banking Solutions (CBS) to effectively accommodate Islamic operations and regulatory attention to Shariah-compliant Universal Pension Schemes (UPS) were highlighted as essential. Collectively, these measures were seen as crucial for ensuring the sustainable growth of dual Islamic banking in Bangladesh. More details are as follows:

- **Governance and Institutional Support:** Participants noted that most Boards of Directors (BoDs) of dual Islamic banks generally extend support to their Islamic Banking Divisions (IBDs). However, they emphasized that the inclusion of Shariah-competent members on boards would yield more effective outcomes. Joint Shariah orientation programs organized by BIBM and Bangladesh Bank were recommended to strengthen board-level understanding.

In contrast, support from the Senior Management Team (SMT) was described as uneven. Some executives, being business-oriented, show limited concern for Shariah, while others tend to delay decisions related to Islamic banking compared to conventional operations. A few senior managers were reportedly hesitant to expand Islamic banking due to fears of job insecurity should their banks be converted into full-fledged Islamic institutions. Participants strongly recommended more active intervention from Bangladesh Bank to strengthen IBDs.

Several direct observations highlight a recurring perception that profitability often outweighs compliance. Another observed that higher authorities require more training in Islamic banking, as some officers from conventional banking view Islamic operations as a “threat” rather than an integral part of the institution. Similarly, delays in decision-making were attributed to what was described as a “delay culture”, with one official noting, *“The board is supportive, but management comes from conventional banking and Shariah compliance is not always a priority.”*

While most participants agreed that boards tend to be supportive, they noted that true commitment to Shariah compliance is often lacking. One participant observed, *“If the board had a genuine interest in Shariah compliance, it would convert the entire bank, not just launch an Islamic window.”* Others added that some banks open Islamic operations primarily to diversify their portfolios, not out of religious conviction, and that when driven by religious concerns, boards are generally more supportive. Another respondent emphasized the commercial logic: *“The board is interested in dual banking to leverage existing infrastructure. If a bank-within-a-bank model is imposed instead, dual banking will not be commercially viable.”*

- **Operational Challenges:** Operational issues were also highlighted. Many dual banks rely on shared staff across conventional and Islamic operations, leading to limited cooperation in promoting Islamic products—either due to insufficient knowledge of Islamic banking or competing conventional business targets. To overcome this, participants proposed introducing Key Performance Indicators (KPIs) that explicitly incorporate Islamic banking targets, supported by incentive mechanisms, alongside stronger commitment from the BoD and SMT to motivate employees.

The position and competence of the head of Islamic banking was repeatedly emphasized as a crucial factor. As one respondent explained, *“The knowledge of the head of Islamic banking and senior management is essential; otherwise, they may impose incorrect practices even if junior staff are trained correctly.”*

- **Shariah Compliance and Portfolio Management:** Maintaining an appropriate portfolio emerged as another critical concern. Compliance with Shariah is costly, and dual banks must simultaneously satisfy conventional regulatory requirements. Since most deposits are mobilized under Mudarabah, generating adequate profits is vital to ensure Shariah-compliant returns and mitigate displaced commercial risk. Proper allocation of shared costs—covering infrastructure, manpower, and resources—was also deemed essential to accurately assess Islamic banking performance.

Concerns over product design and innovation were also raised. As one participant stated, *“Product designing in Islamic banking is more complex than in conventional banking products. There needs to be more innovation in Islamic banking products.”* Others noted that business expectations sometimes lead to products with weak Shariah compliance.

- **Technology and Systems:** The FGD underscored the urgent need for an accommodating Core Banking Solution (CBS). Many dual banks continue to rely on conventional CBS systems with minimal customization, which often fail to capture the distinct requirements of Islamic products and services. This technological limitation was seen as a significant operational constraint.
- **Customer Awareness and Market Perceptions:** Customer awareness was identified as another pressing issue. Most depositors under Mudarabah expect fixed returns, while some financing clients object to the complexities of Shariah-required documentation. Although banks conduct small-scale awareness initiatives, participants recommended broader, joint knowledge-sharing programs to improve societal understanding and compliance.
- **Shariah Governance:** On the governance side, the effectiveness of SSCs was emphasized. Proper composition—ensuring members possess both Shariah and banking knowledge—was considered more important than simply increasing numbers. Periodic internal knowledge-sharing sessions and participation in external training were also recommended.

- **Universal Pension Scheme (UPS):** The discussion extended to the UPS. Participants unanimously agreed that Islamic banks should not participate in conventional UPS structures due to Shariah concerns. They strongly recommended the development of Shariah-compliant UPS as a matter of urgency. Once introduced, such a scheme should be actively supported by all Islamic banks, given its potential for broad social benefits.

Section 6: Conclusion and Recommendations

The 2024 review of Islamic banking operations in Bangladesh reveals a sector that has achieved systemic significance but continues to face structural vulnerabilities. Over four decades, Islamic banking has grown into a major component of the financial system, consistently attracting depositors and advancing financial inclusion. Yet, despite this quantitative success, qualitative progress has lagged, with persistent gaps in governance, human capital, product innovation, and regulatory depth. Unless reforms are undertaken, Bangladesh risks confining its Islamic banking industry to a debt-based model that mimics conventional finance rather than offering a distinctive and resilient alternative.

The BIBM team and other studies have provided extensive recommendations, many of which remain relevant today. These include enacting an Islamic Banking Act, phased conversion of Islamic windows, mandatory external Shariah audits, and empowering SSCs with dual expertise in fiqh and finance. At the regulatory level, the establishment of the IBRPD at Bangladesh Bank in 2025 is a milestone, but its effectiveness will depend on adopting AAOIFI and IFSB standards, strengthening crisis-resolution mechanisms, and ensuring depositor and stakeholder-focused governance.

The review highlights that Bangladesh stands at a crossroads. On one hand, the sector enjoys strong public demand, robust deposit mobilization, and visibility in global indices. On the other hand, volatility in performance indicators, depositor trust deficits, and reputational setbacks from non-performing investments reveal fragility. Lessons from Malaysia, Indonesia, and Pakistan suggest that genuine progress requires more than balance sheet growth; it calls for coherent regulation, product diversification, and integration of Islamic social finance with commercial operations. Without such redirection, Bangladesh risks remaining a latecomer in the global Islamic finance ecosystem despite its scale and demographic potential.

Human capital development is equally urgent. Without a new generation of Islamic bankers, regulators, and Shariah scholars with dual expertise, the sector cannot remain competitive or innovative. Building this capacity will determine whether Bangladesh can align Islamic banking with Maqasid al-Shariah while ensuring market resilience.

Ultimately, the future of Islamic banking in Bangladesh will depend on timely and decisive choices. If reforms are pursued with clarity and resolve, the sector can evolve into a credible pillar of ethical and sustainable finance. By embedding discipline, transparency, and vision, Bangladesh can transform Islamic banking into both a trusted domestic sector and a significant contributor to the global discourse on Islamic finance.

Moving forward, the following are actionable strategies identified through survey responses, interviews, and expert consultations under the 2024 review. The recommendations are tailored to the operational realities and institutional capacities of Islamic banks in Bangladesh, with a focus on regulatory, governance, innovation, capacity-building, and risk management issues.

6.1 Promulgation of Long-Term Vision for Islamic Banking and Finance for a Sustainable Economy

According to data from the IFSB, Islamic banking in Bangladesh surpassed a 15 percent market share several years ago, marking its systemic importance. Despite this achievement, the country has not attained a comparable status in the global Islamic finance industry, limiting its international visibility and influence. A key reason for this shortfall is that sectoral growth has often occurred without adequate state-level planning or strategic direction. While a bottom-up approach has driven some progress, it is generally more time-consuming and less effective than a top-down policy framework. In the absence of a long-term visionary plan, the industry has sometimes experienced unsustainable growth, facing setbacks and instability (locally termed “*hochot kheyech*”). Given the sector's current size and importance, developing a comprehensive long-term vision for Islamic banking and finance is essential—not only for the sector's advancement but also for building a sustainable economy. In this context, Malaysia serves as a useful reference, as its well-structured roadmap has significantly positioned it as a global leader in Islamic finance. It is anticipated that the IBRPD of Bangladesh Bank will take the lead in preparing such a roadmap to ensure sustainable growth and enhance Bangladesh's prominence in the global Islamic finance arena.

6.2 Ensure Regular Review and Update of Contract Forms and Product Guidelines by Competent Shariah Scholars

Islamic banking operations are guided by contractual arrangements and product guidelines that must comply with Shariah principles. However, as financial products evolve and market demands change, these documents require periodic

review and timely updating. Without regular revisions, outdated forms and guidelines can expose banks to Shariah non-compliance and reputational risks. SSCs should actively review these documents at regular intervals. This process will ensure that the design and execution of Islamic banking products align with Shariah, regulatory requirements, and customer expectations. Bangladesh Bank may also encourage banks to implement a structured mechanism for reviewing their product guidelines, supported by independent Shariah audits, to enhance compliance and market confidence.

6.3 Ensure Effective Shariah Governance

Strong Shariah governance is essential for maintaining the credibility and sustainability of Islamic banking. Its effectiveness largely depends on the appropriate composition of the SSC, with members possessing both Shariah knowledge and practical banking experience. A formal performance evaluation system for SSC members should be established, ideally aligned with international best practices such as those set by the IFSB. Continuous professional development programs for SSC members will be crucial for enhancing their ability to handle complex and emerging financial products. Additionally, establishing a national panel of certified Shariah advisors under the guidance of Bangladesh Bank could serve as a reliable reference for Islamic banks. Ultimately, effective Shariah governance will ensure compliance and foster greater confidence among customers, regulators, and investors.

6.4 Establishment of a Strong Shariah Research Wing

Research holds a distinct place in Islam, particularly in the area of Muamalat, which is dynamic and constantly evolving. In this context, Islamic banking requires ongoing research to effectively address emerging challenges and opportunities. Action-oriented research is valuable for tackling practical issues in Islamic finance, ensuring that solutions are both innovative and Shariah-compliant. Therefore, each Islamic bank should establish a dedicated Shariah research wing to study new products, processes, and market developments. Ideally, this unit should operate under the direct supervision of the SSC, enabling it to identify suitable Shariah-compliant alternatives for both new and existing banking practices. For the research wing to function effectively, the Board of Directors (BoD) should ensure its independence, while the Senior Management Team (SMT) must provide the necessary financial and logistical support. Ultimately, this initiative should be viewed as a strategic investment that strengthens the sustainability of Islamic banks

and enhances their competitive edge over institutions lacking dedicated research capacity.

6.5 Adoption of International Accounting Framework Consistent with Islamic Banking Products and Services

Financial transactions should be recorded and reported to accurately reflect their substance. Inconsistencies between the underlying transaction and its accounting treatment are undesirable from both Shariah and business perspectives. Therefore, ensuring Shariah compliance must be integrated into the accounting and reporting framework, rather than just being addressed operationally. The substance-over-form application of conventional accounting standards, such as the International Financial Reporting Standards (IFRS), does not fully capture the unique features of Islamic banking transactions. Recognizing this gap, the AAOIFI has developed comprehensive Shariah, accounting, and auditing standards specifically for IFIs. As Bangladesh Bank is a member of AAOIFI, it is well-positioned to gradually adopt these international standards to align with both Shariah principles and business realities. Establishing a structured roadmap for implementation will facilitate this transition, enhancing the reliability, transparency, and global acceptability of financial reporting in Islamic banks.

6.6 Strengthening Risk-Based Capital Adequacy Framework

Capital adequacy is essential for banking stability, ensuring institutions remain resilient during shocks and financial stress. While conventional banks in Bangladesh adhere to the Basel framework, Islamic banks face additional challenges due to their contracts and risk exposures. Profit-and-loss sharing instruments, asset-backed structures, and Shariah-compliant financing expose Islamic banks to unique risks not fully addressed by traditional models. Therefore, a tailored risk-based capital adequacy framework aligned with Islamic finance should be developed, taking into account displaced commercial risk, equity investment risk, and Shariah non-compliance risk. Adopting IFSB standards could provide a strong foundation. Bangladesh Bank may encourage Islamic banks to gradually transition to this model, supported by capacity-building and scenario-based stress testing, to enhance resilience and strengthen systemic stability.

6.7 Recognition of Shariah Non-Compliance Risk as an Operational Risk for IBs

Banking risks are traditionally categorized into three main groups: credit risk, market risk, and operational risk. Islamic banks, however, face an additional risk: Shariah non-compliance risk. This risk arises when financial transactions, products, or processes do not fully adhere to Shariah principles, jeopardizing credibility and stability. Shariah non-compliance can result from issues related to people, processes, systems, or external events, making it a significant aspect of operational risk. Therefore, it is essential to develop effective mitigation strategies supported by robust monitoring and accountability mechanisms for efficient risk management. In alignment with the IFSB standards, Bangladesh Bank may direct Islamic banks to formally classify Shariah non-compliance risk as a core risk category. Additionally, the central bank might issue specific guidelines to help banks systematically identify, measure, and manage this risk.

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Appendices

Appendix A: Recommendations by Hossain and Ahmed (2024) on reforms towards advancing Islamic banking for a sustainable economy

No.	Recommendations	Priority	Implementation Entity
1	Recommendations to Address the Current Crisis		
1.1	Islamic Liquidity Support Tools Need to Be Urgently Developed	Immediate	BB, IBs
1.2	Incompetent and Corrupt Individuals Must Be Identified and Removed from Key Positions in Islamic Banks	Immediate	IBs
1.3	Engagement with the Public Needs to Be Increased	Immediate	IBs, BAB, CSBIB, IBCF
1.4	Initiatives Needed to Accelerate the Recovery of Existing Investments	Immediate	GOV
2	Recommendations Related to Reform Committees		
2.1	Reform Taskforce/Committee/Commission Needs to Include Islamic Banking and Finance Experts	Immediate	GOV, BB
2.2	An Islamic Banking and Finance Taskforce Needs to Be Formed Separately	Immediate	MOF, BB, NBR, BSEC, IDRA
2.3	The Committees for the Revision of Islamic Banking Guidelines and the Drafting of the Islamic Banking Act Need to Be Reconstituted	Immediate	BB
2.4	The Existing Bangladesh Bank Circulars Need to Be Reviewed and the Practice of Issuing Conventional Banking-based Circulars for Islamic Banking Needs to Be Discontinued	Intermediate	BB
2.5	Committees for Financial Reporting and Auditing of Islamic Banking and Finance Need to Be Established	Intermediate	FRC, ICAB, BB
3	Recommendations for the Institutional Development of Bangladesh Bank		
3.1	An Islamic Finance Department in Bangladesh Bank Needs to Be Established	Intermediate	BB
3.2	A Deputy Governor Needs to Be Designated for Islamic Banking	Intermediate	BB
3.3	A Shariah Advisory Committee in Bangladesh Bank Needs to Be Formed	Intermediate	BB
3.4	Adherence to the Standards Issued by the IFSB and AAOIFI Needs to Be Ensured	Intermediate	BB
3.5	Consistency Needs to Be Ensured in Policies and Supervision	Intermediate	BB
3.6	Whistleblowing Reporting Needs to Be Introduced	Intermediate	BB
3.7	Capacity Development Initiatives Need to Be Enhanced for Bangladesh Bank Officers	Intermediate	BB

4	Recommendations Related to the Governance of Islamic Banks		
4.1	Independent Directors Should Comprise the Majority, and Representation of Depositors Must Be Ensured	Intermediate	GOV, BB
4.2	Relevant Competency, Continuous Professional Development, and Performance Evaluation of Directors Should Be Ensured	Intermediate	BB
4.3	Existing SSCs Should Be Considered for Reconstitution	Immediate	BB, IBs
4.4	Members of SSCs Should Possess Relevant Competency and Be Subject to CPD Requirements	Intermediate	BB, IBs
4.5	A Shariah Governance Framework Needs to Be Issued and Shariah Compliance Culture Within Islamic Banks Must be Ensured	Intermediate	BB, IBs
5	Recommendations Related to Liquidity Management		
5.1	An Islamic Money Market Needs to Be Established	Long-term	BB
5.2	Government Sukuk Issuances Need to Be Increased	Intermediate	GOV, BB
5.3	Initiatives Needed to Make Government Sukuk More Accessible for the Retail Sector and Develop an Efficient Trading Infrastructure	Intermediate	GOV, BB, IBs, CBs
6	Recommendations Related to Building Trust in Islamic Banking		
6.1	Islamic Banking Products Need to Focus on Values (Beyond the Rate of Return and Other Commercial Features) in Advertisements	Intermediate	IBs
6.2	Disclosures and Transparency Regarding Shariah Compliance Must Be Significantly Enhanced	Intermediate	IBs
6.3	External Shariah Audit and Shariah Rating Need to Be Introduced	Intermediate	BB, IBs
7	Recommendations Related to Talent Development		
7.1	Obtaining Islamic Finance Qualifications Should Be Encouraged	Immediate	BB, IBs
7.2	Establishment of a Dedicated University for Higher Education and Research in Islamic Finance Needs to Be Considered	Intermediate	BB, UGC, Universities
7.3	Collaboration Between Academia and Industry Should Be Increased and Industry Attachment Programs for Shariah Experts Need to Be Introduced	Immediate	IBs
7.4	Islamic Finance Education Needs to Be Incorporated into School and College Curriculum	Immediate	GOV
7.5	Islamic Banking and Finance Forums Need to Be Empowered	Immediate	IBs

Appendix B: Recommendations by Ahmed et al. (2024) on the draft Islamic Bank Company Act 2024

S/n	Recommendations
1	Strategic direction for Islamic banking needs to be established
2	The role of the central bank in fostering Islamic banking in Bangladesh needs to be clearly established
3	The IBCA shall establish that there are no legal or regulatory barriers or tax burdens that may hinder the full application of Shariah rules and principles
4	Compliance with the standards issued by the IFSB and AAOIFI needs to be the basis for the regulatory and supervisory activities of Bangladesh Bank in regards to Islamic banking
5	The name of the Bangladesh Central Shariah Council needs to be changed and its authority needs to be clearly established
6	The roles and responsibilities of the board of directors and senior management team concerning Shariah compliance needs to be clearly defined and provisions for penalties needs to be included for anyone who engages in Shariah non-compliance due to misconduct or negligence
7	Liabilities and recourse in the event of losses due to breaches of terms, negligence, or misconduct need to be clearly established
8	The customers' representation on the board of directors needs to be ensured
9	More than one board member from the same family should not be allowed
10	The maximum shareholding needs to be reduced to 5%
11	Islamic banking and finance competencies of the board of directors needs to be ensured
12	The structure, scope, powers, and member appointments of the Shariah Supervisory Board need to be established, and their representation in board committee meetings needs to be ensured
13	The structure, scope, powers, and appointments of members of the Shariah Governance Committee need to be clearly established
14	Provisions for the Executive Committee need to be included
15	External Shariah audit and Shariah rating needs to be made mandatory for all Islamic banking institutions
16	Specific provisions need to be added for internal Shariah audit
17	The Islamic banking accounts needs to be divided into deposit accounts and investment accounts
18	The opportunity for charging compensation based on actual costs and the legal status of the 'undertaking to donate' in the case of overdue need to be clearly established
19	The IBCA need to refrain from identifying and defining Shariah-based contracts, as this may restrict the ability of Islamic banks to innovate
20	Zakat and charity fund management and reporting needs to be aligned with international standards and ensure transparency
21	Islamic branches and windows of conventional banks should continue to be allowed
22	The IBCA needs to add provisions allowing subsidiaries for Islamic digital banking, Islamic crowdfunding and others
23	Application of the provisions of BCA 1991 or FCA 2023 not mentioned in the draft IBCA
24	The IBCA needs to be properly vetted by competent Shariah authorities to ensure that there are no Shariah non-compliant elements and properly proofread
25	The IBCA needs to start with Bismillahir Rahmanir Raheem and the Islamic banking definition needs to be added
26	Reforming the committee for revising the draft IBCA
27	Initiatives needed to develop a comprehensive legal and regulatory framework for Islamic banking

Appendix C: Observation on the Recommendations Made in Previous Review Paper(s) by BIBM Team

S/n	Recommendations*
A	Regulatory and Legal Framework
1.	Enact a separate “Islamic Banking Act” to provide a dedicated legal foundation for Islamic banking operations.
2.	Strengthen the regulatory framework to support growth, innovation, and compliance in the Islamic finance industry.
3.	Empower the Central Shariah Board with supervisory authority over Islamic banking institutions.
4.	Establish a separate Shariah Appellate Bench at the High Court to resolve legal disputes involving Islamic banking matters.
5.	Incorporate a new parameter—‘Shariah Compliance’—into the CAMELS rating framework specific to Islamic banks.
6.	Issue enhanced regulatory circulars with clear elaboration tailored to the operational nuances of Islamic banks.
B	Governance, Audit, and Standardization
7.	Ensure the formation of Shariah Supervisory Committees (SSCs) as per global standards, emphasizing competency, independence, and engagement.
8.	Strengthen governance and transparency in Islamic banking institutions through effective oversight.
9.	Enhance Shariah auditing practices by developing clear guidelines and ensuring rigorous compliance.
10.	Standardize documents and operational templates to ensure uniformity in Shariah compliance.
11.	Improve accounting and reporting practices in line with Islamic financial principles and international standards.
C	Product Development and Financial Innovation
12.	Introduce Sukuk for efficient liquidity and asset-liability management.
13.	Promote more Profit and Loss Sharing (PLS) modes of financing, such as Mudarabah and Musharakah.
14.	Launch longer-term deposit products to attract stable funding bases.
15.	Introduce financial products for direct cash assistance in case of dire need.
16.	Develop structured instruments such as “Cash Waqf” for charitable and social development purposes.
17.	Establish a separate Waqf Bank to facilitate Islamic social business and charitable banking.
18.	Introduce Islamic Social Business as a viable frontier to align profit with purpose and ethics in line with Maqasid-as-Shariah.
D	Market Expansion and Reputation
19.	Expand Islamic banking branches in rural and underserved regions to improve financial inclusion in line with Maqasid-as-Shariah.
20.	Enhance the market reputation and public image of Islamic banking through awareness and branding initiatives.
21.	Prepare a comprehensive national report on Islamic Banking and Finance (IBF) to assess progress, identify challenges, and propose reforms.
E	Capacity Building and Human Capital Development
22.	Develop a skilled pool of Shariah auditors to strengthen internal controls and ensure compliance.
23.	Increase training and capacity-building initiatives for professionals engaged in

S/n	Recommendations*
	Islamic finance.
24.	Introduce certification programs to professionalize and standardize the Islamic banking workforce.
25.	Promote specialization for business professionals in areas critical to the Islamic banking sector.
26.	Establish a dedicated Research Cell to design innovative, Shariah-compliant products and services.
F	Financial Management and Risk Oversight
27.	Determine nominal and effective profit rates based on the mode of contract and actual recovery, aligned with central bank ceiling rates.
28.	Strengthen risk management practices in Islamic banks by incorporating both Shariah and financial risk considerations.

**Most of the banks show their agreement with the recommendations*

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