



► Islamic banking for financial institutions ◀

Unlocking growth amidst global shifts



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Foreword

It gives me great pleasure to present our latest report, **Islamic banking for financial institutions: Unlocking growth amidst global shifts**. Islamic finance is an evolving and increasingly influential segment of the global financial ecosystem. As a leading international bank with a deep-rooted commitment to Shariah-compliant finance, Standard Chartered is proud to serve Islamic financial institutions across diverse markets, offering tailored solutions that enable their continued growth and resilience.

We have witnessed remarkable growth in Islamic finance over the past few decades. This has largely been driven by increased demand, regulatory advancements, and growing focus on ethical and responsible finance. This report explores these key drivers of growth, emerging trends – such as digital transformation and ESG integration – as well as the opportunities and challenges that lie ahead for Islamic financial institutions.

As a partner to many of the leading sovereign wealth funds, banks, and asset managers in Islamic finance, we understand the strategic need for industry growth. Fostering innovation, strengthened market connectivity, and an elevated focus on sustainability will unlock the greatest opportunities in the future of Islamic finance. We aim to play a pivotal role in this future, collaborating, adapting, and delivering value to our clients and communities globally.

I hope this report provides valuable insights and sparks meaningful dialogue as we collectively navigate the next phase of Islamic finance.

Khurram Hilal

CEO, Group Islamic Banking
Standard Chartered



Islamic finance landscape in numbers

 USD
5.5 trillion
Estimated total Islamic
finance assets in 2024

 **12%**
Annual growth in Islamic
finance assets in 2024

 USD
971 billion
Sukuk outstanding
in 2024

 USD
7.5 trillion
Projected Islamic finance
assets by 2028

 **Islamic
banking**
Main driver of the Islamic
finance industry

 **15**
Countries where Islamic banking
is systemically important

Source: LSEG analysis based on Islamic Finance Development Indicator: <https://www.zawya.com/en/economy/islamic-reports/islamic-finance-development-report-2024-from-niche-to-norm-pwqeoqow>



Pulse of Islamic Banking Client Insights 2025

Our 'Pulse of Islamic Banking' client survey captures the latest industry perspectives from key Islamic banking stakeholders. In Q1 2025, we surveyed 26 leaders from various Islamic banking providers around the world for their views on opportunities, growth drivers, and challenges in Islamic finance. The results are embedded throughout the report, and the key highlights summarised below:

Client insights



Have an optimistic outlook for the Islamic finance industry over the next 5-10 years



View the impact of AAOIFI Standard 62 positively



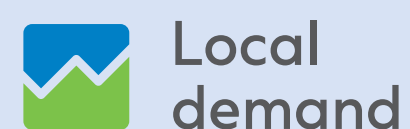
Of Islamic banks have adopted or plan to adopt AI



Such as China, the Middle East, and Africa's are expected to offer the greatest opportunities over the next 2-3 years



Is identified as the most important product innovation by Islamic banks



Is seen to be the main driver of Islamic finance adoption

A 50-year growth story: What's next for Islamic finance?

What once emerged as a niche alternative to conventional finance in the 1970s has today matured into a globally recognised segment of the financial system. In 2024, the Islamic finance industry surpassed a major milestone, reaching USD5 trillion in global assets.¹ This represents a 12% rise from 2023 and a 43% increase from 2020.

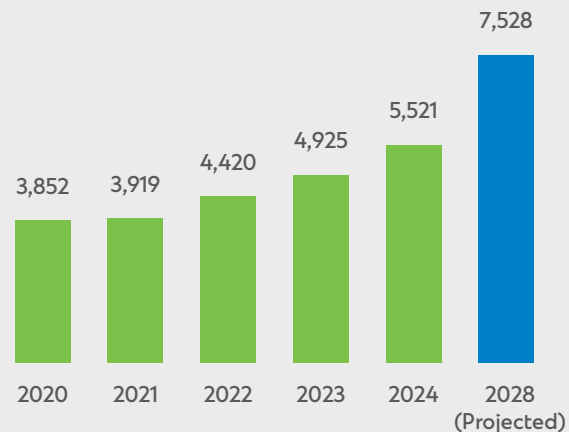
In the early years of Islamic finance, adoption was limited to a handful of markets. Now, a network of over 1,980 Islamic financial institutions deliver Islamic finance products and solutions across more than 90 markets worldwide.

Yet despite this expansive market reach, 80% of industry assets remain concentrated in five markets: Iran, Kuwait, Malaysia, Saudi Arabia, and the UAE. The diversification of assets outside of these markets will depend on how the broader community responds to challenges and seizes opportunities in the coming years. Such challenges and opportunities will be both internal to the industry, and at a regional and global socioeconomic level.

Remaining updated on the latest in consumer trends and demand in Islamic finance should be an industry priority. This will enable institutions to focus innovation and expansion efforts in pivotal growth areas. Moreover, the resulting diversification of Shariah-compliant assets will help promote financial inclusion across the world.

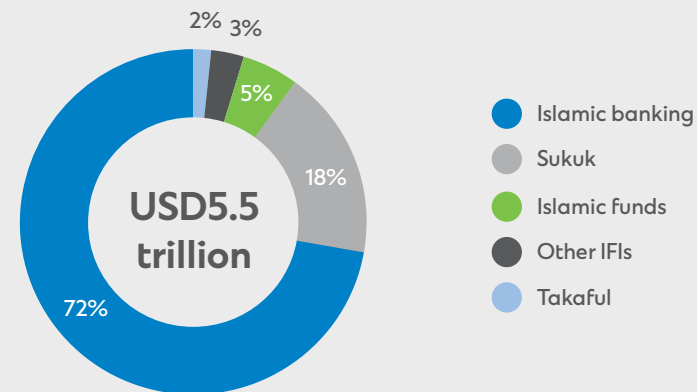
¹ LSEG calculations. Please refer to the Appendix on page 30.

Islamic finance assets growth (2020–2024, USD billions)



Source: LSEG Analysis

Breakdown of Islamic finance assets (2024)



Source: LSEG Analysis

Client insights: Outlook on the growth of Islamic finance



87%

Have a **positive outlook on the industry's growth for the next five years**. The majority expect significant growth and expansion, along with increased adoption and innovation of Islamic finance products and services.



Islamic banking is the largest contributor to the industry but markets signal a shift in capital mobilisation

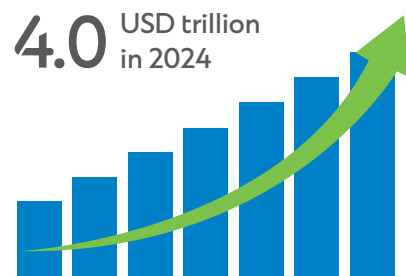
The two main segments of the Islamic finance industry:

- Islamic financial institutions: Islamic banks, takaful (Islamic insurance) operators, and other institutions such as financing and Mudaraba companies.
- Islamic capital markets: Sukuk (Shariah-compliant bonds) and Islamic funds.

Islamic banking anchors Islamic finance's asset base, accounting for over 70% of the industry's global assets.² In 2024, the sector posted 12% annual growth, closely mirroring that of the wider Islamic finance industry. The second-largest sector is Sukuk that reached a value outstanding of USD971 billion in 2024 on 13% growth from 2023.

² LSEG calculations. Please refer to the Appendix on page 30.

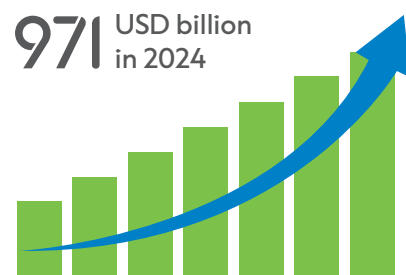
Islamic banking grew to almost



and is projected to grow to

5.2 USD trillion
by 2028

Sukuk outstanding grew to almost



and is projected to grow to

1.5 USD trillion
by 2028

The growth of these two segments is at par with the overall industry, but their collective expansion signals a shift in capital mobilisation. Over the past five years, Islamic capital markets collectively posted growth of 57% compared to Islamic financial institutions that grew 40%.

The reach of Islamic banking is still evolving. Currently, a substantial 85% of the segment's assets are concentrated in the MENA region despite there being more than 600 Islamic banks across 75 countries at the end of 2024 – including conventional banks with Islamic windows. However, the sector's influence is deeper in more markets as Islamic banking is systemic in 15 countries that go beyond MENA to Southeast Asia and South Asia.

Sukuk issuance remains concentrated in the Gulf Cooperation Council (GCC), Southeast Asia, Türkiye, and Pakistan. However, we have seen Egypt, the Philippines, and Kenya emerge with more corporate and sovereign issues in recent years.

Sukuk has increasingly been attracting a wider range of buyers, proving popular with non-Muslim investors, which has helped to narrow a notable gap in demand and supply. Sukuk is expected to form a more prominent portion of assets in the Islamic finance industry in the future, as demand for Shariah-compliant financial instruments grows.

Client insights: Level of focus on Islamic finance



80%

Of Islamic banking windows consider Islamic finance a priority area for their organisation, dedicating significant resources to it or aligning it with their strategic goals.

Growth drivers: Regulatory developments and market expansion

Underlying structural changes – largely driven by governments and regulators – will drive growth in Islamic finance in the years ahead. This will stem from both prominent existing Islamic finance markets, and relatively infant markets.

1. Regulatory developments

In established markets, Islamic finance is seeing increased strategic integration. In Saudi Arabia, it is a core pillar of its Financial Sector Development Program under Vision 2030. The Kingdom set a target to reach 22.5% of global Islamic finance assets by 2025 – a milestone already surpassed, with LSEG estimating a 23% share in 2024.³ In Malaysia, the central bank's Financial Sector Blueprint 2022–2026 positions Islamic finance at the heart of its value-based intermediation (VBI) agenda, aligning financial practices with sustainable and ethical impact. Other countries – Indonesia, Kazakhstan, Oman, and Türkiye – have also adopted formal strategies, focusing on governance, research, capacity building, and market infrastructure.

³ Based on LSEG's calculations of 2024 Islamic finance data.



Pakistan is set to see the biggest per-market change in Islamic finance in the years ahead, driven by underlying constitutional changes. In October 2024, the country's parliament passed a constitutional amendment bill that requires all forms of interest ('Riba') to be eliminated by the end of 2027. This followed calls from the country's Federal Shariat for a shift to an "equitable, asset-based, risk-sharing and interest-free" system.

With some conventional banks in Pakistan having already transitioned to Islamic banking, the implications for asset transfer are significant.

Indonesia is also driving structural change. The Financial Services Authority (OJK) requires Islamic banking units of conventional banks to either "spin-off" or merge with existing Islamic banks within two years if criteria are met, i.e. if their Islamic assets reach 50% of the bank's total assets. Separately, since 2016, three government-owned regional banks have converted to become full-fledged Islamic banks, with at least one more planned. There have also been Islamic conversions within conventional banks in Bahrain and Qatar as a result of consolidation activities.

2. Market expansion

Islamic finance is gaining traction in sub-Saharan Africa, with Ethiopia, Malawi, and Uganda welcoming Islamic banks since 2020. Eswatini's central bank has signalled support for their entry as well. Regulatory developments are also supporting Islamic banking expansion in Algeria, Kazakhstan and the Philippines where conventional banks can open Islamic windows.

Client insights: Main driver of Islamic finance adoption



43%

See local demand as the primary driver for the development and adoption of Islamic finance. Further, 20% of survey participants consider a supporting regulatory environment to be important.



Market spotlight







Pakistan's rapid Islamic banking transition

Following the landmark Federal Shariat Court's decision, Pakistan is poised to become a leader in the Islamic banking sector. Transforming to a Shariah-compliant banking system is a strategic goal within the State Bank of Pakistan (SBP)'s Strategic Plan 2023-2028.⁴

According to the SBP's Quarterly Islamic Banking Bulletin for October to December 2024, Islamic banking assets grew by 23%, surpassing PKR10 trillion (USD35.6 billion) for the first time.⁵ Deposits also increased by 17%, reaching PKR7.9 trillion (USD28.2 billion), indicating strong demand for Islamic banking. This growth in deposits was partly driven by two conventional banks converting their deposits to Islamic deposits.

Indicators of deeper market penetration include double-digit growth in the number of Islamic banking windows and branches. These trends highlight the sector's resilience and its strengthening in the overall banking landscape. In October 2024, the SBP revised the criteria for converting conventional banking branches to Islamic, accelerating the process with a requirement for banks to submit an Annual Branch Conversion Plan (ABCP) aligned with their overall conversion strategies. Pakistan currently has six full-fledged Islamic banks and 16 conventional banks with Islamic windows.

Despite the progress, Islamic banking assets in Pakistan stood at 20.6% of the total banking sector's assets at the end of 2024 – a long way from the benchmark set for 2027. To accelerate the transition, the focus will need to be on reforming laws, contracts, and the judicial system – given the interconnected nature of the banking system with other business lines and commercial laws. Other considerations include correspondent banking arrangements.

| |  |  |  |  |  |  |
|---------------|---|---|---|---|---|---|
| Particular | Assets | Deposits | Financing (net) | Investment (net) | Islamic branches | Islamic banking window branches |
| Total amount | PKR11,070 bn (USD39.4 bn) | PKR7,905 bn (USD28.2 bn) | PKR4,037 bn (USD14.38 bn) | PKR4,987 bn (USD17.8 bn) | 6,017 | 2,253 |
| Annual growth | 23.1% | 17.1% | 21% | 17.7% | 21.4% | 17.2% |

4 State Bank of Pakistan: SBP Strategic Plan 2023 – 2028 (<https://www.sbp.org.pk/spd/Strategic.pdf>)

5 State Bank of Pakistan: <https://www.sbp.org.pk/ibd/Bulletin/2024/Islamic%20Banking%20Bulletin%20December%202024.pdf>

Growth inhibitors: Regulation, liquidity, and risk management

Various hurdles must be overcome before Islamic finance can fully capitalise on its current growth drivers, and reach its potential. Regulatory unification and enhancements to liquidity and risk management tools will be central to the industry's future success.

1. Regulatory complexity

Current regulatory focus highlights the push to align market practices with a more conservative Shariah-based model of Islamic finance that emphasises fully asset-backed transactions. Yet while appetite for more regulatory structure is clear, implementation is proving complex – and in some cases disruptive to the industry's growth.

The most pertinent developments include the move to risk-free rates (RFRs) away from LIBOR, and new standards from industry infrastructure body, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Most noteworthy are Shari'ah Standards 59 and 62, the draft Governance rules for Islamic Banking Windows,⁶ and the guidelines on Shari'ah-compliant benchmark rates.⁷

Shari'ah Standard 59 of 2021 on the Sale of Debt mandates that transactions maintain a minimum of 51% tangible assets throughout their lifespan, rather than only at inception – a marked shift from previous practice. While AAOIFI standards are voluntary, they are binding in over ten jurisdictions, including in stronghold the UAE. Standard 59 also prohibits the direct refinancing of a Murabaha-structured transaction with another Murabaha. There are currently alternative solutions in the market, such as the long-short structure, which is gaining traction in Bahrain, as well as the one-day gap structure.⁸

The draft of Shari'ah Standard 62 on Sukuk was released in November 2023. The key change it proposes is the transfer of legal ownership of underlying Sukuk assets and related risks to Sukuk holders. As of March 2025, the consensus among analysts is that the draft Standard 62 has had no impact on Islamic banks' ratings (though they note a lack of clarity around the standard's final scope and implementation).⁹

⁶ AAOIFI: <https://aaoifi.com/wp-content/uploads/2023/12/ED-Islamic-Finance-Windows.pdf>

⁷ AAOIFI: <https://aaoifi.com/wp-content/uploads/2023/01/Shariah-Compliant-Benchmark-Rates-ED-for-issuance-v2-tracked-Clean.pdf>

⁸ Al Tamini & Co: <https://turtl.tamimi.com/story/the-impact-of-aaoifi-standard-59-on-murabaha-financings/page/1/3>

⁹ Fitch Ratings: <https://www.fitchratings.com/research/islamic-finance/draft-aaoifi-standard-62-has-not-affected-islamic-banks-uncertainties-persist-17-03-2025>



It is too early to discern Standard 62's impact on the Islamic finance industry, such as raising the cost of funding or disrupting Sukuk issuances. AAOIFI gathered industry feedback throughout 2024 and as of March 2025, the organisation had not released the standard's final, approved form.

Some industry stakeholders consider these regulatory shifts as hurdles to the implementation and uptake of Islamic banking and finance products. While Shari'ah Standard 59's adoption initially depressed issuances in the UAE,¹⁰ the market adapted by producing new clauses in Sukuk documentation with stricter tangibility ratio requirements and new dissolution triggers.¹¹ Analysts note the potential for disruption with Shari'ah Standard 62, including that it would make Sukuk more expensive than conventional issuances, exposing investors to asset-related risks, and creating potential legal implementation issues.¹²

Client insights: Likely impact of AAOIFI Standard 62 on the Sukuk market

 **34%**

View the impact of AAOIFI Standard 62 positively, believing the benefits outweigh the costs. An equal share perceive it to have a balanced impact, with benefits being offset by implementation complexities and costs.

¹⁰ S&P Global: <https://www.spglobal.com/ratings/en/research/pdf-articles/islamic-finance-outlook-2022-28102022v1.pdf>

¹¹ Fitch Ratings: <https://www.fitchratings.com/research/non-bank-financial-institutions/aaofi-standard-62s-final-form-adoption-to-determine-impact-on-sukuk-04-12-2024>

¹² S&P Global: <https://www.spglobal.com/ratings/en/research/articles/250113-sukuk-market-strong-performance-set-to-continue-in-2025-13377916>

2. Liquidity shortfalls

Liquidity management remains a critical pain point despite the maturing of Islamic finance in several markets. Post-pandemic recovery, inflationary pressures, and tighter monetary conditions have heightened the need for effective tools, yet the availability of Shariah-compliant liquidity instruments remains limited.

Central banks play a key role, issuing instruments such as Islamic deposit accounts, Sukuk, and standing liquidity facilities to support monetary policy while facilitating liquidity management for Islamic banks. Other available tools include lender of last resort, the Islamic interbank market and Islamic repurchase agreements.

However, barriers to the broader adoption of Islamic liquidity management tools remain persistent. These include:

- Limited Islamic liquidity management options
- Shallow secondary market and shortage of market players
- Inconsistent regulatory frameworks
- Shortage of Sukuk supply
- Shortage of high-quality liquid assets (HQLAs)
- Shariah-compliance complexities
- Zero- or lower-return facilities
- Currency and FX risk
- Fragmentation of the Islamic finance industry

Still, there have been notable recent developments in some markets. The Bank of England's Alternative Liquidity Facility introduced in 2021 gives Islamic banks a similar ability as conventional banks to place funds at the institution. Meanwhile, Qatar and the UAE joined Bahrain, Indonesia, Malaysia, Türkiye, and Pakistan¹³ in making short-term treasury Sukuks available. Overall, there is a need for more shorter-dated Sukuk instruments, especially those under one year, as they are considered among the most effective for Islamic money markets.

Repurchase agreements, or repos, have been slow to take off in most markets and across borders. This is despite efforts to standardise documentation and structures by industry bodies such as the International Islamic Financial Market's (IIFM) Collateralised Murabaha. Among recent developments in this area are the double Wa'ad structure used in the GCC, and the Sale and Buy Back Agreement (SBBA) based on Bai' Al Inah and Wa'ad and Collateralised Commodity Murabaha (CCM) in Malaysia.

¹³ Fitch Ratings: <https://www.fitchratings.com/research/islamic-finance/treasury-sukuk-launch-by-qatar-central-bank-is-credit-positive-06-10-2022>



Real-world solution spotlight

Personalising cross-border liquidity management for an ASEAN government-owned fund

Standard Chartered was approached by a pension fund based in the ASEAN region with the following requirements:

- **Optimise Shariah-compliant cash balance returns:** In the absence of an Islamic offering available with its custodian, the client was looking for a solution that would provide Islamic returns on excess balances.
- **Ability to move funds without manual intervention** between its custody account and Islamic products.
- **Visibility and access** to the funds by its external fund managers.
- **Seamless implementation** to ensure minimal disruption to their existing processes.

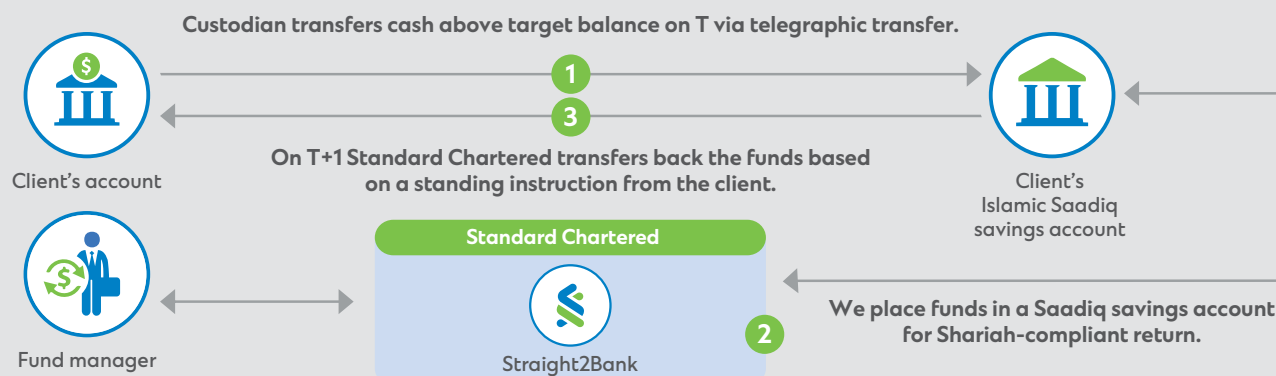
Based on our client's goals, we provided the following solutions:

- **Saadiq Islamic savings account:** This is based on a Murabaha structure that allows the client to receive Shariah-compliant returns.
- **Automated liquidity management structure:** Funds can be moved above target balance to a Standard Chartered Saadiq Islamic savings account, and swept back to the client's custody account the following morning.
- **Straight2Bank access for fund managers:** Multiple accounts were opened for the segregation of funds as per the mandates managed by each fund manager, while providing visibility and access through Straight2Bank.

- **Extended cut-off for movement of funds:** The solution gives the client the flexibility to drawdown balances and move these back to the custodian in case of a shortfall below the target level.

This solution allowed the client to access a new source of Islamic liquidity that was previously untapped, while ensuring seamless operations through collaboration with the custodian. In addition to that, flexibility is seen in the multi-regional movement of funds as the offering is available until 8.30 PM local time in the UAE.

An illustration of Standard Chartered's Islamic liquidity management solution



Client insights: Adequacy of current Islamic liquidity solutions



36%

Believe that **Islamic liquidity solutions are sufficient**, meeting their needs generally or fully. An equal share believes liquidity solutions are adequate but could be improved.

3. Lack of standardisation in risk management

Islamic banks face a range of risks similar to conventional banks, but they must also manage any incidences of Shariah non-compliance. Initially, the industry faced significant challenges in developing hedging products due to this additional compliance requirement, which prohibits conventional derivatives such as futures and options because of the involvement of uncertainty (Gharar) and gambling (Maysir).

In recent years, the industry has made substantial progress in this area, and the development of products for different risks has accelerated. These products include Islamic profit rate swaps, 'currency Salam' as a forward agreement, and Wa'ad-based hedging arrangements. Malaysia is among the most developed markets, with over-the-counter (OTC) and exchange-traded Shariah-compliant derivatives. In contrast, exchange-traded Islamic derivatives are less developed in the GCC, where markets largely rely on OTC options. Other jurisdictions remain at early stages of adoption or are not using Islamic derivatives.¹⁴

The introduction of market standards that provide a consistent framework for risk management, where applied, has proven beneficial. An example of this is the IIFM's Tahawwut Master Agreement, a framework document for Islamic hedging transactions that supports risk mitigation without speculative intent, aligning with Shariah principles. This is in addition to other standards developed by IIFM and structures endorsed by central banks, such as the Double Wa'ad master agreement by the Saudi Central Bank (SAMA). These standards are almost on par with their conventional counterparts.

While these are important early examples, further adoption of standardisation across geographies is necessary. The absence of standardised cross-border guidelines further restricts and complicates their use. Uniform standards would further enhance efficiency and reduce costs in cross-border transactions and this would complement the interconnectedness of global markets.

Moreover, awareness and education on these products are crucial. Large Islamic banks are already utilising these tools, but the wider industry including the general public need to better understand their benefits. This could be achieved through collaboration between industry players and educational institutions via workshops.

¹⁴ Fitch Ratings: <https://www.fitchratings.com/research/islamic-finance/majority-of-fitch-rated-islamic-banks-use-islamic-derivatives-02-07-2024>



April 2025 landscape spotlight

Market shocks reaffirm the urgent need for effective Islamic risk management tools

On April 2, 2025, the US administration's announcement of plans to impose import tariffs caused significant losses in global financial markets. The S&P500 lost more than 10% of its value in the two days that followed, a decline closely mirrored in the S&P Shariah Index. While many US stocks, such as big tech, rebounded when certain tariff plans were paused a week later, uncertainty around economic growth and price stability remain.

Commodities, including oil, also fell sharply. This will negatively impact the budget capacities of GCC governments, and therefore plans to expand Islamic finance in their markets. Credit analysts believe sustained US tariffs will likely depress the already weak operating environment for banks in certain emerging markets. One example is Bangladesh, which has a large Islamic finance market. With its high dependence on US export earnings (more than 80%) for the ready-made garments industry,¹⁵ Bangladesh's Islamic banking segment could face new difficulties.

Investments in asset classes may shift in response to these uncertainties, for instance investors may fly to gold as a safe haven.



¹⁵ Moody's: Assessment in The Business Standard: <https://www.tbsnews.net/economy/us-import-tariffs-banks-bangladesh-vietnam-thailand-be-worst-hit-asia-1110371>

Looking ahead: Market oversight, ESG, and innovation

With sufficient growth momentum and regulatory support, we are entering a new chapter in Islamic finance. For Islamic financial institutions seeking future growth, the key opportunities will hinge on building investor confidence, digital and product innovation, and by leaning into the industry's ESG parallels.

1. Better oversight is boosting investor confidence

The growth in Islamic capital market segments such as Sukuk and Islamic funds has prompted oversight action. Central banks and those overlooking capital markets and debt management are now paying greater attention to developing and growing these areas. Notable developments include short-term Sukuk by governments and central banks in Brunei, Qatar, and the UAE, as well as retail Sukuk in countries such as Indonesia, Malaysia, Oman, and Saudi Arabia.

Islamic asset management is also gaining more attention, driven by a growing Muslim population, rising affluence, and ethical investment preferences among both Muslim and non-Muslim investors. New Islamic pension funds have emerged in non-OIC markets such as the United Kingdom and Australia to meet long-term savings needs, and regulatory support continues to boost credibility and investor confidence.

Client insights: Biggest opportunity for the Islamic finance industry



24%

See economic corridors, such as China, the Middle East, and Africa's, as the biggest opportunity for the Islamic finance industry over the next 2-3 years. Islamic corporate banking and trade finance solutions, along with Saudi Vision 2030, are equally viewed as significant opportunities.

2. A natural alignment with ESG considerations

Islamic finance's core principles – ethical conduct, transparency, and avoiding harmful or unethical industries – resonate with ESG and sustainability considerations. The concept of 'Maqasid al Shariah' – the intended outcomes of Shariah – aligns closely with the UN Sustainable Development Goals (SDGs), particularly around environmental stewardship and social equity. For example, the Shariah principle of wealth protection aligns with SDG 8 on decent work and economic growth as well as SDG 10 on reducing inequalities.

Maqasid al Shari'ah



Protection of
faith or religion
(din)



Protection
of life
(nafs)



Protection
of lineage
(nasl)



Protection
of intellect
(‘aql)



Protection
of property
(mal)



Beyond this natural alignment, Islamic finance institutions and regulatory bodies are also encouraging the development of ESG-specific frameworks and financial products.

Key initiatives include:

- Malaysia's Value-Based Intermediation (VBI) integrates sustainability considerations into Islamic finance.
- The UAE's 2023 Guiding Principles for sustainability in Islamic financial institutions encourage the industry participants to integrate sustainability ambitions into their practices and processes.

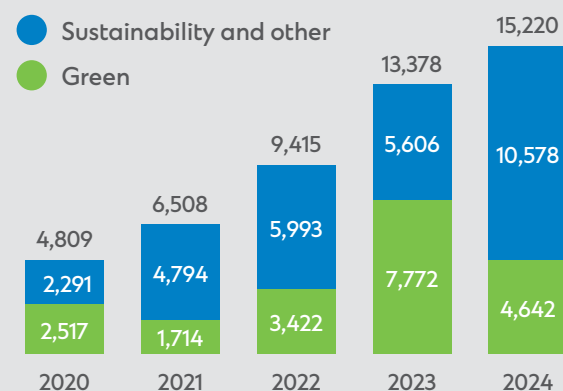
The market for ESG-linked Islamic instruments has seen rapid growth:

- ESG Sukuk issuance reached USD15.2 billion in 2024, more than doubling since 2020, and accounting for 6.2% of total Sukuk issuances. Key issuers are GCC banks and sovereign entities in Malaysia, Saudi Arabia, and Indonesia.
- ESG Islamic funds reached almost USD10 billion in 2024, led by Islamic equity funds in the United States and Malaysia. The sector continues to expand with the issuance of several Islamic indices and exchange-traded funds with ESG considerations that were launched over the past three years.

Islamic banks play several roles within the broader asset management industry, offering distribution and sales, advisory, custodial services, and market research. For corporates, green and sustainability-linked Islamic bank financing has emerged as a cheaper alternative to Sukuk.

ESG Sukuk historical issuance

(2020–2024, USD millions)



Source: LSEG Sustainable Islamic Finance Review – 2024

ESG Islamic funds' value outstanding

(2020–2024, USD millions)



Source: LSEG Sustainable Islamic Finance Review – 2024



Real-world solution spotlight

Enabling sustainability growth opportunities in landmark USD additional tier 1 sustainable Sukuk

Al Rajhi Bank selected Standard Chartered as the sole structurer for its first sustainability Sukuk offering: a USD1 billion Additional Tier 1 (AT1) Perpetual Non-Call (PNC) 5.5 RegS Sustainable Sukuk. Capitalising on the growing interest in sustainable issuances and leveraging Al Rajhi Bank's recently established Sustainable Finance Framework, we garnered an oversubscribed orderbook for the client.

This issue was part of Al Rajhi's newly established USD5 billion AT1 programme, the first of its kind in the GCC region. The solicitation of hybrid capital at short notice was innovative, with several industry milestones reached:

- **First USD AT1 sustainable offering:** This deal marks Al Rajhi's first-ever USD AT1 sustainable offering and their third USD Sukuk in international capital markets, with Standard Chartered leading all three deals.
- **First rated AT1 instrument from Saudi Arabia:** The instrument received an investment grade rating of Baa3 by Moody's, attracting demand from international private banks and fund managers.
- **High-quality orderbook:** The orderbook peaked at USD3.5 billion (excluding JLM orders), representing a 3.5 times oversubscription rate, allowing a 50bps move in pricing from IPTs of 6.875% to final pricing of 6.375%.
- **International allocations:** Achieved one of the highest international allocations seen for a MENA financial institution Sukuk, with 40% of the issue allocated to international investors.
- **Leadership in Saudi financial institution issuances:** Al Rajhi was Standard Chartered's fourth Saudi financial institution issuance in 2024, cementing its leadership in the area.

Use of proceeds as per Al Rajhi's Sustainable Finance Framework

Eligible green categories:

- Renewable energy
- Energy efficiency
- Sustainable water and wastewater management
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Clean transportation

Eligible social categories:

- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socio-economic crises.
- Affordable housing
- Access to essential services

3. Fintechs and digital innovation

When the Covid-19 pandemic accelerated digital innovation and adoption around the world, many Islamic banks began partnering with fintechs to enhance delivery and expand into underserved segments. The unbanked and underbanked, SMEs, and mass affluent individuals have typically been the main customer targets of this strategy.

Islamic fintech partnerships with Islamic banks have taken several forms. These include offering Islamic investment solutions to bank customers, enhancing ethical investment opportunities. Other examples involve providing seamless and secure online payment solutions, supporting the growth of e-commerce within the Islamic finance framework. Partnering with blockchain-based Islamic fintechs also enhances transparency and efficiency in financial transactions.

Islamic fintechs improved financial inclusion by offering digital-only banking services and Islamic capital market solutions tailored to a tech-savvy demographic. Additionally, some platforms that offer peer-to-peer lending facilitate cross-border trade and financing. AI and big data enable personalised financial services and improved customer experiences.

Another notable shift is the emergence of Islamic digital banks since the pandemic, particularly in Malaysia, Saudi Arabia, Türkiye, and the UAE, signalling a new phase of innovation in core banking models.

Client insights: Adoption of AI in Islamic banking



50%

Are either **adopting or planning to adopt AI for Islamic banking**, while 23% have no plans to adopt it.

4. Product innovation in Islamic banking

As the Islamic finance industry continues to mature, product innovation is aligning more closely with institutional requirements. Product innovations include solutions for cash management, hedging, investment, capital markets, trade finance, and securities services.

Islamic liquidity management solutions

A variety of liquidity management solutions are increasingly available, such as profit-bearing NOSTRO accounts, cash management accounts, Murabaha/Wakala structures, and Repos (double Wa'ad).

| | | | | |
|---------------------------------|---|--------------------------|-----------------|----------------------|
| Potential solutions | Profit-bearing NOSTRO accounts | Cash management accounts | Murabaha/Wakala | Repos (Double Wa'ad) |
| Value to financial institutions | Enables Islamic financial institutions to effectively manage liquidity needs. | | | |

Islamic trade finance

Products that can serve trade finance range from working capital financing to asset acquisition. Meanwhile, sustainable trade finance solutions are limited to eligible activities that have positive environmental and social outcomes.

| | | |
|---------------------------------|---|---|
| Potential solutions | FI trade finance | Risk participation |
| Value to financial institutions | Provides finance against trade assets outstanding on customer's book. | Allows participation in transactions on a funded or unfunded basis. |

Client insights: Most important product innovation in Islamic finance



31%

Identified green Sukuk and financing as the most important product innovation. Islamic Repo is the second most selected option, reflecting the challenge of limited liquidity management tools.

Islamic structured and customised financing

To meet the capital market needs of Islamic banks, product innovations must be supported by structuring and distribution expertise. Additionally, a history of multi-jurisdictional cross-border offerings is essential to gain the trust of consumers by providing customised solutions.

| | | |
|---------------------------------|--|--------------------------------|
| Potential solutions | LCY and FCY debt capital market (DCM) | Syndicated financing solutions |
| Value to financial institutions | DCM (Sukuk) solutions such as senior, tier 1 and tier 2 capital Sukuk and syndicated financing, both local currency and USD, to meet capital and funding requirements. | |

Islamic risk management solutions

A deep hedging market in Islamic finance is important for managing risks such as foreign exchange (FX) fluctuations and commodity prices. For this, a broad range of Shariah-compliant hedging products are increasingly being offered to Islamic financial institutions, from FX spot and forward contracts, to profit rate swaps, currency swaps and profit rate options.

| | | | |
|---------------------------------|--|-----------------|--------------------------|
| Potential solutions | Profit rate risk hedging | FX risk hedging | Commodities risk hedging |
| Value to financial institutions | Allows management of profit rate risk, FX risk, and commodities risk hedging requirements. | | |





Real-world solution spotlight

Innovation through Extendable Repos

Today's Islamic financial institutions are demanding greater innovation and control for their liquidity management needs. To support this growing demand, Standard Chartered provides extendable repo, an alternative source of funding to traditional short-dated Islamic repos.

Benefits:

- **Enhances liquidity:** Allows users to improve their counterparty's liquidity coverage ratio (LCR) and high-quality liquid asset (HQLA) ratio as part of Basel III requirements.
- **Repurchase flexibility:** The seller has the option to defer the repurchase date for an agreed further term, subject to an agreed and short notice period.
- **Extension optionality:** The seller can exercise the option to extend either:
 - On any business day during the original term, or
 - Only on certain agreed business days within the original term.

Extendable Repo has been enabled for multiple structures under our Islamic repo products. Standard Chartered Saadiq has executed several innovative, first-of-its-kind deals with Islamic banks in multiple jurisdictions.



Real-world solution spotlight

New trade finance deal highlights Singapore's growing role in Islamic finance

Via its Transaction Banking team, Standard Chartered Singapore concluded its first Islamic trade transaction. This FI trade finance deal was for the Saudi National Bank (SNB), Saudi Arabia's largest lender. Facilitated by an underlying metal-based Commodity Murabaha contract (with pricing determined by a cost-plus-profit mechanism), the deal provides SNB with Shariah-compliant USD liquidity. SNB is now using this liquidity to fund its corporate clients' transactions within their supply chain ecosystems.

Beyond its centres in London and the UAE, Singapore serves as an alternative market for SNB's Islamic financing needs, enabling it to diversify its exposure. For Standard Chartered, issuance in Singapore enables it to leverage a wealth of investment partners.

This allows the Bank to further distribute its risks associated with SNB financing, which in turn indirectly benefits SNB (as greater risk distribution leads to increased subsequent origination for SNB).

Outside of the established Islamic financing centres of Dubai, Malaysia and London, Singapore is emerging as one of the top markets for Islamic banking. Corporates looking to distribute their Islamic exposures are increasingly being lured by the benefits of the city-state's low cost of funds. Moreover, its favourable sovereign ratings and ready access to investors make it a promising Islamic financing location for a burgeoning industry.



Enabling the next chapter of Islamic finance: Delivering banking solutions

The Islamic finance industry has entered an inflection point. While market diversification is creating new geographical pockets of growth, we are also seeing a shift towards strategic integration. With the latter, various governments and regulators are working to embed Islamic finance as a core pillar of their economies.

Regardless, persistent challenges remain. The ambitions of both Islamic financial institutions and governments to drive the industry further cannot be fully realised without various key developments, particularly in the standardisation of regulatory and legal frameworks, and the wider availability of Islamic risk management and liquidity tools.

This inflection point brings multiple opportunities. The financial institutions that lean quickly into innovation and emerging trends will be likely to secure first-mover advantages. There is also significant opportunity to be seized by deepening alignment with sustainability, ESG, and ethical finance.

At Standard Chartered, we are dedicated to providing Islamic banking solutions that combine innovation with Islamic values. With our long history in this industry and our unique footprint, we are the only international bank with a global Islamic banking franchise offering a wide range of Shariah-compliant products to financial institutions – across Corporate & Investment, Wealth, Retail and Private banking clients – in over 25 countries.

From Shariah-compliant nostro accounts across multiple currencies and markets, to Islamic sustainable financing, trade financing and liquidity management solutions, as well as investment and hedging solutions, we help you meet all your Islamic banking needs, as we strive to shape the future of Islamic finance.



Global expertise and knowledge in Islamic finance

Our Shariah-compliant products are tailored in consultation with a dedicated global Shariah advisory committee of scholars. The committee comprises of three of the world's most renowned Shariah scholars, along with local Shariah supervisory committees in Brunei, Malaysia, Pakistan, and the UAE.

We are here to meet your Islamic finance needs

To learn more and accelerate your Islamic banking journey, please reach out to us at: Transaction.Banking@sc.com



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Appendix

Methodology for estimating Islamic finance assets

The calculation of Islamic finance assets for 2024 is based on a combination of data collection and estimation of growth based on historical performance of selected top Islamic finance markets (that form 95% of total Islamic finance assets globally with the exclusion of Iran). The historical and projected data were based on the ICD-LSEG Islamic Finance Development Indicator 2024, while the 2024 data was based on the following:

- **Islamic Banking:** The segment's 2024 assets were compiled from top Islamic finance markets' latest reported financials, from annual or quarterly reports. The markets are Bahrain, Bangladesh, Indonesia, Kuwait, Pakistan, Qatar, Malaysia, Oman, Saudi Arabia, the UAE, and Türkiye. For the rest of the countries, given that most of the Islamic banks are not public or did not disclose financials by the time of drafting this report, a similar growth rate of the top markets is applied across the other markets. The 2024 data is compiled from the same sources used in ICD-LSEG Islamic Finance Development Indicator.
- **Takaful and Other Islamic Financial Institutions:** Given the unavailability of the 2024 data from most of the institutions in the time of drafting this report, the same growth rate of top Islamic banking markets is applied.
- **Sukuk:** LSEG Workspace database.
- **Islamic Funds:** LSEG Lipper database.

Methodology for client insights survey

Standard Chartered surveyed various Islamic banks, including both full-fledged banks and windows. The geographic focus of the banks varies to provide diverse perspectives. The survey collected responses from 26 representatives of leading Islamic banks in key Islamic finance markets, including Saudi Arabia, the UAE, Bahrain, Oman, Pakistan, and the United Kingdom.

The survey was conducted between March 19 and April 15, 2025.

The profile of the survey clients is as follows:

- By type of operations, 63% of the respondents are full-fledged Islamic banks, while the remaining 37% operate as Islamic windows.
- By geographic focus, 37% of the respondents have global operations, 20% operate regionally, and the remaining 43% operate locally.

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