

Islamic Banking Sector in Pakistan

By ICMA Research and Publications Department

Timeline of Pakistan's Islamization Process

1949 – Objectives Resolution establishes Islam as supreme constitutional principle

1956 – First constitution declares Pakistan an Islamic Republic

1962 – Council of Islamic Ideology (CII) created to advise on Shariah compliance

1973 – Current constitution strengthens Islamic provisions, establishes Shariat benches

1977 – Start of systematic Islamization under Zia-ul-Haq's regime

1979 – Hudood Ordinances introduce Islamic criminal penalties

1980 – Federal Shariat Court (FSC) established for Islamic legal review

1980 – Zakat/Ushr system institutionalized as compulsory Islamic welfare

1980 – Islamic banking initiated through profit-loss sharing accounts

1985 – Revival of the Islamic Provisions Order (RIPO) constitutional amendments introduced

1990 – Shariat Appellate Bench formed in Supreme Court to hear FSC appeals.

1991 – Shariat Act makes Quran/Sunnah supreme law

1999 – FSC ruling declares interest (riba) un-Islamic (later stayed)

2002 – Meezan Bank launches as first full Islamic commercial bank

2002 – State Bank of Pakistan (SBP) establishes Islamic Banking Department

2003 – SBP Shariah Board formed for Islamic finance oversight

2005 – BankIslami begins operations as Islamic bank

2006 – Dubai Islamic Bank Pakistan was established

2008 – SBP adopts AAOIFI standards for Islamic banking.

2013 – SECP introduces Islamic capital market framework.

2015 – Pakistan issues international Sukuk to boost Islamic finance.

2019 – SECP enforces Shariah Governance Regulations.

2020 – SBP sets 20% Islamic banking market share target by 2025

2021 – Roshan Digital Account adds Islamic banking option for overseas Pakistanis

2022 – FSC orders complete transition to interest-free banking by 2027

2023 – SBP launches Islamic Finance Growth Strategy targeting 30% market share

2024 – Government issues $1 billion Sukuk for infrastructure development

Growth and Resilience of Islamic Banking in Pakistan

Islamic banking in Pakistan is experiencing strong growth, with major players expanding their branch networks. Meezan Bank leads with 900 branches, followed by Al Baraka Bank (775), Faysal Bank (700), Bank Islami (330), and Dubai Islamic Bank (235). In addition, several conventional banks operate dedicated Islamic banking divisions.

As of September 2024, the State Bank of Pakistan (SBP) reported a 17.4% year-on-year increase in Islamic banking assets, reaching Rs. 9,881 billion. Deposits grew by 23.3% to Rs. 7,596 billion, while net financing rose by 7.5% to Rs. 3,252 billion and investments increased by 22.3% to Rs. 4,803 billion. Islamic banking now accounts for 19% of the total banking industry's assets and 23.2% of deposits.

Islamic banks have also demonstrated greater resilience during economic downturns, largely due to their asset-backed financing model, which offers more stability compared to interest-based conventional banking. A notable milestone was achieved when Lucky Investments Limited raised Rs. 50 billion (USD 170 million) in a single day through the IPO of its Lucky Islamic Money Market Fund — the largest Shariah-compliant mutual fund launch in Pakistan's history.

Table 1: Industry Progress and Market Share									*(Amount in PKR Billion)*
Particulars	**Period**			**Yearly Growth (YoY)**			**Share in Overall Banking Industry (%)**		
	Mar-23	**Dec-23**	**Mar-24**	**Mar-23**	**Dec-23**	**Mar-24**	**Mar-23**	**Dec-23**	**Mar-24**
Assets	7,532	8,994	9,235	26.7	24.4	22.6	19.4	19.4	19.9
Deposits	5,352	6,749	6,875	26.0	30.8	28.5	21.5	23.2	23.2
Investments (net)	3,118	4,235	4,405	41.6	38.8	41.3	15.8	16.3	16.3
Financing (net)	3,226	3,335	3,259	19.8	7.1	1.0	27.5	27.4	28.0
Number of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
Number of Branches	4,427	4,955	5,101	10.9	12.7	15.2	-	-	-
Number of Islamic Banking Windows	1,832	1,922	1,916	25.4	26.8	4.6	-	-	-
**number includes sub-branches*									
Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)									

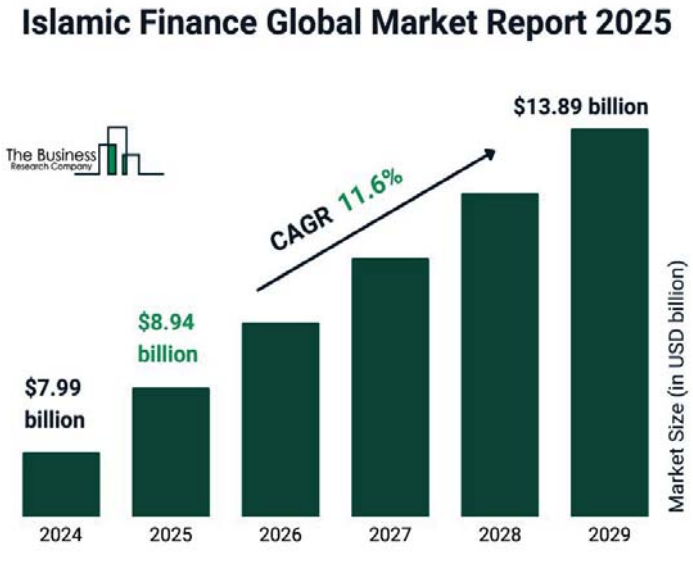
Islamic Banks vs. Conventional Banks

Category	Islamic Banks	Conventional Banks
Core Principles	Riba-free, asset-backed, risk-sharing	Interest-based, profit-maximization for shareholders
Asset-Backed?	Yes – real, tangible assets	Not necessarily asset-backed
Profit Source	From trade/services linked to real economy	From interest on capital
Products	Murabaha, Ijarah, Mudarabah, Musharakah	Fixed-interest loans
Operations	Profit-and-loss sharing, Shariah-compliant	Debt-based, fixed-interest models
Financing	Asset-backed: Murabaha, Ijarah, Musharakah, Mudarabah	Personal/business loans, mortgages with interest
Accounts	Mudarabah (profit-sharing), Qard/Wadiah (safe custody)	Interest-bearing current/savings accounts
Investments	Ethical, profit-sharing, no haram sectors	Fixed returns, no ethical screen
Risk & Liquidity	Sukuk (Islamic bonds), asset-backed	Treasury bills, interest-based instruments
Regulation	IFSB, AAOIFI, CPIFR, Shariah Governance, IFMI	Basel Accords, IFRS, FATF, IOSCO, FSB
Ethical Focus	Avoids haram, supports Zakat, social justice	CSR optional; profit-driven
Future Outlook	Fintech growth, ESG integration, digital innovation, Islamic ETFs	AI-driven, open banking, customer-centric digital evolution

Islamic Banking's Future in Pakistan

Pakistan aims to achieve full Shariah compliance in its banking sector by December 2027, as per the Federal Shariat Court's directive. As of now, Islamic banking assets in Pakistan total Rs. 9.88 trillion, accounting for 19% of the total banking assets, and Islamic deposits stand at Rs. 7.59 trillion, which is 24% of total deposits.

The Islamic finance market in Pakistan is expected to grow from $7.99 billion in 2024 to $8.94 billion in 2025, with a compound annual growth rate (CAGR) of 11.9%. Meezan Bank and other Islamic banking windows aim to capture 30% of banking assets by 2025. According to Moody's, the sector is expected to reach a 30% market share by 2026, with annual growth between 25-28%.



SWOT Analysis of Islamic Banking Sector in Pakistan

STRENGTHS

- Rapid growth with 19% share in total banking assets and 23.2% in deposits.
- Resilience during economic crises due to asset-backed and risk-sharing principles.
- Strong support from the State Bank of Pakistan and Federal Shariat Court directives.
- High public trust in Shariah-compliant financial solutions.
- Wide network of branches (Meezan, Al Baraka, etc.) with growing customer base.
- Ethical investment focus appeals to both faith-based and socially responsible investors.

WEAKNESSES

- Shortage of trained Shariah scholars and Islamic finance professionals.
- Limited awareness and financial literacy among the general public.
- Underdeveloped legal and regulatory framework for full Shariah transition.
- Product innovation and technology integration lag behind conventional banks.
- Low penetration in rural areas and small enterprises.

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OPPORTUNITIES

- Full Islamization of the banking sector by 2027 opens market expansion.
- Untapped potential in Islamic fintech, Takaful, and Sukuk markets.
- Increasing global demand for ethical finance and Halal investments.
- Strategic partnerships and investment from Gulf and Southeast Asian economies.
- Government incentives for Islamic finance infrastructure and capacity building.

THREATS

- Competition from established conventional banks offering Islamic windows.
- Delays or resistance in legal reforms for a fully Islamic financial system.
- Macroeconomic instability impacting investor confidence and liquidity.
- Global financial regulations are sometimes incompatible with Islamic banking models.
- Risk of reputational damage due to perceived non-compliance or mismanagement.

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