

Developments of Islamic Banking in Bangladesh*

July-September 2019



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Increased market share of Islamic banks has gradually intensified the competition in global banking industry. The statistics of IFSB shows that the Islamic banking industries from 21 countries own assets worth USD 1754 billion in 2018Q4 compared to USD 1684 billion in 2017Q4. The total Shariah-compliant financing by Islamic banks from 19 countries reached USD 1052 billion in 2018Q4 from USD 1021 billion in 2017Q4.¹ The growth of the Islamic financial industry has been strengthened by various positive initiatives taken by the stakeholders as well as its growing demand in the market. Bangladesh Islamic banking sector has also experienced robust growth due to policy supports and strong public demand. Recent issuance of sukuk rules by Bangladesh Securities and Exchange Commission (BSEC) would promote Islamic capital markets badly needed for financing infrastructure and industrial projects towards achieving higher inclusive GDP growth and other sustainable development goals (SDGs).

At the end of September 2019, Bangladesh's 8 full-fledged Islamic banks have been operating with 1221 branches out of total 10406 branches of the whole banking industry. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 61 Islamic banking windows of 8 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the July-September 2019 quarter, deposits and investments grew by 3.58% and 2.09% respectively, while remittance and excess liquidity of Islamic banking industry increased by 22.14% and 2.22% respectively compared to the previous quarter. Islamic banking industry holds almost one-fourth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review.

NRB Global Bank has started its Islamic banking journey with 19 windows, of which 5 are operating in rural areas. Remittances surge through the Islamic banks has been recorded 22.14% higher than the previous quarter and it has captured 31.12% share of remittances collected by the entire banking industry during September 2019 quarter.

¹ Prudential and Structural Islamic Financial Indicators, Islamic Financial Services Board (IFSB)

Highlights: Islamic Banking Sector in Bangladesh, July-September 2019

Total Deposits

Total Deposits in Islamic banking industry reached BDT 2621109.26 million at the end of July-September 2019 quarter, which increased by BDT 90522.85 million or by 3.58% compared to previous quarter and by BDT 342964.88 million or by 15.05% compared to corresponding quarter of last year.

Total Investments

Total Investments (Loans in conventional sense) of Islamic banking sector stood at BDT 2503229.37 million at the end of July-September 2019 quarter, which went up by BDT 51345.12 million or by 2.09% and by BDT 299797.87 million or by 13.61% compared to the previous quarter and same quarter of the preceding year respectively.

Investment-Deposit Ratio

At the end of current quarter Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) stood at 0.96 which was 0.97 at the end of June 2019 as well as at the end of September 2018.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at BDT 61306.05 million at the end of July-September 2019 quarter, which was higher by BDT 1333.53 million (2.22%) and BDT 9278.12 million (17.83%) compared to the previous quarter and corresponding quarter of the previous year respectively.

Total Remittances

Total Remittances mobilized by the Islamic banking sector stood at BDT 118624.12 million during July-September 2019 quarter, which was higher by BDT 21499.89 million or by 22.14% and lower by BDT 4195.36 million or by 3.42% compared to the June quarter of 2019 and the September quarter of the 2018 year respectively.

Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1301 at the end of the quarter under review which was 1261 during the previous quarter and 1200 during the same quarter of the last year.

Manpower

Total employment in the Islamic banking sector stood at 36337 at the end of September 2019 which was 35341 at end June 2019 and 33058 at end September 2018.

Table 1: Islamic Banking Activities Compared To All Banks In Bangladesh

(In Million BDT)

| Items | July-September 2019 [@] | | | April-June 2019 |
|-------------------------------|----------------------------------|---------------|--|--|
| | All Banks | Islamic Banks | Share of Islamic Banks Among All Banks (%) | Share of Islamic Banks Among All Banks (%) |
| | 1 | 2 | 3=(2/1*100) | 4 |
| Total Deposits | 10932403.00 | 2621109.26 | 23.98 | 23.77 |
| Total Investments | 10178259.00 | 2503229.37 | 24.59 | 24.26 |
| Remittances | 381160.00 | 118624.12 | 31.12 | 25.27 |
| Total Excess Liquidity | 605490.70* | 61306.05 | - | - |
| Total Number of Bank Branches | 10406 | 1301 | 12.50 | 12.13 |
| Total Agricultural Credit | 422272.90 | 8756.19 | 2.07 | 3.31 |

Source: Statistics Department, DOS & BRPD, Bangladesh Bank.

*As of end May 2019

[@] Provisional

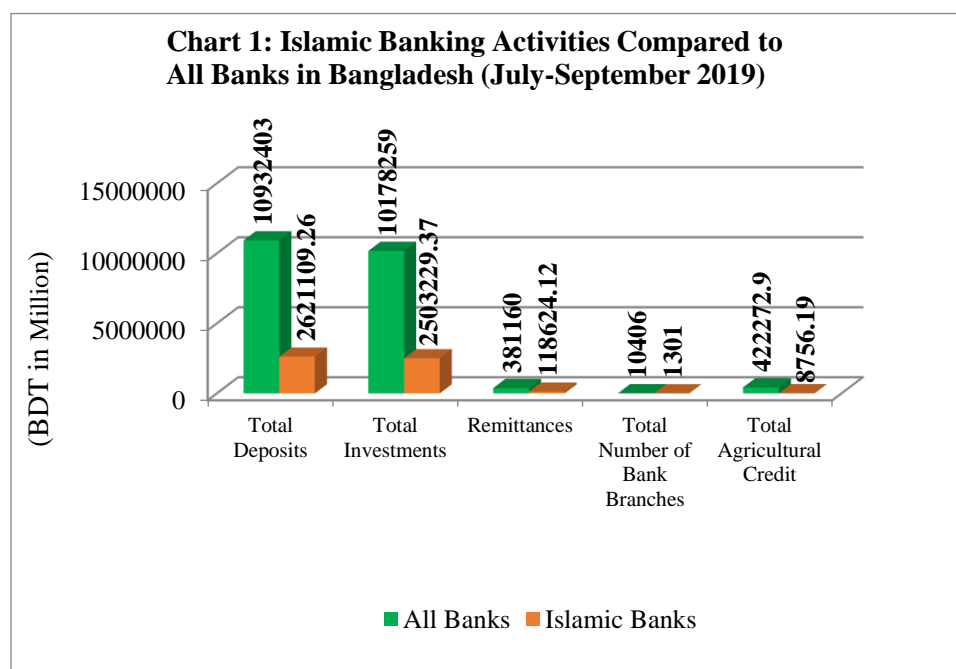


Table 2: Islamic Banking Activities in Bangladesh, July-September 2019

(In Million BDT)

| Statistics of Islamic Banking Industry | September -19# Quarter | June -19# Quarter | September -18# Quarter | Changes | | % Changes | |
|---|------------------------|-------------------|------------------------|-----------------|------------------|--------------|--------------|
| | | | | Quarterly | Annual | Quarterly | Annual |
| Total Deposits* (Outstanding) | 2621109.26 | 2530586.41 | 2278144.39 | 90522.85 | 342964.88 | 3.58 | 15.05 |
| a) Full-fledged Islamic Banks | 2461066.50 | 2379722.60 | 2153097.71 | 81343.90 | 307968.79 | 3.42 | 14.30 |
| b) Conventional banks having Islamic banking branches | 85787.77 | 84116.52 | 65271.22 | 1671.25 | 20516.55 | 1.99 | 31.43 |
| c) Islamic banking windows | 74254.99 | 66747.29 | 59775.46 | 7507.70 | 14479.53 | 11.25 | 24.22 |
| Total Investments* (Outstanding) | 2503229.37 | 2451884.24 | 2203431.50 | 51345.12 | 299797.87 | 2.09 | 13.61 |
| a) Full-fledged Islamic Banks | 2376472.84 | 2323422.83 | 2098068.97 | 53050.01 | 278403.87 | 2.28 | 13.27 |
| b) Conventional banks having Islamic banking branches | 71824.86 | 72519.80 | 57765.79 | -694.94 | 14059.07 | -0.96 | 24.338 |
| c) Islamic banking windows | 54931.66 | 55941.61 | 47596.74 | -1009.95 | 7334.93 | -1.81 | 15.41 |
| Investment/Deposit Ratio | 0.96 | 0.97 | 0.97 | -0.01 | -0.01 | -1.43 | -1.26 |
| a) Full-fledged Islamic Banks | 0.97 | 0.98 | 0.97 | -0.01 | -0.01 | -1.10 | -0.90 |
| b) Conventional banks having Islamic banking branches | 0.84 | 0.86 | 0.89 | -0.02 | -0.05 | -2.89 | -5.40 |
| c) Islamic banking windows | 0.74 | 0.84 | 0.80 | -0.10 | -0.06 | -11.73 | -7.09 |
| Liquidity Excess(+)/Shortfall(-) | 61306.05 | 59972.52 | 52027.93 | 1333.53 | 9278.12 | 2.22 | 17.83 |
| a) Full-fledged Islamic Banks | 48198.11 | 53287.64 | 42532.60 | -5089.53 | 5665.51 | -9.55 | 13.32 |
| b) Conventional banks having Islamic banking branches | -1144.72 | 165.48 | 1300.41 | -1310.20 | -2445.12 | -791.74 | -188.03 |
| c) Islamic banking windows | 14252.66 | 6519.39 | 8194.92 | 7733.26 | 6057.74 | 118.62 | 73.92 |
| Total Remittances | 118624.12 | 97124.24 | 122819.49 | 21499.89 | -4195.36 | 22.14 | -3.42 |
| a) Full-fledged Islamic Banks | 118003.18 | 96431.42 | 122150.60 | 21571.76 | -4147.42 | 22.37 | -3.40 |
| b) Conventional banks having Islamic banking branches | 484.43 | 516.16 | 570.00 | -31.73 | -85.57 | -6.15 | -15.01 |
| c) Islamic banking windows | 136.51 | 176.66 | 98.88 | -40.15 | 37.63 | -22.73 | 38.05 |
| Total Number of Branches | 1301 | 1261 | 1200 | 40 | 101 | 3.17 | 8.42 |
| a) Full-fledged Islamic Banks | 1221 | 1201 | 1156 | 20 | 65 | 1.67 | 5.62 |
| b) Conventional banks having Islamic banking branches | 19 | 19 | 19 | 0 | 0 | 0.00 | 0.00 |
| c) Islamic banking windows | 61 | 41 | 25 | 20 | 36 | 48.78 | 144.00 |
| Total Number of Manpower | 36337 | 35341 | 33058 | 996 | 3279 | 2.82 | 9.92 |
| a) Full-fledged Islamic Banks | 35659 | 34751 | 32482 | 908 | 3177 | 2.61 | 9.78 |
| b) Conventional banks having Islamic banking branches | 384 | 391 | 395 | -7 | -11 | -1.79 | -2.78 |
| c) Islamic banking windows | 294 | 199 | 181 | 95 | 113 | 47.74 | 62.43 |

* = Excluding Inter-Bank Items

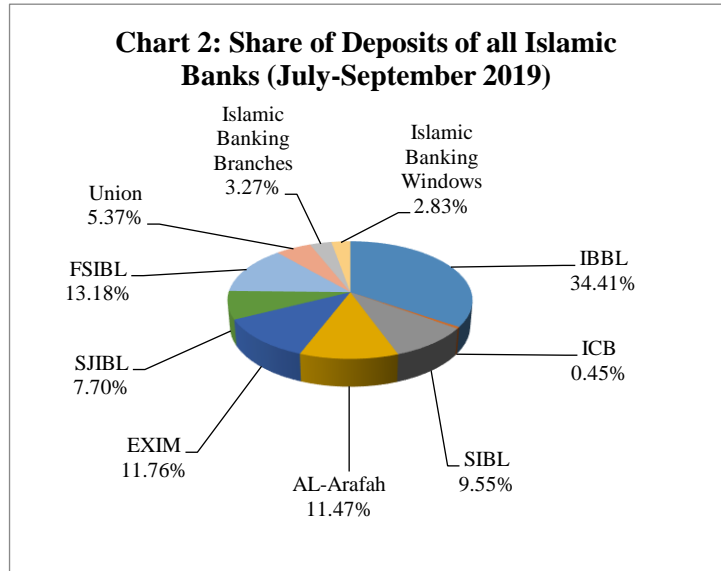
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Mobilization of Deposits

Total Deposits in Islamic banking industry reached BDT 2621109.26 million at the end of July-September 2019 quarter, which increased by BDT 90522.85 million or by 3.58% compared to the previous quarter and by BDT 342964.88 million or by 15.05% compared to the corresponding quarter of last year. Among total deposits, demand deposit was BDT 247095.02 million and time deposit was BDT 2374014.24 million. The share of total deposits of Islamic banks accounted for 23.98% among all banks at the end of the period under review.

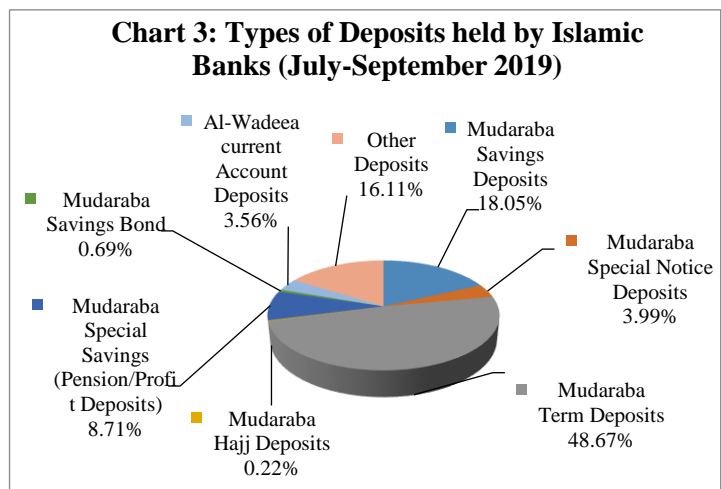
Total deposits of the eight full-fledged Islamic banks accounted for 93.89% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at BDT 2461066.50 million at the end of September 2019.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (34.41%) followed by First Security Islami Bank Ltd. (13.18%), EXIM Bank Ltd. (11.76%), Al-Arafah Islami Bank Ltd. (11.47%), Social Islami Bank Ltd. (9.55%), Shahjalal Islami Bank Ltd. (7.70%), Union Bank Limited (5.37%), Islamic banking branches (3.27%), Islamic banking windows (2.83%) and ICB Islamic Bank Limited (0.45%),[Chart-2].



Types of Deposits

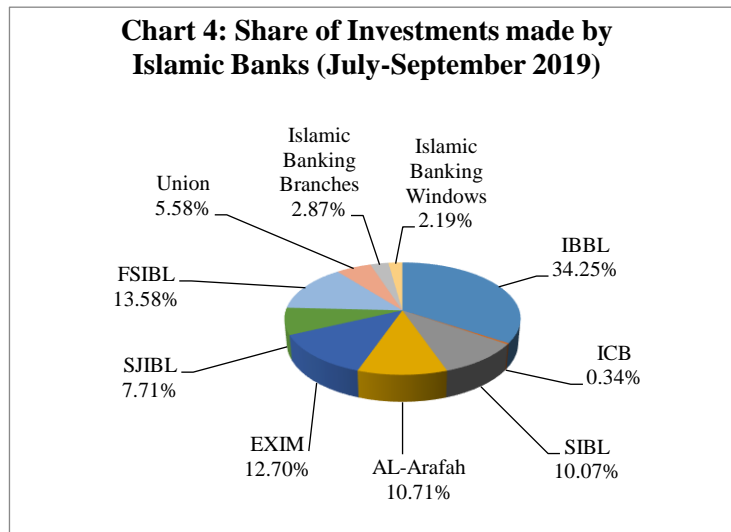
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (48.67%) followed by Mudaraba Savings Deposits (MSD) (18.05%), Other Deposits (16.11%), Mudaraba Special Savings (pension/profit) Deposits (8.71%), Mudaraba Special Notice Deposits (3.99%), Al-Wadeeah Current Account Deposits (3.56%), Mudaraba Savings Bond (0.69%) and Mudaraba Hajj Deposits (0.22%) etc., [Chart-3].



Investments

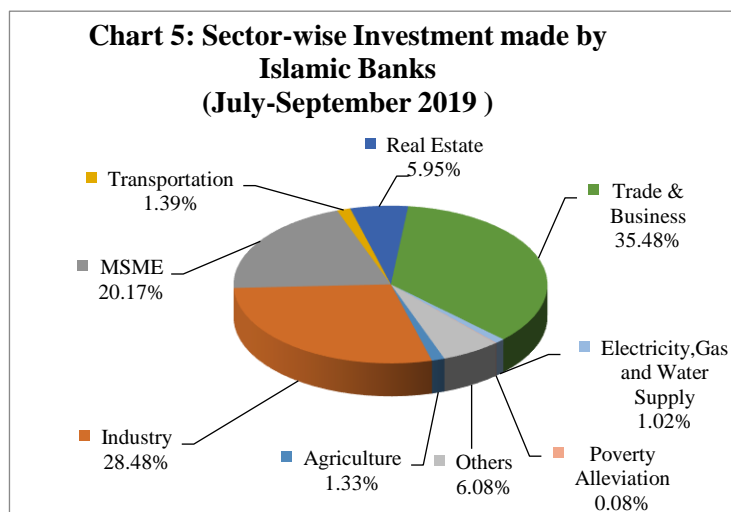
Total Investments (Loans in conventional sense) in Islamic banking sector stood at BDT 2503229.37 million at the end of July-September 2019 quarter, which went up by BDT 51345.12 million or by 2.09% and by BDT 299797.87 million or by 13.61% compared to the previous quarter and same quarter of the preceding year respectively. The share of total Investment of Islamic banks accounted for 24.59% among all banks.

Among total investments of Islamic banks, 94.94% was made by 8 full-fledged Islamic banks, 2.87% by the conventional banks' Islamic banking branches and the rest 2.19% by the conventional banks' Islamic banking windows. Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (34.25%) at the end of the quarter July-September 2019, (Chart-4) followed by First Security Islami Bank Ltd. (13.58%), EXIM Bank Ltd. (12.70%), Al-Arafah Islami Bank Ltd. (10.71%), Social Islami Bank Ltd. (10.07%), Shahjalal Islami Bank Ltd. (7.71%), Union Bank Ltd. (5.58%) and ICB Islamic Bank Ltd. (0.34%).



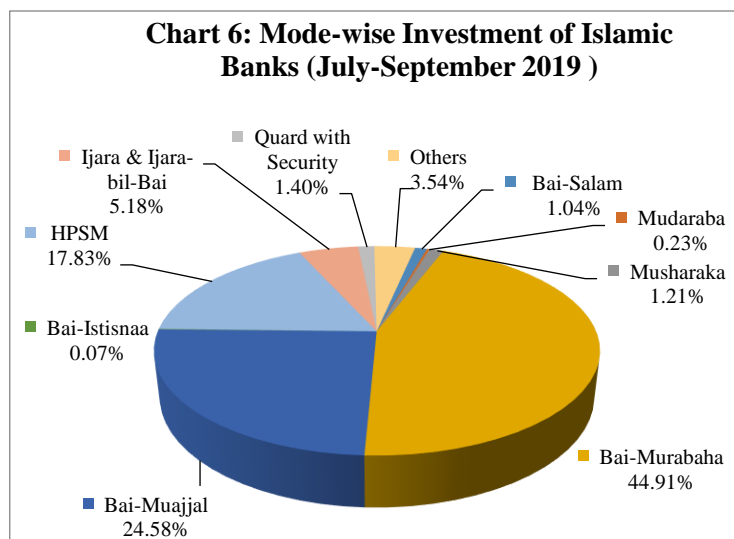
Sector-wise Investments

Analyzing the sector-wise investment, investment in the Trade and Business sector (35.48%) was found to be the highest among all sectors (Chart-5) at the end of the July-September 2019 quarter. The next position was occupied by Industry sector which stood at 28.48% followed by MSME (Micro, Small and Medium Enterprises, 20.17%), Others (6.08%), Real Estate (5.95%), Agriculture (1.33%), Transportation (1.39%), Electricity, Gas and Water supply (1.02%) and Poverty Alleviation (0.08%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.91%) at the end of July-September 2019, [Chart-6] followed by Bai-Muajjal (24.58%), HPSM (17.83%), Ijara & Ijara-bil-Bai (5.18%), Others (3.54%), Musharaka (1.21%), Quard with Security (1.40%), Bai-Salam (1.04%), Mudaraba (0.23%) and Bai-Istisna (0.07%).



Investment Situation in the Agricultural Sector

Islamic banking industry has made significant contributions in different sub-sectors of agricultural and rural investment programs. During July-September 2019 quarter, investments in agricultural sector made by Islamic banking industry reached BDT 8756.19 million which was lower by BDT 5451.24 million than the previous quarter but higher by BDT 462.59 million compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 2.07% among all banks during the quarter under review (Table-1). Summary of investments in agricultural sector under the Islamic banking framework is provided in Table-3:

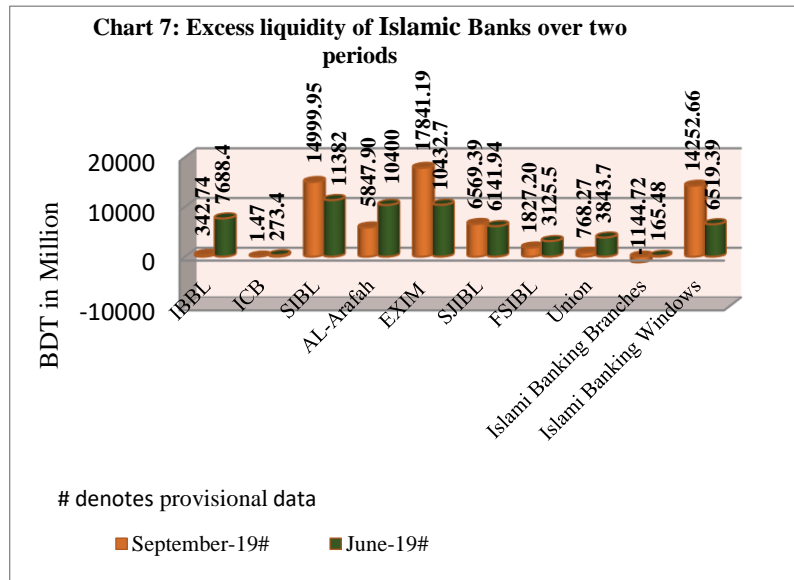
Table-3: Summary of Investments in Agricultural Sector (BDT In Million)

| Details | Total Investment of Banks | | Investment in Agricultural Sector during the quarter | | | | | | |
|-------------------|---------------------------|-------------------|--|---------------------------------|---------------------|----------|------------------------|--------------------|-----------------------|
| | Target | Actual Investment | Investment Target | Actual Investment/ Disbursement | Target Achieved (%) | Recovery | Outstanding Investment | Overdue Investment | Classified Investment |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| September -19# | 370376.13 | 672878.48 | 7470.07 | 8756.19 | 117.22 | 9135.92 | 35301.25 | 9757.62 | 20689.37 |
| June-19# | 374704.90 | 617065.32 | 7161.90 | 14207.42 | 198.38 | 14746.71 | 35761.05 | 4770.37 | 19459.23 |
| September -18# | 336633.41 | 585144.03 | 6651.91 | 8293.60 | 1246.80 | 8428.73 | 32968.80 | 11388.31 | 16741.41 |
| Quarterly Changes | -4328.77 | 55813.16 | 308.17 | -5451.24 | 8937.54 | 20554.54 | -26003.43 | 15919.00 | 1230.13 |
| Annual Changes | 33742.72 | 87734.45 | 818.16 | 462.59 | 7889.12 | 26872.52 | -23211.18 | 9301.05 | 3947.95 |

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Liquidity Situation

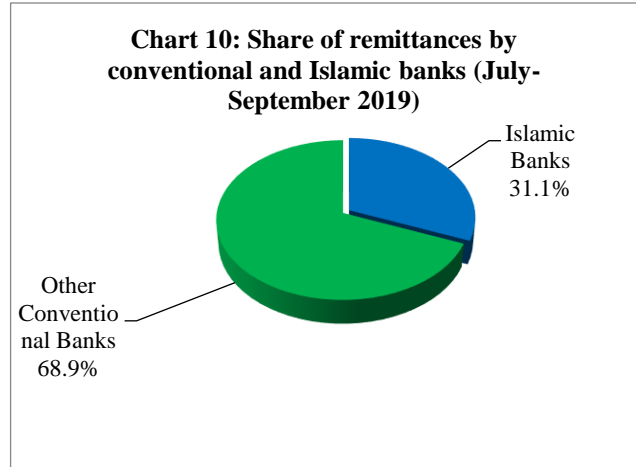
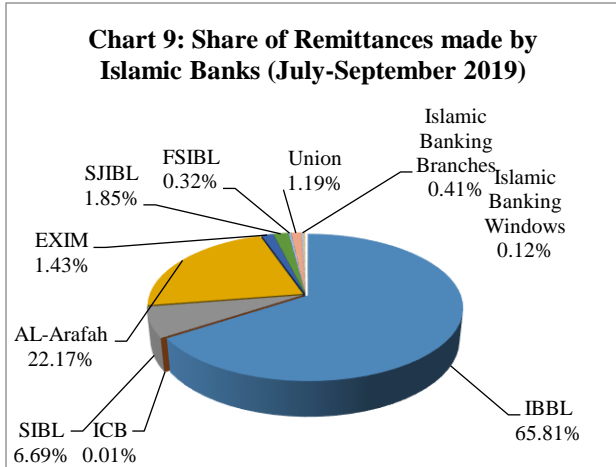
Excess Liquidity of Islamic banking industry stood at BDT 61306.05 million at the end of July-September 2019 quarter, which was higher by BDT 1333.53 million (2.22%) and BDT 9278.12 million (17.83%) compared to the previous quarter and corresponding quarter of the previous year respectively. The excess liquidity of 8 Islamic banks, and Islamic windows of conventional banks stood at BDT 48198.11 million and BDT 14252.66 million respectively. There was an overall shortfall in liquidity of BDT 1144.72 million in Islamic banking branches of conventional banks. Summary of liquidity situation in the Islamic Banking sector is shown in Chart-7.



Remittances Mobilized by the Islamic Banking Sector

Islamic banking industry of the country is playing a vital role in collecting foreign remittances and disbursing it among beneficiaries across the country. Total Remittances mobilized by the Islamic banking sector stood at BDT 118624.12 million during July-September 2019 quarter, which was higher by BDT 21499.89 million or by 22.14% and lower by BDT 4195.36 million or by 3.42% compared to the June quarter of 2019 and the September quarter of the 2018 year respectively.

Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (65.81%) in respect of remittance collection during July-September 2019. The other Islamic banks and their shares of collected remittances were Al-Arafah Islami Bank Ltd. (22.17%), Social Islami Bank Ltd (6.69%), Shahjalal Islami Bank (1.85%), EXIM Bank Ltd. (1.43%), Union Bank Ltd (1.19%), Islamic banking branches of conventional banks (0.41%), First Security Islami Bank Ltd (0.32%), Islamic banking windows (0.12%) and ICB Islamic Bank (0.01%) [Chart-9].



The Islamic banking industry accounted for 31.12% share of remittances collected by the entire banking industry during the quarter under review. Remittance collections of all scheduled banks, all Islamic banks including Islamic banking branches/windows of conventional banks are provided in Chart-10.

Corporate Social Responsibility

Islamic banks undertake and implement various types of social programs under Corporate Social Responsibility (CSR) activities. Sources of funds of Islamic banks available for CSR activities include *Zakat*, compensation charges (penal charges from defaulting investment clients), and Shariah-permitted other sources of earnings. These funds are spent among different types of education, training, health, and charity-based organizations in Bangladesh. Islamic banks serve the deprived and disadvantaged segments of people, who, because of extreme poverty, remain outside the purview of the conventional banking system; the banks make financial transactions based on human necessities and embark upon productivity-oriented projects or activities to reduce the incidence of poverty. Expenditure on CSR activities during July-September 2019 quarter had been recorded at BDT 1030.71 million which was BDT 371.44 million in April-June quarter of 2019 and BDT 338.25 million in July-September quarter of 2018. The lion's share of the CSR fund was spent on education sector during the quarter under review.

Expansion of Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached 1301 at the end of the quarter under review which was 1261 during the previous quarter and 1200 during the same quarter of the last year. At the end of July-September 2019 quarter, 8 full-fledged Islamic banks had 1221 branches, 9 conventional commercial banks had 19 Islamic banking branches and 8 conventional banks had 61 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 12.50% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (July-September 2019)

| Name of the Bank | | Urban | Rural * | Total |
|------------------|---|------------|------------|-------------|
| 1 | | 2 | 3 | 4=(2+3) |
| A) | Full-fledged Islamic Banks | 697 | 524 | 1221 |
| 1 | Islami Bank Bangladesh Limited * | 219 | 127 | 346 |
| 2 | ICB Islamic Bank Limited | 32 | 1 | 33 |
| 3 | Social Islami Bank Limited * | 84 | 73 | 157 |
| 4 | Al-Arafah Islami Bank Limited | 91 | 83 | 174 |
| 5 | EXIM Bank Limited | 69 | 56 | 125 |
| 6 | Shahjalal Islami Bank Limited | 71 | 57 | 128 |
| 7 | First Security Islami Bank Limited | 91 | 88 | 179 |
| 8 | Union Bank Limited | 40 | 39 | 79 |
| B) | Islamic banking branches of Conventional banks | 18 | 1 | 19 |
| 1 | The City bank Limited | 1 | 0 | 1 |
| 2 | AB Bank Limited | 1 | 0 | 1 |
| 3 | Dhaka Bank Limited | 2 | 0 | 2 |
| 4 | Premier Bank Limited | 2 | 0 | 2 |
| 5 | Prime Bank Limited | 5 | 0 | 5 |
| 6 | Southeast Bank Limited | 4 | 1 | 5 |
| 7 | Jamuna Bank Limited | 2 | 0 | 2 |
| 8 | Bank Alfalah Limited | 1 | 0 | 1 |
| 9 | HSBC Limited | | | 0 |
| C) | Islamic banking windows of Conventional banks | 56 | 5 | 61 |
| 1 | Sonali Bank Limited | 11 | 0 | 11 |
| 2 | Janata Bank Limited** | | | 0 |
| 3 | Agrani Bank Limited | 5 | 0 | 5 |
| 4 | Pubali Bank Limited | 3 | 0 | 3 |
| 5 | Trust Bank Limited | 15 | 0 | 15 |
| 6 | Standard Bank Limited | 2 | 0 | 2 |
| 7 | Bank Asia Limited | 5 | 0 | 5 |
| 8 | Standard Chartered Bank | 1 | 0 | 1 |
| 9 | NRB Global Bank | 14 | 5 | 19 |
| D) | Total=A+B+C | 771 | 530 | 1301 |

* Including SME branch for IBBL (30) & SIBL (12), **Janata Bank Limited has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started.

Events organized by the Islamic banks during the quarter

The leading Islamic banks' Shariah Supervisory Boards had inspected 341 branches and they arranged 19 meetings during the quarter. Total numbers of publications by the Islamic banks as well as other conventional banks running Islamic banking branches or windows were 07, of which the Islami Bank Bangladesh Ltd. had 03, EXIM Bank, Standard Chartered Bank, Agrani Bank and ICB Islamic Bank Ltd. had 01 publication each during the quarter under review. Bangladesh Bank, Bangladesh Bank Training Academy (BBTA), Bangladesh Institute of Bank Management (BIBM), Islamic Bank's Consultative Forum (IBCF), Central Shariah Board for Islamic Banks, Academy for Business Professionals and some commercial banks arranged a number of training courses and workshops during the third quarter of 2019. Among various seminars, workshops and trainings, 'Islamic Banking Theory and Practice', 'Islamic Banking Operations', 'Money and Capital Market Instruments under Islamic Framework', 'Foreign Exchange and Foreign Trade under Islamic Framework', 'Shariah Governance in Islamic Banking: Global Experience', 'Islamic Banking and Finance', 'Islamic Capital Market and Sukuk', 'Shariah Compliance in Investment Operations', 'Islamic Banking Concept, Products and Services'- these were noteworthy. Participants from different banks were present in those sessions.

Concluding Remarks and Recommendations

Bangladesh Islamic banking sector plays significant role in mobilizing deposits and financing various economic activities. Among different segments of Bangladesh's Islamic finance industry, Islamic banking industry dominates with almost 25% share of the entire banking sector. It is expected that the Islamic capital market and the Islamic insurance and microfinance sector will also flourish systematically if supportive policies are adopted and implemented. Bangladesh's Islamic finance industry may also adopt Shariah-compliant fintech to carry out financial transactions more efficiently through technological innovations.

Bangladesh Securities and Exchange Commission has already issued the Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019 which may promote Islamic capital market in the country. As Islam prohibits usury, Islamic banks cannot invest in interest-bearing investment bonds existing in the market. So, introduction of Sukuk as a new liquidity management instrument is expected to be a better solution when government and corporations would want to raise capital from the Islamic banks.

During the quarter under review it is observed that, total investment increased mainly in the sectors like, Trade & Business, Industry, MSME. Islamic banking sector of the country may conduct some empirical research and surveys to redesign their investment policies because the investments made by these banks in ideal Islamic modes like Mudaraba and Musharaka are at a minimal level (only 1.44% of total investments). They should pay more attention in Research and Development (R&D) to develop proper

guidelines and policies to adopt Islamic fintech and promote investments under Mudaraba and Musharaka modes.

To address the critical and challenging issues of Islamic banking industry, adoption of more Shariah standards from Shariah supervisory and auditing organizations will be useful. In this direction, the Islamic banks and conventional banks having Islamic banking branches and windows may take necessary action to be the member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Above all, the collective efforts of different stakeholders-both the government and the practitioners, may mitigate the challenges of the Islamic financial industry and thus elevate the growth of this promising sector.