



BML
ISLAMIC BANKING
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BML ISLAMIC FINANCE

NEWSLETTER

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EDITOR'S MESSAGE

The present era represents a period of remarkable development and growth for Islamic Banking and Finance. As we observe, the Islamic Banking and Finance industry has emerged as a global phenomenon and is expanding at a rapid pace across different regions of the world. The industry has evolved significantly, offering Shariah-compliant alternatives in various segments of financial services and becoming an integral part of the global financial system.

In the context of Pakistan, the significance of Islamic Banking and Finance has become even more prominent, particularly following the announcement of the Islamic transformation of the Pakistani banking and finance industry by December 2027 in line with the verdict of the Federal Shariat Court (FSC) issued in 2022. This historic development highlights the increasing importance of understanding the foundations, principles, concepts, practices, and future prospects of Islamic Banking and Finance.

Considering the robust global and regional developments in Islamic Finance, there is an immense need to create awareness and enhance the knowledge of various segments of society, including individuals, customers, researchers, practitioners, students, policymakers, regulators, and other stakeholders. Comprehensive understanding of Islamic financial principles and practices is essential for ensuring the effective implementation and sustainable growth of this system.

For the management and personnel of the banking and finance industry, continuous learning and professional development in Islamic Banking hold exceptional importance. Lack of adequate knowledge and understanding may result in instances of Shariah non-compliance, which can adversely affect the credibility and reputation of Islamic Finance, lead to regulatory concerns, and may result in purification of income arising from invalid transactions. Therefore, strengthening the learning and development framework of employees remains a fundamental requirement for ensuring effective Shariah compliance.

Keeping in view the significance of awareness, capacity building, and knowledge enhancement, the Shariah Compliance Department of Bank Makramah Limited has taken the initiative to launch the BML Islamic Finance Newsletter, a quarterly publication under the patronage of the Honorable Shariah Board. The newsletter has been designed to provide comprehensive knowledge and insights on Islamic Banking and Finance through various sections, including a Featured Topic, Islamic Finance Articles, Frequently Asked Questions (FAQs), Islamic Finance Stories, Local and Global News & Updates, and BML's Islamic Banking News & Updates.

It is hoped that this initiative will serve as a valuable source of knowledge, learning, and awareness for all stakeholders and contribute towards enhancing understanding and promoting the principles and practices of Islamic Banking and Finance across the industry and different segments of society.

We welcome suggestions, feedback, and recommendations from the Islamic finance industry and all stakeholders to further enhance the quality, relevance, and effectiveness of this newsletter and make it a more beneficial and informative platform for knowledge sharing.

Muhammad Zeeshan Farrukh
Head of Shariah Compliance
Bank Makramah Limited

From The Qur'an

وَاعْلَمُوا أَنَّمَا أَمْوَالُكُمْ وَأَوْلَادُكُمْ فِتْنَةٌ وَأَنَّ اللَّهَ عِنْدَهُ أَجْرٌ عَظِيمٌ

“And know that your wealth and your children are but a trial, and that with Allah is a great reward.”

(Surah Al-Anfal : Ayah 28)

From The Hadith

عن جابر رضي الله عنه قال: لعن رسول الله ﷺ آكل الربا، وموكله، وكاتبه، وشاهديه، وقال: هم سواء

From Jabir : The Messenger of Allah ﷺ cursed the receiver and the payer of interest, the one who records it and the two witnesses to the transaction and said: “They are all alike [in guilt].”

(Sahih Muslim, Jama' Tirmidhi, Musnad Ahmad)

FEATURED TOPIC

NATURE & TREATMENT OF DEPOSITS IN ISLAMIC BANKING

To obtain deposits from different segments of the society, the commercial banks, either Conventional or Islamic, generally offer three types of accounts i.e. Current Account, Saving Account & Term Deposit Account. The banks offer different variants of accounts under these types. These variants offer various services based upon different features.

A. NATURE OF ACCOUNTS

I. Current Account

A Current Account is a type of deposit account which is opened by individuals, firms, companies and institutions for frequent and large transactions. It allows unlimited deposits and withdrawals and is primarily used for business purposes. The different types of current accounts with different features may be offered by the commercial bank. Banks do not offer profit/interest on these deposits.

The conventional banks accept these deposits on the basis of Loan (Qard) and do not offer interest upon current account but offer free services based upon certain criteria. For example: if the depositor retains PKR 10,00,000 Monthly Average Balance in the certain account then the free services. i.e. free cheque book, free pay orders, free debit card and free SMS alerts etc. shall be offered.

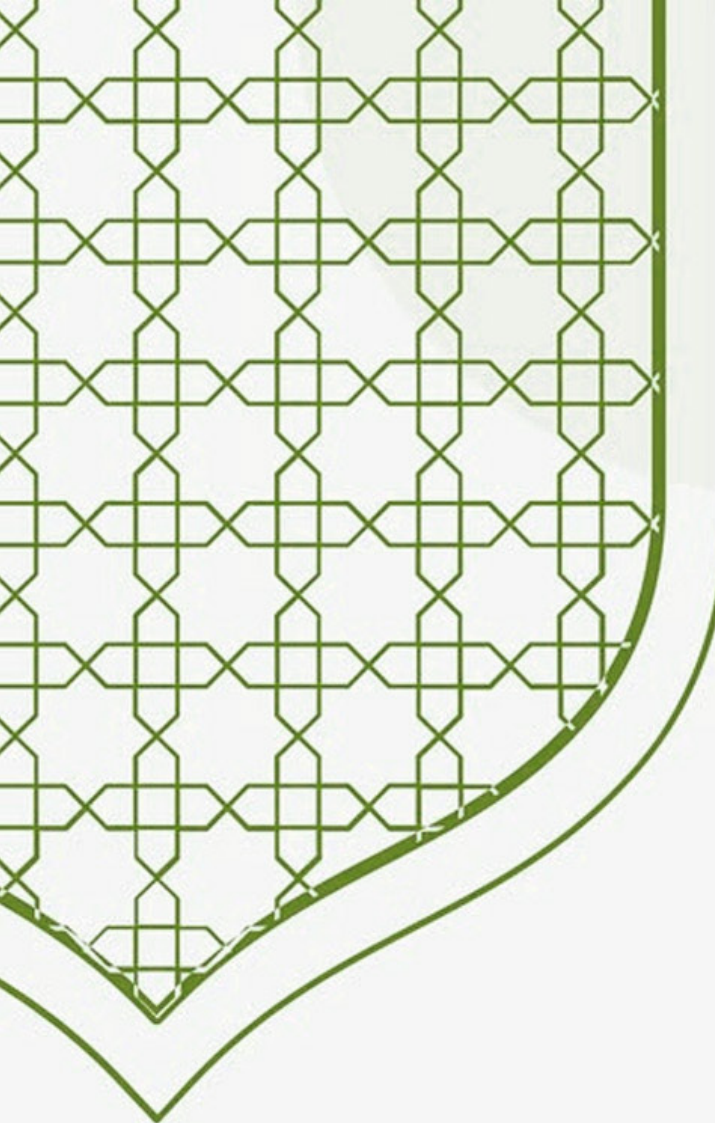
As far as Islamic Current Accounts are concerned, the Islamic banks also offer current accounts on the basis of Loan (Qard) like conventional banks, upon which neither profit nor free services are offered because upon the basis of Qard, no agreed benefit shall be given to the creditor. Therefore; Islamic banks cannot offer free services to the depositor upon the basis of current account. Only those free services, which are offered on all accounts irrespective of current and saving nature, may be offered on current accounts. For example: if the depositor retains PKR 10,00,000 Monthly Average Balance in the account, irrespective of current or saving nature, then the free services i.e.

free cheque book, free pay orders, free debit card and free SMS alerts etc. may be offered.

In both Conventional and Islamic Banking, these accounts are considered as liability and the bank must return and pay the deposit to the depositor on demand, as these deposits are obtained on the basis of Loan (Qard).

In cases where Islamic banks wants to provide additional free services to the depositors, the Islamic banks may offer Special Saving Account upon which minimal profit may be given to the depositors as compared to other saving accounts. In this way, the additional free services may be offered to the depositors.





II. Saving Account

A saving account is a type of account which is opened by individuals, firms, companies and institutions for the purpose of earning interest/profit thereon with the comfort of unlimited withdrawals like current account.

The interest/profit is given according to the amount of deposit, maintained by the depositor as Daily Balance OR Monthly Average Balance, according to different slabs. Besides consideration of Daily Balance OR Monthly Average Balance, profit may be disbursed on Monthly OR Quarterly OR Semi Annually basis. Besides profit, different free services are also offered on different variants of Islamic saving accounts, based upon certain features and requirements.

As far as Conventional banking is concerned, saving accounts are accepted on loan (Qard) basis so both Principal Amount & Interest Amount are considered and recorded as Liability. On the contrary, the Islamic banks accept these deposits on the basis of Mudarabah (a type of partnership).

The Islamic banks may provide free services on saving accounts, according to different features of different variants, as free services may be offered on Mudarabah based deposits but cannot be offered on Qard based deposits.

III. Term Deposit Account

A Term Deposit Account is a type of account which is opened by individuals, firms, companies and institutions for the purpose of earning interest/profit thereon.

The funds are accepted by the bank for the certain period, due to which the rate of interest/profit is higher than the interest/profit upon saving account. The interest/profit is given keeping in view the tenure and amount of deposit by the customer, according to different slabs. The profit is disbursed on Monthly OR Quarterly OR Semi Annually basis.

In Conventional Banking, these accounts are opened on the same basis of Loan (Qard) like Current and Saving Accounts. In Islamic Banking, likewise saving accounts, these accounts are also opened on Mudarabah basis.

In case of term deposit accounts; the bank opens non-checking account for the certain period. At maturity, the principal amount with profit is returned to the depositor.

THE CONCEPT OF MUDARABAH



B. Definition of Mudaraba

Mudaraba, known also as Qirad, is a contract that arranges cooperation in business investment between capital on one hand and entrepreneurship on the other, whereby the contracting parties jointly and commonly own the realized profit as per the agreement.

The party providing the capital is known as Rabb-ul-Maal and the investor is known as Mudarib or 'Amil (literally. worker) or Muqarid.

Types of Mudaraba

There are two types of Mudaraba namely:

1. Al Mudaraba Al Muqayyada (Restricted Mudaraba):

Rabb-ul-Maal may specify a particular business or a particular place for the Mudarib, in which case he shall invest the money in that particular business or

place. This is called Al Mudaraba Al Muqayyada (Restricted Mudaraba).

2. Al Mudaraba Al Mutlaqa (Unrestricted Mudaraba):

If Rabb-ul-Maal gives full freedom to Mudarib to undertake whatever business he deems fit, this is called Al Mudaraba Al Mutlaqa (Unrestricted Mudaraba). However Mudarib cannot, without the consent of Rabb-ul-Maal, lend money to anyone. Mudarib is authorized to do anything, which is normally done in the course of business. However if they want to have an extraordinary work, which is beyond the normal routine of the traders, he cannot do so without express permission from Rabb-ul-Maal. He is also not authorized to (a) keep another Mudarib or a partner and (b) mix his own investment in that particular Mudaraba without the consent of Rabb-ul Maal.

Non-Binding Contract

The Mudaraba contract is not binding, i.e. each of the contracting parties may terminate it unilaterally except in two cases:

1. When the Mudarib has already commenced the business, in which case the Mudaraba contract becomes binding up to the date of actual or constructive liquidation.
2. When the contracting parties agree to determine a duration for which the contract will remain in operation. In this case, the contract cannot be terminated prior to the end of the designated duration, except by mutual agreement of the contracting parties.

Form of Mudaraba Capital

The capital of Mudaraba must be provided in the form of cash. However, it may be presented in the form of tangible assets, in which case the value of the assets is the contribution to the Mudaraba capital. The valuation of the assets may be conducted by experts or as agreed upon by the contracting parties.

The capital of Mudaraba should be clearly known to the contracting parties and defined in terms of quality and quantity in a manner that eliminates any possibility of uncertainty or ambiguity.

It is not permissible to use a debt owed by the Mudarib or another party to the capital provider as capital in a Mudaraba contract.

Control over the Capital

In Mudaraba, Rabb-ul-maal provides the investment and Mudarib provides the management. For a Mudaraba contract to be valid and for the Mudarib to be considered as having control over the capital, the capital must be, wholly or partially, put at the disposal of the Mudarib, or the Mudarib must have free access to the capital. Therefore, the Rabb-ul-maal hands over the agreed investment to Mudarib and leaves everything to Mudarib with no interference from his side but he has the authority to:

- a) Oversee the Mudarib's activities and
- b) Work with Mudarib if the Mudarib consents.

Commingling of Funds

If the Mudarib has commingled his own funds with the Mudaraba funds, the Mudarib becomes a partner in respect of his funds and a Mudarib in respect of the funds of the capital provider. The profit earned on the two commingled funds will be divided proportionately to the amounts of the two funds, in which case the Mudarib takes the profit attributable to his own funds, while the remaining profit is to be distributed between the Mudarib and the capital provider according to the provisions of the Mudaraba contract.

Distribution of Profit & Loss

It is necessary for the validity of Mudaraba that the parties agree, right at the beginning, on a definite proportion of the actual profit to which each one of them is entitled.

The method agreed upon for distribution of profit can be fixed for the whole period, or variable according to specific sub-periods of partial liquidation.

It is a requirement that the mechanism for distributing profit must be clearly known in a manner that eliminates uncertainty and any possibility of dispute. The distribution of profit must be on the basis of an agreed percentage of the profit and not on the basis of a lump sum or a percentage of the capital.

The Shariah has prescribed no particular proportion; rather it has been left to their mutual consent. They can share the profit in equal proportions and they can also allocate different proportions for Rabb-ul-Maal and Mudarib. However in extreme case where the parties have not predetermined the ratio of profit, the profit will be calculated at 50:50 or shall be referred to customary practice, if any. It is permissible for the parties to change the ratio of distribution of profit at any time and to define the duration for which the agreement will remain valid.

The distribution of profit depends on the final result of the operations at the time of liquidation of the Mudaraba contract. If losses are greater than profits at the time of liquidation, the balance (net loss) must be deducted from the capital. In this

case; as he is a trustee, the Mudarib is not liable for the amount of this loss unless there is negligence or misconduct on his part. Whenever a Mudaraba operation incurs losses, such losses stand to be compensated by the profits of future operations of the Mudaraba. The losses brought forward should be set against the future profits.

If the total Mudaraba expenses are equal to the total Mudaraba revenues, the capital provider will receive his capital back without either profit or loss, and there will be no profit in which the Mudarib is entitled to a share. If profit is realized, it must be distributed between the parties as per the agreement.

Termination of Mudaraba

The Mudaraba will stand terminated when the period specified in the contract expires. It can also be terminated any time by either of the two parties by giving notice. In case Rabb-ul-Maal has terminated services of Mudarib, he will continue to act as Mudarib until he is informed of the same and all his acts will form part of Mudaraba.

If all assets of the Mudaraba are in cash form at the time of termination, and some profit has been earned on the principal amount, it shall be distributed between the parties according to the agreed ratio. However, if the assets of Mudaraba are not in cash form, it will be sold and liquidated so that the actual profit may be determined.

All loans and payables of Mudaraba will be recovered. The provisional profit earned by Mudarib and Rabb-ul-Maal will also be taken into account and when total capital is drawn, the principal amount invested by Rabb-ul-Maal will be given to him, balance will be called profit which will be distributed between Mudarib and Rabb-ul-Maal at the agreed ratio. If no balance is left, Mudarib will not get anything. If the principal amount is not recovered fully; then the profit shared by Mudarib and Rabb-ul-Maal, during the term of Mudaraba, will be withdrawn to pay the principal amount to Rabb-ul-Maal.

The balance will be profit, which will be distributed between Mudarib and Rabb-ul-Maal. In this case too if no balance is left, Mudarib will not get anything.

C. Application of Mudarabah in Islamic Banking

As the Saving & Term Deposit Accounts are offered on the basis of Mudarabah, these accounts are not considered as Liability in Islamic banks unlike conventional banks but considered as Quasi Equity in which the funds of the depositor are placed in certain pool of funds, rather than the bank's whole business, and profit or loss is distributed based upon the outcome of the business activities of the certain pool. In case of loss, even principal amount (i.e. investment amount) may be lost to certain extent. Furthermore, the bank is liable to pay the investment amount upon demand by the depositor.

The relationship among customers is partnership. The bank creates one or more pools of funds of depositors. The bank may invest its own funds in the pool at its sole discretion.

The Islamic bank uses the deposits in financings and investments etc. and the profit is distributed between the Islamic bank, as Mudarib, and the depositors, as Rabb ul Maal, as per pre-agreed profit-sharing ratio. The participation of the invested amounts in the Mudaraba pool shall start from the Business Day the deposit is realized.

As a result of joint funds used to create a pool; the relationship between the account holders shall be that of partners, as Shirkat ul Aqd. The Islamic banks may commingle its own equity with the depositor's funds in a pool. As Islamic bank assumes all the risks of current deposits (mobilized on Qard basis), it can use such deposits as its equity for the purpose of profit and loss computation and distribution.

The account opening form for Mudaraba based deposits or any other document for the purpose shall include depositor's explicit permission to Islamic bank to commingle its funds or the funds of other depositors including the current deposits within the Mudaraba pool as and when required.

Each pool to be created and managed by the Islamic bank shall be treated as a virtual enterprise having its own assets, liabilities, income and expenses, which are identifiable, balanced and verifiable at all time. Further, transaction records for each pool shall be maintained separately.

It shall also be ensured that Islamic bank's equity in different pools is reconciled with the total equity appearing in accounting records.

The Profit Sharing Ratio (PSR) between depositors (Rabb-ul-Maal) and Islamic Bank (Mudarib) is decided

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The Profit Sharing Ratio (PSR) between depositors (Rabb-ul-Maal) and Islamic Bank (Mudarib) is decided and announced before the beginning of period concerned.

The Islamic bank can specify different ratios for distribution of profits between itself and different categories of holders of investment accounts, or it can specify a unified ratio for all. The ratios for distribution of profits among the holders of the investment accounts can also be unified or varying on the basis of certain weights. In case of loss, the loss is borne by the depositors in proportion of their investments. The losses on financings and investments due to misconduct/negligence/breach of contract by Islamic bank shall not be charged to the pool and Islamic bank, as Mudarib, shall be responsible to bear such losses. Then, the profit is distributed among depositors on the basis of certain weightages.

The weightages are also announced before the beginning of the period concerned and are not changed during the period. The weightages are set keeping in view two variables i.e. Amount of Investment and Duration of Investment.

Profit and loss is distributed on monthly or as per product description. In case of closing of an account before the closing of a certain month, profit and loss for any broken period is paid. In case of commingling of Islamic bank's equity with depositors' fund in a pool, the Net Income/ loss of Pool shall be allocated between Islamic bank's equity and the depositors' fund in proportion to their respective share in pool.

As far as the concept of "Weightage" is concerned; "Weightage" is termed as value of the depositor's money in the eye of the bank and the pool. The terminology of weightage may be understood with an example as under:

Three persons push the vehicle to start. It is a fact that all persons are not utilizing their strength equally to start the vehicle. One may deliver the most of the strength, the second might deliver 2/3rd of the total strength and the third may deliver 1/3rd of the total strength.

For example, it might happen that an instrument is attached to the vehicle which tells the level of each person's strength that has been utilized to start the certain vehicle.

In this case, we give the weight of 1 to that person who has delivered most of the strength and the 2nd and 3rd persons will be given the weightages of 0.66 and 0.50 respectively according to the strength utilized by them. If there is any prize distribution among them, the prize will be divided in three equal parts and then the first person will get one part, the second person will get the 66% of the second part and the third person will get the 50% of the third part.

The remaining parts will be given also to the first person. The same is being done in Islamic banks keeping in view the above-mentioned variables. In the context of Islamic banks, the depositors are different in their capacities of invested amounts therefore there is no such practical way to give profit to each investor according to the invested amount as the invested amount varies on daily basis and it is not possible to make assessment of the real profit of each investor in this respect. The prevalent practice in Islamic banks for calculation and distribution of profit is based upon two mechanisms i.e. Monthly Average Balance or Day End Balance.

Before profit distribution, following steps are taken by Islamic Bank:

Liquidation

In Islamic Banking, the Mudaraba assets are liquidated as constructive liquidation where, in addition to cash amounts, non-cash assets are valued by experts, along with valuation of all debts with regard to possibilities of collection and appropriate allocations for bad debt.



Identification and Allocation of Income & Expenses

The direct expenses are charged to respective pool, while indirect expenses including the establishment cost shall be borne by Islamic bank as Mudarib.

The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities, impairment / losses due to physical damages to specific assets in pool etc. The general and specific provisions created against non-performing financings and diminution in the value of investments shall be borne by the Islamic bank as Mudarib. However, write-offs of financings and loss on sale of investments shall be charged to respective pool along with other direct expenses.

The losses on financings and investments due to misconduct/negligence/breach of contract by Islamic bank cannot be charged to the pool and Islamic bank is responsible for absorbing such losses.

Deductions

Deductions, if any, of the allocations and reserves i.e. Profit Equalization Reserve (PER) and Investment Risk Reserve etc. The Islamic banks may maintain Profit Equalization Reserve (PER) from Net Income of Pool i.e. the gross income less direct expenses and losses if any. In this case, the Islamic banks may fully or partly utilize the amount of PER to improve the returns to the depositors during periods when the pool's profits are below market expectations.

The clauses related to PER shall be made part of account opening form or any other document for this purpose.

Other than PER, Investment Risk Reserve (IRR) may be maintained from profit available for distribution amongst the pool's depositors after deduction of Mudarib share in every profit period.

As the credit and market risk of the financing and investment portfolio is to be borne by depositors being Rabb-ul-Maal in the Mudaraba arrangement, there may be scenarios where the pool may incur losses primarily due to unusually large write-offs and/or significant losses on sale of the pool's investments. Thus to absorb/off-set such losses Islamic banks may create the Investment Risk Reserve (IRR) to cover the future investment losses and develop models and basis to determine the size of the IRR and the periodic contributions to be made to build up the IRR.

The clauses related to IRR shall be made part of account opening form or any other document for this purpose.

After pre-profit distribution activity, the profit is distributed between the bank and the depositors according to certain Profit Sharing Ratio and assigned weightages.

First, the bank gets its share according to pre agreed profit sharing ratio and then the profit is distributed among depositors according to assigned weightages.

It is permissible for the accountholder to exit from the Mudaraba with all his funds or part of them. Such exit represents the desire of the accountholder to redeem his share in the Mudaraba assets without withdrawing the total amount deposited in his account or part of it.

KNOWLEDGE ARTICLE

THE ISLAMIC CONCEPT & GUIDELINES REGARDING PERSONAL WEALTH

Muhammad Zeeshan Farrukh
Head of Shariah Compliance



Islam is a complete code of life and provides the best ways to live a life in a good manner. Being a Muslim, it is our duty to obey the commandments of Almighty Allah. If we talk about the concept of wealth in Islam and study the guidelines of Islam in this respect, we could easily understand the objectives of Islam that would lead to establishing a fair society with the best moral values.

We should keep this reality in our mind that all resources belong to Almighty Allah and man is the trustee (Ameen) that acquires and utilizes wealth and resources in accordance with the guidelines and commandments of Allah. Besides this, we must also have a faith that Allah may bestow more wealth to a certain person and give few resources to another person and in this way; Allah takes examination of the people.

When we accept these obvious facts, we must obtain and utilize the resources according to His orders and does not try to do any act that could lead to deprive anybody from his property in a wrong manner because it is interference in the decisions of Allah.

Islam has given sanctity to one's ownership which is obvious from one hadith of Prophet Muhammad (SAW) that if any person tries to get one's possession or ownership wrongly and if this action leads to fighting and the owner is killed in this fighting; he would be a martyr but if the wrongdoer is killed in this fighting; he would be in the fire. (Reference: Sahih Muslim, Sunan Al-Nisai, Sunan Ibn Maja).

Here, we must understand that the sanctity of one's ownership only remains at that point of time until the commandments of Allah are obeyed. If anybody contravenes sacred guidelines and laws of the State, the sanctity related to that part of the wealth would be no more. For example, a man who does not pay zakah and taxes of government etc, the appropriate action might be taken against that person to enforce writ of Islam and government.

It must be noted at this point that the laws of the state regarding taxes etc. must be based upon justice otherwise the forceful deprivation of one's wealth would be observed a sin of that government.

Being a Muslim, we must consider this fact that our stay in this world is only for some time and this world is just an examination hall in which we are giving exam and the success in this examination depends upon the real practice of the teachings given by Islam.

As far as wealth is concerned, Islam has given clear instructions to earn and consume wealth and the sanctity of wealth depends upon the compliance and implementation of teachings of Almighty Allah otherwise we will be committing sin. ways.

Now, we focus on the earning of wealth in Islam. The accumulation of wealth is a very sensitive issue as it effects not only on the life of one individual but spreads its effects upon the whole society.

In this regard, Islam sieges all the ways of earning of wealth that could get harm the society and elaborate ways that could lead to circulation of wealth among the members of the society.

As far as economic transactions are concerned, Islam strictly prohibits riba (interest) based transactions and gharar (excessive uncertainty) based transactions as they lead to selfishness, greed and disputes among the society.

To earn wealth, Islam describes the permitted ways. In this regard, Islam provides partnership framework, explains rules of sale of goods and describes rules for execution of different types of contracts.

If one person follows these guidelines and rules in order to earn income, the transactions or contracts would be valid but the violation of the rules would make the earning Haram or contract invalid.

If we talk about the consumption and use of wealth in Islam, we cannot spend wealth in those areas which are prohibited and averted or to buy prohibited items like pork, wine etc as prohibited things have no value in the eyes of Islam and we are not permitted to spend the wealth that Allah has bestowed.

In this regard, Islam prohibits two extremes of consumer behavior i.e. Israf (extravagance) and Bukhl (stinginess). In the Qur'an, there are clear instructions to avoid these two behaviors: In Surah 17, the people, who do extravagance, have been described as brothers of the Satan and in Surah 3, Allah has expressed the act of stinginess as bad act and told that the things, in which the Bukhl is done, will be tied to the necks like a collar on the day of judgment.

When one person goes for extravagance and luxurious life, he forgets the main purpose to live in this world that this world is a temporary place and we have come here for some time. When one person makes himself habitual of luxurious life, he would try to maintain his high living standard and in this way, he might violate the teachings of Islam in maintaining their worldly life in a luxurious manner and opt even prohibited ways.

By keeping this way of consumption of wealth, a person squanders his wealth in non-productive ways. This wealth may also go for productive purposes in the society in the form of investment that could also become the source of earning and this wealth may use to fulfill the essential needs of poor and needy people.

On the other hand, if one person goes to another extreme side i.e. Bukhl, the person accumulates wealth and do not consume his earnings and wealth even to fulfill the necessary needs and requirements which is, in reality, ingratitude of Almighty Allah as Allah has bestowed upon him but he is not using the wealth to fulfill the needs.

This type of behavior hampers the circulation of wealth in the society as the useless accumulated wealth may not give any benefit to the society in any form. A person practicing Bukhl is selfish and will not help the poor and needy of the society.

Therefore, Islam prohibits both types of extreme consumer behaviors and promotes moderation because both behaviors develop love for this world and wealth and lead to forgetting the life hereafter. When a person keeps the scared instructions of Allah in his mind and considers this world as an examination hall in a true sense, he would spend more and more upon the welfare of the poor and the society to get eternal reward.

Therefore, it is clear that Islam permits us to earn wealth as wealth is important for living in this world but it is important that we must think the factors of HARAM and HALAL while earning or consuming wealth and obey the commandments of Allah.

Being a Muslim, we must observe some very important realities which are overlooked in our daily life while earning and consuming wealth and we generally do not even think that the earning and consumption from and to these activities are leading towards the commitment of sin. For example, if anybody sells the products and services (marketing of products) by exhibiting girls and women as we see on television, fashion shows and bill boards on the roads etc, these are not permitted and the earning from these sources has not any sanctity in the eyes of Islam.

Being a Muslim, we know that these activities are not permissible in Islam but unfortunately, these activities are very common and there is not any consideration while earning and consuming wealth from and to these prohibited areas. These activities are leading the whole society towards the promotion of immoral values and attainment of satanic objectives.

The Muslim must far away from these activities. It must be understood and kept in mind that when we talk about the HALAL earning, we must observe and obey the teachings of Islam by heart and soul and get rid of any activity that leads to spread evil in the society and against the injunctions of Islam.

If we obey the commandments of Almighty Allah in a true sense and consider the factors of HALAL and HARAM while earning and spending of wealth, our society might emerge as an excellent example of not only the equitable distribution of wealth but also appear as a place of high moral and good ethical standards.

Islam encourages us to strive for earning wealth and explore the resources but it is obvious that if we follow the guidelines of Allah, the wealth has a sanctity because this wealth has been acquired by us in accordance with the guidance of Allah but if we earn wealth by ignoring the factors of permission and prohibition, the wealth has not any sanctity because that wealth has come to us from satanic sources which might involve the earning by spreading the immoral attitudes or by disregarding the rights and needs of other individuals etc. Therefore, it is clear that wealth is not a good or bad in itself but the earning and spending of wealth makes the wealth good or bad.



EXPERT INTERVIEW WITH CHAIRMAN SHARIAH BOARD BANK MAKRAMAH LIMITED

MUFTI MUHAMMAD NAJEEB KHAN

Q. Kindly provide a brief introduction about your education, experience, and achievements.

Answer: With respect to education, I hold a degree of specialization in Islamic Jurisprudence/Islamic Finance ("Takhassus") from Jamia Darul Uloom Karachi under the supervision of Justice (Retd.) Mufti Taqi Usmani, equivalent to a PhD. I also completed "Aliyah," equivalent to a Bachelor's degree, and "Almiyah," equivalent to a Master's degree, in Arabic and Islamic Sciences from Jamia Darul Uloom, Faisalabad. Additionally, I completed a Bachelor of Arts from the University of Karachi and an MPhil from the Shaykh Zayed Islamic Center, University of Karachi. I have also obtained certifications in various courses, including Train the Trainer, Time Management, Leadership, Vision, and Curriculum Designing.

I have rendered services to many local and multinational organizations, especially in Islamic Banking and Finance, Islamic Asset and Fund Management, Islamic Financial Product Development, Shariah Compliance and Audit for Islamic Financial Institutions (IFIs), and Islamic Financial Advisory Services. I was honored with the award for Leading Shariah Advisor in 2015 by Mr. Mamnoon Hussain, President of Pakistan. I also have extensive experience in management, teaching, and training, product structuring, business conversions, and family business structuring, spanning more than 25 years, and have trained more than 10,000 professionals, including practitioners of Islamic Finance and Halal Food, civil servants, scholars, and teachers. I have designed training-needs-assessment programs for various financial institutions, including Islamic banks, Modaraba companies, and Islamic funds, as well as for traders and businessmen, and have developed specialized training courses for the National Institute of Banking and Finance and the Institute of Bankers Pakistan.

Alhamdulillah, I have extensive command of all aspects of Islamic Law and Leadership, with specialization in Islamic Finance, Islamic Jurisprudence, Takaful, AAOIFI Shariah Standards, Islamic Risk Management, Islamic Tarbiyyah, Halal Food, Slaughtering Rules, Shariah Audit, Islamic Accounting Standards, Waqf Management, Personality Development, Islamic Conversion, Governance Frameworks, Leadership, and Training. I have an excellent understanding of training-needs assessment, the design of various training modules, the development of delivery techniques, and the implementation and evaluation of effective training, along with the development of teaching and training methodologies such as classroom management skills, exceptional communication skills, and the integration of Islamic principles into curriculum design. I have a talent for engaging and motivating students and professionals at all levels of management, and I am passionate about ethics-based personality development, with a dedicated commitment to staying informed and current in this dynamic field.

Q. What is the perception of Islamic Banking in Pakistan's society?

Answer: There are various segments within society with respect to the perception of Islamic Banking. Different surveys show that the literate segment considers Islamic Banking to be Halal, but at the grassroots level, it has been observed that this segment is result-oriented and focuses on the fact that the outcomes of transactions are almost the same in conventional and Islamic banking systems. This segment therefore says that Islamic Banking is the same as conventional banking, with only the label changed to "Islamic Banking." This segment is unable to understand the structural differences between the two types of transactions.

There are many reasons for this misunderstanding and lack of awareness. One reason is the non-onboarding of universities in this respect. The situation is such that a university student obtains their first exposure to Islamic Banking only at that stage, as Islamic Banking and Finance has not been properly included at the school or college level. Interaction with the common man is also very rare, which gives rise to an awareness challenge. It is human nature to base decisions on perception rather than on ground realities, so perceptions need to be clear.

Unfortunately, the work needed to engage stakeholders and bring them on board has not been done as required. As a result, banks treat customer awareness sessions and customer training as a cost, when in fact these sessions should be considered an investment rather than a cost. I believe banks should include this awareness factor among their performance measures, just as they do with other performance metrics. In this respect, the number and quality of awareness sessions conducted should be considered when measuring performance. This is the way we can achieve meaningful results in transforming public perception.

Q. Some arguments are still raised against prevalent Islamic Banking. What are the reasons behind this negative perception, and is it rooted in a difference of opinion among Shariah scholars, or are there other factors behind it?

Answer: There are various categories of people who argue against Islamic Banking. They include economists, who view it from an economic perspective; academicians and Shariah scholars; and people with an idealistic approach – each category holds a different point of view. Some economists argue that prevalent Islamic Banking is merely a product of capitalism and, ultimately, supports capitalism. The actual problem is that such critics do not understand the domain of fiqh or the concepts of halal and haram. They do not understand the commandments and prohibitions given by Allah, and they treat fiqh as though it were as straightforward as $2 + 2 = 4$, which is not the reality of fiqh. As for the disagreement among Shariah scholars, it is generally related to the distinction between necessity and luxury. Some scholars argue that Islamic Banking is not a necessity, and that where there is no necessity, there is no need to seek an alternative to conventional banking and finance.

Q. Do you think the Islamic conversion of Pakistan's banking industry is progressing in the right direction? What are the major challenges in this respect?

Answer: As far as the progress of Islamic conversion is concerned, the State Bank of Pakistan has issued comprehensive guidelines and a roadmap for Islamic conversion, and almost all banks have submitted their own conversion plans to the SBP. However, beyond the issuance of conversion guidelines and the roadmap, the conversion process depends largely on the will of the stakeholders, and unfortunately, the stakeholders are not yet fully on board. They lack clarity about what Islamic banking actually is. So, first and foremost, there is a need to build clarity and understanding among the relevant stakeholders in this respect.

There are various challenges standing in the way of Islamic conversion. Some relate to product mapping – that is, how Islamic alternatives can be mapped precisely onto conventional financing modes. The treatment of retained earnings is another major challenge, as banks and financial institutions must determine how to separate interest-based retained earnings and how these should be disposed of. The alternative for government borrowing is also a major issue, as a proper strategy is needed to convert existing interest-based loans and raise fresh funds through Islamic financing modes. This is especially important given the undeniable fact that the majority of financial-industry financing – around 90% – is tied to government borrowing; without a suitable alternative in this respect, the Islamic conversion process could face serious difficulty. The proper onboarding of academia is also a major issue: a proper strategy is needed to incorporate Islamic Banking and Finance into the curriculum from school through university level. The lack of awareness is likewise a major issue, which should be addressed through interactive, effective sessions with customers and stakeholders. The media should also be brought on board in this respect, as it can help dispel misconceptions and disseminate accurate information across various segments of society.

ISLAMIC FINANCE FAQs



WHAT IS ISLAMIC BANKING?

Islamic Banking is a banking system in which the process of receiving funds (Liability Side of the Bank) and then investing those funds (Asset Side of the Bank) is carried out in accordance with Shariah-compliant principles.

In this system, no pre-agreed arrangement is made to receive interest on loans when accepting funds, nor are any such interest-based transactions conducted at the time of investment. In addition, all other banking transactions are also conducted in accordance with Shariah principles.

In this system, unlike conventional interest-based banking, investments are made on the basis of real economic activities involving the purchase and sale of tangible assets, leasing, and partnership-based arrangements.

ISLAMIC FINANCE SHORT STORY

Bank Account
The Right Path



“Why have you opened an interest-based savings account in the bank? Do you not know that interest is strictly prohibited in Islam?” Hasan angrily asked his friend Akbar, who had opened a conventional savings account.

“Hasan! I don’t understand why you are getting angry. You know that having a bank account is a necessity nowadays,” Akbar replied.

“My brother! I understand the necessity of a bank account, but my concern is that if Islamic Banking accounts are available, then you should open an Islamic savings account rather than a conventional savings account.

Islamic Banking is easily available in Pakistan—not only through full-fledged Islamic banks but also through Islamic banking windows of conventional banks.

Since Islamic Banking is widely available, why are you opening a conventional savings account?” Hasan explained calmly.

Akbar smiled and said, “Hasan! I do not understand how banking becomes Islamic. I believe the word ‘Islam’ is merely being used in the banking context. Both conventional and Islamic banks seem to operate in the same manner.

In both cases, accounts are opened similarly, and depositors receive profit or interest. So, if both are practically the same, then the distinction between conventional and Islamic banking seems immaterial.”

Hasan listened carefully and replied, “Akbar! Keep in mind that Islamic Banking is a natural and ethical economic system.

Now let me ask you something: what is the primary function of a bank?” Hasan wanted to convince Akbar through logic and understanding.

“Banks collect deposits and funds from different segments of society and provide financing to those who need funds. In this process, the bank earns profit,” Akbar answered.

Hasan said, “You have explained banking correctly. Now let me ask another question. Conventional banks borrow funds and lend them on the basis of interest. As Muslims, we believe that interest-based activities are prohibited in Islam.

So, can there be another way to obtain funds and invest them in profitable avenues while avoiding interest?”

Akbar became serious and thought for a moment. Then he replied, “I think it may be possible through a partnership-type arrangement, like purchasing shares in the stock market, where people invest in a company and then earn profit through the company’s business activities.”

Hasan smiled and said, “Akbar! You have actually described Islamic Banking yourself. Remember, I said Islamic Banking is a natural economic system. Islamic Banks accept funds in savings and term deposit accounts on the basis of ‘Mudarabah,’ which is a form of partnership.

In Mudarabah, there are two parties. One party provides funds for investment, while the other manages those funds by investing them in profitable business activities. The investor is called ‘Rabb-ul-Maal,’ and the fund manager is called ‘Mudarib.’ The profit-sharing ratio is agreed upon between both parties. In the case of Islamic Banking, the depositor acts as Rabb-ul-Maal, while the Islamic Bank acts as Mudarib.”

Akbar carefully considered Hasan’s explanation and replied, “Hasan! I am beginning to understand what you are saying. If this is truly the case, then Islamic Banking operations are fundamentally different from the conventional banking system. But how is this entire profit-sharing mechanism managed in an authentic and reliable manner? The account opening and profit distribution processes appear very similar to those in conventional banking.”

Hasan replied, “Your question is very valid. The profit-sharing mechanism is managed through a detailed and technical process, which is a separate topic altogether. However, you should understand that the entire mechanism operates under the supervision of the Shariah Board of each Islamic Bank.

The Shariah Board consists of qualified Shariah scholars appointed under the strict 'Fit & Proper Criteria' prescribed by the State Bank of Pakistan. Although the operational procedures may appear similar outwardly, the underlying contracts and principles are entirely different. In conventional banking, the relationship is based on a loan contract, whereas in Islamic Banking, the relationship is based on a Mudarabah contract.

This contractual difference is the core distinction between the two systems. Islamic Banks operate according to the guidelines of their Shariah Boards, and they also follow the Profit Distribution Guidelines issued by the State Bank of Pakistan. Therefore, Islamic Banks must comply with both Shariah principles and regulatory requirements while conducting their operations.”

Akbar looked convinced and replied, “Brother! You have opened my eyes and removed my misconceptions about Islamic Banking. I will close my conventional interest-based account and open an Islamic Banking account today. Thank you for guiding me toward the right path, and I am sorry for my misunderstanding.”

Hasan smiled and replied, “My brother! There is no need to apologize. It is perfectly fine. In fact, I think I should accompany you to close the conventional account and open an Islamic account.”
“Yes! Of course!” Akbar replied with a smile.



PAKISTAN ISLAMIC FINANCE NEWS & UPDATES



Pakistan's Islamic Banking Scenario

As of end-March 2026, Islamic Banking Institutions (IBIs) in Pakistan consist of 07 full-fledged Islamic Banks (IBs) including newly licensed Digital Bank i.e. Raqami Islamic Digital Bank Limited and 16 conventional banks with an addition of Mashreq Bank Pakistan Limited offering Shariah-compliant services through dedicated Islamic Banking Branches (IBBs).

The total assets of IBIs increased by PKR 192 billion to reach PKR 14,659 billion, while deposits grew by PKR 262 billion, standing at PKR 11,299 billion as of March 2026. In terms of market share, Islamic banking assets constituted 23.0 percent of the assets of banking industry, while deposits accounted for a higher share of 28.5 percent.

The sector's contribution to total financing stood at 38.2 percent, with investments representing 17.7 percent of the industry's overall portfolio, reflecting its continued expansion. There are 7,674 IBB and 3,473 IBWs, operating in Pakistan.

Source: [SBP Islamic Banking Bulletin – March 2026]

Pakistan's Islamic banking industry is expected to maintain its strong growth momentum, with total assets projected to reach Rs18-19 trillion by Dec 31, from Rs14.47tr in 2025. Source: Dawn Newspaper - May 21

SBP Allows 5 Companies to Launch Islamic Banking Operations in Pakistan

The State Bank of Pakistan (SBP) has granted in-principle approvals to five financial institutions to launch Islamic banking operations. According to the central bank, the approved institutions include Samba Bank Limited, HBL Microfinance Bank, ASA Microfinance Bank, Sindh Microfinance Bank, and Pak Libya Holding Company.

Earlier in 2025, the regulator also allowed Mashreq Bank, along with Mobilink Microfinance Bank and LOLC Microfinance Bank, to begin Shariah-compliant banking services, reflecting a steady increase in sector participation.

Source: www.propakistani.pk – Published May 6 2026

An Asset-Light Innovation Reshaping Pakistan's Islamic Capital Market - Pakistan's first-ever Sovereign Hybrid Sukuk

Pakistan's first-ever Sovereign Hybrid Sukuk marks a transformative step in the evolution of the country's Islamic financial landscape, addressing long-standing structural challenges faced by Islamic banks, particularly the limited availability of scalable and Shariah-compliant investment avenues.

The Sukuk was structured with the support of State Bank of Pakistan – Islamic Finance Development Department (SBP-IFDD) and a consortium of Islamic financial institutions acting as Joint Financial Advisors, including Meezan Bank Limited,

Bank Alfalah Limited (Islamic Banking), Dubai Islamic Bank Pakistan Limited, Bank Islami Pakistan Limited and Standard Chartered Bank (Islamic banking).

An innovative hybrid model combining Ijarah and Commodity Murabahah, enabling the Government to access a more flexible and sustainable funding mechanism.

This structure is unique in the Pakistani market and is a first of its kind. It not only unlocks significant liquidity for Islamic banks but also establishes a scalable framework for future issuances, thereby strengthening the depth and resilience of Pakistan's Islamic capital market.

The inaugural issuance, amounting to Rs. 109 billion against total bids of Rs. 290 billion, reflects strong investor demand and growing confidence in Shariah-compliant investment instruments.

Source: www.meezanbank.com/asset-light-innovation-pakistan/

SECP Revises Shariah Screening Criteria for PSX-KMI All Share Index

The Securities and Exchange Commission of Pakistan (SECP) has approved revisions to the Shariah screening criteria and methodology for the PSX-KMI All Share Index. The revisions align with international benchmarks and aim to strengthen investor confidence in Shariah-compliant capital market instruments.

The revised framework is expected to support the development of the Islamic capital market, facilitate informed investment decisions, and encourage listed companies to adopt Shariah-compliant capital structures.

Under the new criteria, the non-compliant debt-to-total assets ratio has been reduced from 37 percent to 33 percent, reflecting increased availability of Shariah-compliant financing and alignment with global practices.

A Shariah compliance rating mechanism has been introduced, assigning three, four, or five-star ratings to qualifying companies to enhance transparency and enable investors to assess levels of compliance.

SECP has further advised PSX to consider additional enhancements, including reducing the non-compliant investments-to-total assets ratio from 33 percent to 30 percent, introducing quarterly index updates, and automating data collection.

Source: Press Release by Securities & Exchange Commission of Pakistan, February 26, 2026

SECP Issues Guidebook for NBFCs to Promote Halal Financing

To promote Halal financing to people who avoid interest, SECP has issued a practical guide book to help financing Non-Banking Finance Companies (NBFCs) structure Shariah compliant financing products.

Source: Press Release by Securities & Exchange Commission of Pakistan, April 15, 2026

SECP issues License to Country's First Digital Takaful Company

The Securities and Exchange Commission of Pakistan (SECP) has issued license to the country's first Shariah compliant digital general takaful operator to First Digital Takaful Company Limited.

Source: Press Release by Securities & Exchange Commission of Pakistan, May 18, 2026

SECP Approves Islamic Brokerage Windows for Five Securities Brokers

The Securities and Exchange Commission of Pakistan (SECP) has allowed Five Securities Brokers to launch dedicated Shariah compliant brokerage services through Islamic Windows, enabling investors to carry out halal stock market investments.

Trading through these Islamic Windows will be restricted to Shariah compliant listed companies, including constituents of the PSX-KMI All Share Index, as well as Sukuk and Islamic ETFs.

Source: Press Release by Securities & Exchange Commission of Pakistan, May 11, 2026

SECP Approves First Islamic Risk - Sharing Product to Boost Microfinance

SECP has approved the country's first Shariah compliant credit risk sharing product, enabling Islamic financial institutions to expand financing to underserved sectors such as micro, small and medium enterprises (MSMEs) and agriculture.

The product, developed by National Credit Guarantee Company Limited (NCGCL) reduces credit risk through a risk-sharing mechanism, while enabling greater access to finance and ensuring compliance with Shariah principles.

The new product provides an alternate to existing conventional credit guarantees through a Shariah compliant risk-sharing model. Under this structure, participating institutions contribute to a pooled fund on a donation (Tabarru') basis, managed by NCGCL as an agent (Wakeel) under a Wakalah arrangement.

Losses from eligible defaults are covered from this pool, ensuring genuine risk sharing without guaranteed returns.

Source: Press Release by Securities & Exchange Commission of Pakistan, April 04, 2026

Inaugural Issuance of Short-Term Government of Pakistan (GoP) Hybrid Sukuk

The Ministry of Finance (MoF), in collaboration with the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), Joint Financial Advisors (JFAs) – BIPL, DIB, BAFL led by Meezan Bank Limited (MEBL), together with the Capital Market Infrastructure Institutions (CMIIs); Pakistan Stock Exchange Limited (PSX), National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDCPL) has successfully completed the inaugural issuance of the Short-Term Government of Pakistan Hybrid Sukuk on July 22, 2026, marking a significant milestone for Pakistan's capital market.

The inaugural issuance introduces 3-month and 6-month Shariah-compliant instruments backed by the sovereign credibility of the Government of Pakistan, extending the range of tenors available under the GoP Sukuk program. The addition of short-term instruments broadens the investment avenues available to investors, supports liquidity management across the Islamic financial system, and further deepens the domestic Shariah-compliant debt market.

Reference: Press Release by Pakistan Stock Exchange, July 22 2026

Global Islamic Finance News and Updates

GLOBAL ISLAMIC FINANCE SCENARIO: The global Islamic financial services industry reached USD 4.4 trillion in total assets in 2025. The break up, in this respect, is shown as under:

Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Islamic Insurance Assets	Total (USD Billions)
East Asia and the Pacific (EAP)	375.85	491.40	46.54	22.49	936.28
Europe and Central Asia (ECA)	104.35	37.71	71.62	3.32	217.00
Gulf Cooperation Council (GCC)	1,759.65	543.29	34.21	30.22	2,367.37
Middle East and North Africa (MENA exc.GCC)	1,759.65	6.80	0.11	13.64	722.54
South Asia (SA)	94.74	3.44		1.44	105.82
Sub-Saharan Africa (SSA)	14.36	1.19	15.20	0.04	30.79
Others	–	16.99	6.60	–	23.60
	3,050.94	1,100.83	180.47	71.14	4,403.39

Mature Islamic finance markets in GCC and EAP account for 75% of the global IFSI asset base. Islamic banking continues to dominate, representing nearly 70% of global Islamic financial assets.

Islamic banking assets have grown steadily across all regions, with a global CAGR (5yr) of 10.6%. Frontier and emerging markets continue to record high growth rates outpacing established markets. On the asset side, Sukuk holdings and interbank financing expanded faster than financing portfolios in some regions. On the liabilities side, interbank funding and Sukuk issuances are increasing in many jurisdictions, Murabahah and commodity murabahah account for significant portion of financing contracts globally.

Global Islamic insurance assets have grown steadily, surpassing USD 70 billion in 2025Q3. Established markets account for three-quarters of global Islamic insurance assets. Frontier markets are growing at a faster pace than mature markets

Outstanding Sukuk crossed the USD 1 trillion threshold in 2025: a structural milestone for the global Islamic capital market. Activity remains highly concentrated in core markets (GCC and EAP) which accounted for 91% of issuances. AT1 capital Sukuk issuance more than doubled in 2025, driven predominantly by GCC-based Islamic banks. Sustainability-related issuances increased significantly, though it remains a modest share of the broader market.

Source: Islamic Finance Stability report 2026 (Published by Islamic Financial Services Board)

Uzbekistan Approves the Law on Islamic Finance

President Shavkat Mirziyoyev's approval of a dedicated Islamic finance law on 27 March 2026 marks a decisive inflection point in Uzbekistan's financial evolution. The legislation establishes a definitive legal framework in Uzbekistan for Islamic financial instruments, harmonizing the nation's practices with international standards for non-interest banking and diminishing regulatory uncertainties for international investors. A new Council for Islamic Finance, operating under the Central Bank, will enforce Shariah compliance and standardization, ensuring operational discipline and institutional credibility.

Source: www.specialeurasia.com/2026/04/07/uzbekistan-islamic-finance-law/AAOIFI Approves

FAS 53 for Istisna-Based Development Contracts

In a significant step toward refining global Shariah financial reporting, the Accounting Board (AAB) of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has approved Financial Accounting Standard (FAS) 53, titled "Istisna-Based Development Contracts". Replacing legacy standards, FAS 53 sets unified rules for revenue recognition, asset valuation, and liability assessment in large-scale infrastructure and real-estate projects financed through Istisna.

Reference: Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). (2026). Financial Accounting Standard No. 53: Istisna-based development contracts. AAOIFI Accounting Board, Kingdom of Bahrain. <https://aaoifi.com>

GCC Pioneers World's First Shariah-Compliant Virtual Assets Framework

Paving the way for the future of decentralized Islamic finance, regulatory authorities in the UAE have operationalized the world's first formal Shariah framework for digital assets and tokenized smart contracts. The precedent allows licensed Islamic financial institutions to offer Shariah-screened virtual assets and blockchain-based settlement systems to retail and corporate clients under strict Central Bank supervision.

Reference : Central Bank of the United Arab Emirates (CBUAE). (2026). Regulatory guidelines on Shariah-compliant digital assets and financial technology. CBUAE Regulatory Framework Series. <https://www.centralbank.ae>

Dawn of a New Era: Africa Accelerates Islamic Finance and Digital Banking Integration

In 2026, the African continent reached a major milestone in financial inclusion as four key nations—Ethiopia, Ghana, Uganda, and Somalia—activated comprehensive Shariah-compliant banking frameworks. This regulatory shift emphasizes digital Islamic banking solutions to address unbanked populations across the region. By integrating Shariah-compliant Fintech platforms and enabling dedicated regulatory windows, these countries are expanding access to ethical financial services, driving cross-border investments, and deepening overall financial inclusion throughout Sub-Saharan Africa.

Reference : Islamic Financial Services Board, & AlHuda Centre of Islamic Banking and Economics. (2026). Global African expansion review 2026: Financial inclusion and digital Islamic banking in Sub-Saharan Africa. IFSB Publications.

Record Expansion: ESG and Green Sukuk Surpass \$55 Billion Threshold

The global Islamic capital market reached a landmark milestone as sustainable and environmentally aligned ESG Sukuk issuances exceeded \$55 billion. Islamic Sukuk now accounts for over 40% of all ESG bonds issued across emerging markets, reflecting strong demand from international institutional investors. This rapid growth is driven by substantial inflows from non-Muslim pension funds and ethical investors across Europe and North America, highlighting the global convergence between Shariah-compliant financial instruments and sustainable finance principles.

Reference: S&P Global Ratings, & Islamic Financial Services Board. (2026). Islamic financial services stability report 2026: Trends in ESG and green Sukuk market expansion. IFSB & S&P Global.

Al Rajhi Bank Secures Major Islamic Real Estate Financing in the GCC

Highlighting the robust expansion of Shariah-compliant financial markets in the Gulf region, Al Rajhi Bank finalized a substantial SAR 500 million credit facility agreement with Alramz Real Estate Company in September 2026. Structured around Islamic banking principles, this major capital injection is designed to fund large-scale real estate developments and infrastructure projects across the region. The strategic partnership underscores the increasing confidence of institutional investors in Shariah-compliant financing instruments to drive sustainable commercial growth and liquidity within the GCC property sector.

Reference : Argam. (2026). Alramz obtains SAR 500M credit facilities from Al Rajhi Bank. Argam Financial Portal.



BML ISLAMIC BANKING UPDATES & ACTIVITIES

Opening of 51 Islamic Banking Windows

Keeping in view the Conversion Plan, Bank Makramah Limited successfully opened Islamic Banking Windows (IBWs) in 51 Conventional Branches in the year 2025. The operations of Islamic Banking Windows were started from October 1 2025.

It is worth noting fact that according to BML's Conversion Plan & Strategy, the conventional operations are stopped after opening "Islamic Banking Window" in conventional branch and the conventional portfolio is converted gradually.

Before opening 51 Islamic Banking Windows, the necessary Shariah Compliance and regulatory requirements were fulfilled and Comprehensive 5 Days Islamic Banking Training of Branch Staff was properly conducted.

BML intends to Open Islamic Banking Windows in 67 Conventional Branches in the Year 2026

After necessary SBP approval, BML intends to open Islamic Banking Windows in 67 conventional branches in the year 2026. After opening of IBWs, the conventional branch operations in BML shall be stopped and the conventional portfolio shall be converted.

At the moment, BML has 12 full-fledged Islamic Banking Branches (IBBs) and 84 Islamic Banking Windows (IBWs).

BML Launches Staff Islamic Personal Financing Facility in Collaboration with UBL Fund Managers Limited

Moving towards Islamic transformation, BML has executed agreement with UBL Fund Managers to introduce Tawarruq Based Staff Islamic Personal Financing Facility. Going forward, all new Staff Personal Financing cases for employees will be processed under the Islamic financing model and the existing cases will be converted to Islamic portfolio.

Islamic Conversion of Staff Conventional Auto Financing, House Financing & Personal Financing Cases

As the first step towards Islamic Conversion of Conventional Financing cases, BML has prepared the strategy of Islamic Conversion of Staff Financing Cases including Auto Financing, House Financing & Personal Financing cases.

ISLAMIC BANKING TRAINING ACTIVITIES

In line with SBP's Islamic Banking Training Guidelines and Shariah Board's Instructions, BML is committed to equip its staff with Islamic Banking Understanding and Knowledge.

During the Year 2026, 21 **batches of 5 Days Islamic Banking Training** have been conducted in which 617 Staff Members have been trained. The trainings have been conducted by Chairman Shariah Board, Shariah Compliance Team & Islamic Banking Division Team.

Beside these, **1 Day BOD Training Session** and **1 Day Senior Executive Training Session** have been conducted on June 16 2026 and June 23 2026 respectively.

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