



ANALYSIS & INVESTMENT OUTLOOK 2027 - 2029



GLOBAL

2020 - October 2026

ISLAMIC FINANCE MARKET

Growth, Financial Resilience, and the Next Phase of Market Deepening



2026

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ISLAMICFINA — FINANCIAL ANALYTICAL REPORT

Global Islamic Finance Market 2026

Historical Analysis: 2020–October 2026 | Investment Outlook: 2027–2029

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About This Report

This report presents an independent financial analysis of the global Islamic finance industry, covering Islamic banking, non-banking financial institutions, takaful, sukuk, and Islamic capital markets. It draws upon published financial statistics, industry research, and institutional disclosures from internationally recognized organizations, including the Islamic Financial Services Board (IFSB), ICD–LSEG, International Islamic Financial Market (IIFM), central banks, financial regulators, and Islamic financial institutions. The findings are supplemented by the financial analyst's professional assessments of industry performance, financial resilience, investment opportunities, and emerging risks. Historical evidence and market developments are examined alongside forward-looking analysis to assess the industry's growth potential and investment outlook for 2027–2029.

Purpose of Publication

Published by **IslamicFina.com**, this report is intended to advance academic research, financial knowledge, and informed discussion on Islamic banking and finance. It seeks to promote greater understanding of Shariah-compliant financial markets, encourage responsible investment practices, and contribute to the sustainable development of the global Islamic financial industry.

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Acronyms

Terminology used throughout the financial analytical report

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions	IFDI	Islamic Finance Development Indicator	ROA	Return on Assets
ADR	Advances-to-Deposits Ratio	IFIs	Islamic Financial Institutions	ROE	Return on Equity
AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism	IFSB	Islamic Financial Services Board	RoTE	Return on Tangible Equity
AT1	Additional Tier 1	IIFM	International Islamic Financial Market	SAMA	Saudi Central Bank
AUM	Assets Under Management	IILM	International Islamic Liquidity Management Corporation	SBP	State Bank of Pakistan
BNM	Bank Negara Malaysia	IsDB	Islamic Development Bank	SDG	Sustainable Development Goal
CAGR	Compound Annual Growth Rate	LCR	Liquidity Coverage Ratio	SME	Small and Medium Enterprise
CAR	Capital Adequacy Ratio	LSEG	London Stock Exchange Group	SR	Sukuk Ritel
CASA	Current and Savings Accounts	M&A	Mergers and Acquisitions	SS62	AAOIFI Draft Shariah Standard No. 62
COP	United Nations Climate Change Conference	MENA	Middle East and North Africa	SSB	Shariah Supervisory Board
CRE	Commercial Real Estate	MYOR-i	Malaysia Islamic Overnight Rate	ST	Sukuk Tabungan
CSR	Corporate Social Responsibility	NBFI	Non-Banking Financial Institution	UAE	United Arab Emirates
CWLS	Cash Waqf-Linked Sukuk	NPF	Non-Performing Financing	UK	United Kingdom
ESG	Environmental, Social and Governance	NPL	Non-Performing Loan	UKIFC	UK Islamic Finance Council
ETF	Exchange Traded Fund	NSFR	Net Stable Funding Ratio	UN	United Nations
FAS	Financial Accounting Standard	OIC	Organisation of Islamic Cooperation	US\$	United States Dollars
GCC	Gulf Cooperation Council	OIFI	Other Islamic Financial Institutions	VCM	Voluntary Carbon Markets
GEFI	Global Ethical Finance Initiative	OJK	Financial Services Authority of Indonesia	YoY	Year on Year
HQLA	High-Quality Liquid Assets	PBS	Project-Based Sukuk	YTM	Yield to Maturity
ICD	Islamic Corporation for the Development of the Private Sector	PSX	Pakistan Stock Exchange		
ICMA	International Capital Market Association	REIT	Real Estate Investment Trust		

IslamicFina - Financial Analytical Report

Data cut-off: 24 October 2026 | Main comparison year: FY2025 | Market stance: Selectively positive

US\$4.403tn	~US\$6.5tn	US\$1.101tn	+25.6%
IFSB global assets	ICD–LSEG broader scope	Sukuk outstanding	Islamic fund growth

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Executive summary

Data cut-off: October 24, 2026. The latest globally comparable balance-sheet data are predominantly for FY2025/Q3-2025, while market pricing, regulatory developments and selected national statistics extend through September–October 2026. Two widely cited estimates of global Islamic-finance assets differ materially because they cover different institutional universes: the Islamic Financial Services Board (IFSB) measures approximately US\$4.40 trillion of banking, sukuk, Islamic funds and takaful assets for 2025, up 13.4% year over year and at a 10.3% five-year CAGR; the broader ICD-LSEG Islamic Finance Development Report 2026, which covers 140 countries and additional Islamic-finance institution categories, estimates US\$6.5 trillion, up 9%, and projects assets to exceed US\$10.5 trillion by 2030. These figures should therefore be treated as alternative market scopes, not competing estimates of exactly the same universe. [1]

The underlying message is nevertheless consistent: Islamic finance is still growing appreciably faster than nominal banking-system growth in many of its core markets, but the growth mix is shifting away from pure bank-balance-sheet expansion toward sukuk, funds, fintech-enabled distribution and specialized non-bank institutions. In the IFSB universe, Islamic banking assets rose 9.7% in 2025 to US\$3.05 trillion, while sukuk outstanding rose 21.8% to US\$1.10 trillion, Islamic funds 25.6% to US\$180.5 billion, and Islamic insurance 13.9% to US\$71.1 billion. Banking still represented 69.2% of the total, but its share is slowly being diluted by faster-growing capital-market segments. [2]

The broader LSEG database shows the same direction with different absolute numbers: approximately US\$4.58 trillion of Islamic banking assets, US\$1.14 trillion of sukuk outstanding, US\$375 billion of Islamic funds, about US\$217 billion of “other Islamic financial institutions”, and approximately US\$146 billion of takaful assets in 2025. Islamic banking grew about 8%, other Islamic financial institutions about 12%, funds about 22%, and takaful about 9%. [3]

From a credit perspective, the sector remains unusually resilient at the aggregate level. IFSB finds capital and liquidity buffers generally above minimum requirements and asset quality broadly stable, but it also identifies rising stress in commercial real estate, industrial and consumer portfolios in selected jurisdictions, exceptionally high non-performing financing in Bangladesh and Kenya, and significant sovereign concentrations in several emerging markets. Structural liquidity remains a weak point because Islamic banks have less access than conventional peers to deep pools of Shariah-compliant high-quality liquid assets and active interbank instruments. [4]

Profitability is strong in the GCC and at several leading Asian banks, although falling policy rates are beginning to normalize margins. Al Rajhi Bank reported 23.4% ROE, 2.4% ROA and a 0.75% NPL ratio for 2025; Meezan Bank reported 33.8% ROE, 2.0% ROA and 1.8% NPL/NPF, although its ROE fell sharply from 47% in 2024 as Pakistan's rate cycle turned. Bank Syariah Indonesia reported 16.85% ROE, 2.38% ROA and 1.81% gross NPF. These banks illustrate a broader theme: franchise strength and low-cost deposits can sustain high returns, but exceptionally high ROEs generated during high-rate cycles should not be extrapolated indefinitely. [5]

Sukuk had a record 2025, although database coverage produces different headline totals. IIFM records US\$262.9 billion of issuance, up 28.2%, including US\$98.9 billion international issuance, up 50.8%, and US\$163.9 billion domestic issuance, up 17.5%. IFSB/Refinitiv records US\$234.5 billion, while LSEG's broader database puts issuance at roughly US\$291.4 billion. The useful analytical conclusion is the direction rather than a false precision: 2025 was a record or near-record year, international issuance grew particularly quickly, and the outstanding market crossed the US\$1 trillion threshold. [6]

The picture weakened during 2026 as geopolitical disruption and higher market yields interrupted the issuance boom. S&P Global Ratings expects overall Islamic-finance growth to have slowed in 2026 before recovering in 2027 under its base case, while Moody's has argued that full-year 2026 sukuk issuance could remain broadly comparable with 2025. The divergence reflects unusually high geopolitical uncertainty rather than disagreement about the sector's long-term structural growth drivers. [7]

Regulation is becoming a more important market variable. AAOIFI Shariah Standard No. 62 on sukuk remains a draft rather than a finalized standard as of this report's cut-off, while new AAOIFI accounting standards on quasi-equity, off-balance-sheet assets under management and transfers between investment pools became effective from January 2026. IFSB adopted its new IFSB-31 standard for supervisory oversight of Shariah governance in 2025, and in 2026 AAOIFI began developing dedicated governance standards for digital Islamic banks and conversions from conventional to Islamic institutions. [8]

For investors, the principal opportunity is no longer simply “Islamic finance growth.” It is increasingly a relative-value question: high-quality GCC bank franchises, investment-grade sukuk yielding around the mid-5% area, fast-growing Islamic asset-management products, and digitally scalable franchises offer attractive structural exposure, while concentration in sovereigns,

property, technology-heavy Shariah equity indices, emerging-market currencies and still-fragmented Shariah/regulatory frameworks represent the primary risk channels. As of October 16, 2026, the S&P Dow Jones Sukuk Index had a 5.69% yield to maturity, compared with 4.99% in late June, making fixed-income carry more attractive but simultaneously illustrating the duration volatility investors experienced in 2026. [9]

FINANCIAL ANALYST’S EXPERT ASSESSMENT | STRATEGIC MARKET ASSESSMENT

Islamic finance is entering a more mature and competitive phase where financial strength, operating efficiency, liquidity, and asset quality will become increasingly important determinants of investment value.

Historically, industry expansion was largely driven by Islamic banking. However, faster growth in sukuk, investment funds, digital banking, and specialized non-bank financial institutions indicates a gradual shift toward a diversified financial ecosystem.

I identify three major developments shaping the industry's outlook:

- 1. Profitability normalization: Lower benchmark interest rates may reduce financing margins, particularly for banks that benefited from unusually favorable high-rate conditions.
- 2. Capital-market expansion: Growing sukuk and Islamic investment-fund markets are creating alternatives to traditional bank financing.
- 3. Greater importance of financial resilience: Sovereign concentration, real-estate exposures, liquidity constraints, and geopolitical uncertainty require more disciplined risk management.

The industry's long-term prospects remain favorable, but investors should prioritize financial institutions with sustainable profitability, diversified financing portfolios, strong capital positions, and resilient funding structures rather than focusing on asset growth alone.

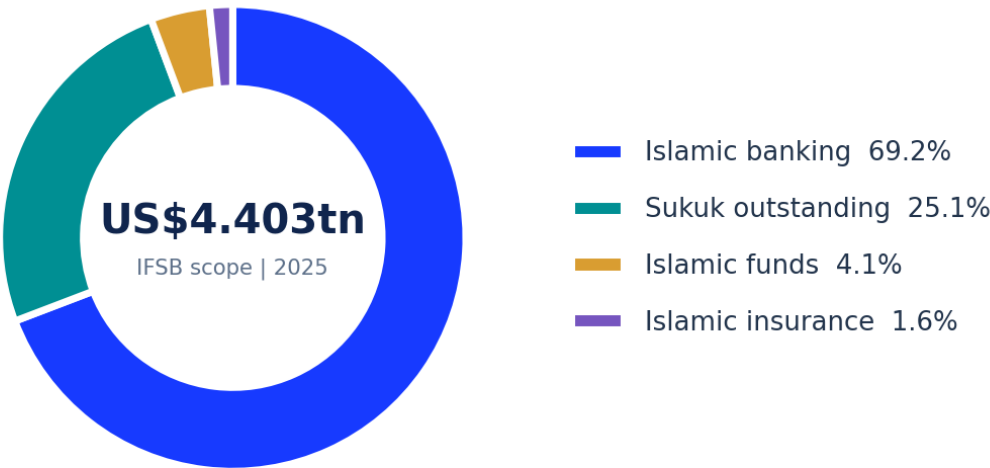
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Global market dashboard and regional structure

Market size: why US\$4.4 trillion and US\$6.5 trillion can both be correct

FIGURE 01 | Composition of IFSB Islamic financial assets

Islamic financial assets by sector, 2025



Source: IFSB Financial Stability Report 2026; shares sum to 100%.

The IFSB source chart shows an industry that remains decisively bank-led but is gradually becoming more capital-market intensive: banking represents 69.2% of assets, sukuk 25.1%, funds 4.1%, and Islamic insurance 1.6%. [11]

Market size: why US\$4.4 trillion and US\$6.5 trillion can both be correct

TABLE 00 | Global industry asset measures and scope

Market measure	Latest period	Assets / outstanding	Growth	Analytical use
IFSB total Islamic financial services industry	2025 / primarily Q3	US\$4.403tn	+13.4% YoY	Best prudential/stability comparison across banking, sukuk, funds and takaful
IFSB Islamic banking	2025	US\$3.051tn	+9.7%	Comparable regulated-bank universe
IFSB sukuk outstanding	2025	US\$1.101tn	+21.8%	Capital-market stock
IFSB Islamic funds	2025	US\$180.5bn	+25.6%	Regulated fund assets in IFSB scope
IFSB Islamic insurance	2025	US\$71.1bn	+13.9%	Narrower takaful scope
ICD-LSEG total Islamic-finance industry	FY2025	~US\$6.5tn	+9%	Broader 140-country industry-development universe
ICD-LSEG Islamic banking	FY2025	~US\$4.58tn	~+8%	Broader bank/window universe
ICD-LSEG Islamic funds	FY2025	~US\$375bn	~+22%	Broader global asset-management universe
ICD-LSEG other Islamic FIs	FY2025	~US\$217bn	~+12%	Finance companies, leasing, microfinance, fintech and other institutions
ICD-LSEG takaful	FY2025	~US\$146bn	~+9%	Broader insurance universe

Source and scope note: IFSB reports its US\$4.403 trillion estimate from prudential indicators supplied by regulators plus Bloomberg/Refinitiv and public data; LSEG's IFDI spans 140 countries and a broader set of institution types. The two databases should not be combined into one denominator. [10]

FINANCIAL ANALYST’S EXPERT ASSESSMENT | MARKET STRUCTURE AND FINANCIAL DEEPENING

The most significant finding is the difference in growth rates between Islamic banking and capital-market activities.

While Islamic banking assets expanded 9.7%, sukuk outstanding increased 21.8%, and Islamic investment funds grew 25.6%.

This suggests an important structural development: Islamic finance is progressing from a predominantly deposit-and-financing model toward a broader investment and capital-market ecosystem.

This transition could improve long-term financial-market efficiency by increasing access to funding and diversifying financial products.

However, expansion into investment markets introduces additional risks, particularly asset-price volatility, market liquidity, valuation sensitivity, and investor concentration.

Growth in Islamic capital markets is strategically positive, but sustainable development will depend on market liquidity, regulatory consistency, and the ability to attract diversified institutional investment.

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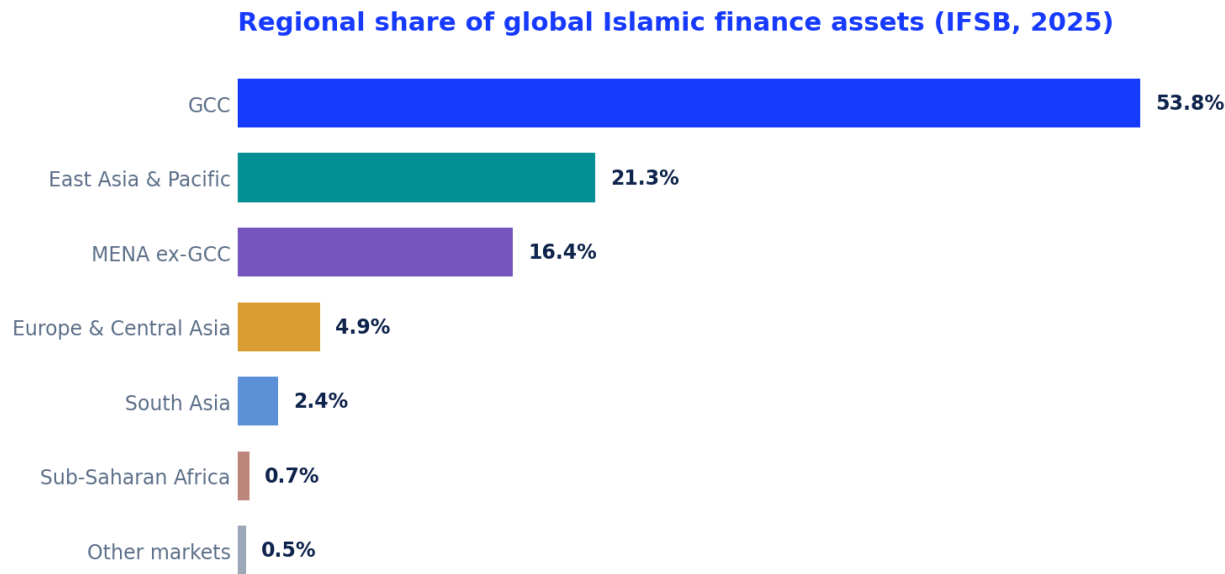
Geography remains highly concentrated

TABLE 02 | Regional industry composition, US\$bn except where noted

IFSB region	Islamic banking	Sukuk outstanding	Funds	Islamic insurance	Total Islamic-finance assets	Global share
GCC	US\$1,759.7bn	US\$543.3bn	US\$34.2bn	US\$30.2bn	US\$2,367.4bn	53.8%
East Asia & Pacific	375.9	491.4	46.5	22.5	936.3	21.3%
MENA ex-GCC	702.0	6.8	0.1	13.6	722.5	16.4%
Europe & Central Asia	104.4	37.7	71.6	3.3	217.0	4.9%
South Asia	94.7	3.4	6.2	1.4	105.8	2.4%
Sub-Saharan Africa	14.4	1.2	15.2	0.04	30.8	0.7%
Other markets	—	17.0	6.6	—	23.6	~0.5%

The GCC plus East Asia/Pacific account for roughly 75% of the IFSB asset base. The two regions nevertheless have very different market structures: GCC Islamic finance is bank-heavy, whereas Malaysia and Indonesia anchor an Asian ecosystem with much deeper domestic sukuk and fund markets. This diversification matters because it makes Southeast Asia comparatively less dependent on bank intermediation, while GCC balance sheets remain more directly sensitive to credit cycles, real estate and government-related financing. [12]

FIGURE 02 | Regional composition of Islamic financial services



Source: IFSB Financial Stability Report 2026.

Regional read-through

Saudi Arabia and the GCC. Saudi Arabia remains the principal growth engine. SAMA's audited Islamic-banking indicators show Islamic assets increasing from SAR3.399 trillion in 2024 to SAR3.748 trillion in 2025, roughly US\$1.0 trillion at the SAR3.75/USD peg, while Shariah-compliant financing reached SAR2.726 trillion and deposits SAR2.435 trillion. National transformation programs, mortgages, corporate project finance and government-linked investment continue to create unusually deep demand for Islamic balance-sheet capacity. [13]

The UAE continues to combine fast banking growth with international capital-market access. Dubai Islamic Bank alone increased assets 21% to AED416 billion in 2025, while its non-performing financing ratio fell to 2.65%, illustrating how strong nominal growth has so far not required a material deterioration in underwriting at major GCC franchises. [14]

FINANCIAL ANALYST’S EXPERT ASSESSMENT | GCC BANKING AND CONCENTRATION

GCC Islamic banks benefit from relatively mature banking franchises, strong domestic demand, and access to large financing opportunities.

Nevertheless, exposure to real estate, government-related entities, and major infrastructure projects creates concentration risks.

Established GCC Islamic banks are attractive for long-term institutional analysis, provided their financing growth is supported by sound underwriting and sufficient capital.

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Malaysia. Malaysia's importance is greater than its bank-asset ranking suggests because it is arguably the industry's most complete ecosystem: banking, takaful, domestic sukuk, money markets, asset management, central Shariah governance and increasingly tokenized capital-market infrastructure. Islamic financing reached RM1.220 trillion in 2025, equivalent to 48.0% of total financing, after 7.7% growth. Islamic deposits plus investment accounts had a 43.6% market share, while the sector's total capital ratio was 18.3%. Malaysia also issued about RM160 billion of sukuk for economic funding in 2025. [15]

Indonesia. OJK reports total Indonesian Shariah-finance assets of IDR3,131.0 trillion in 2025, up 8.56%, including IDR1,067.7 trillion of Islamic-banking assets, up 8.92%, and IDR1,875.3 trillion of Islamic capital-market assets excluding Shariah equity capitalization. By April 2026 Islamic-bank assets were IDR1,055.3 trillion, with financing growth of 10.74% YoY, deposit growth of 12.12%, and gross NPF at 2.28%. [16]

FINANCIAL ANALYST’S EXPERT ASSESSMENT | SOUTHEAST ASIAN GROWTH AND INFRASTRUCTURE

Malaysia's competitive advantage is its developed financial infrastructure, while Indonesia offers potential for further market penetration and distribution growth.

These markets are strategically important for the expansion of Islamic asset management, financial technology, and domestic capital markets.

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Pakistan. Pakistan combines one of the strongest underlying demand stories with higher macro, sovereign and currency risk. LSEG's broader database puts Pakistan among the industry's top markets, while the State Bank of Pakistan has explicitly embedded conversion toward a Shariah-compliant financial system in its strategic agenda. At the institution level, Meezan Bank deposits increased 28% to PKR3.30 trillion in 2025, while ROE remained 33.8% despite sharply lower benchmark rates. [17]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | PAKISTAN: GROWTH QUALITY VERSUS NOMINAL EXPANSION

Pakistan's Islamic banking growth opportunity is compelling, but investors must distinguish between nominal expansion and sustainable real profitability.

In particular, deposit growth should be evaluated alongside inflation, financing quality, funding costs, and changes in policy rates.

Banks with strong low-cost deposit franchises, disciplined financing portfolios, and diversified revenue sources better positioned for long-term performance.

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Türkiye. Participation banking is expanding rapidly from a smaller base. TKBB reported participation-bank assets of about TRY5.35 trillion by August 2026, and the sector is being broadened by digital participation banks. The strategic challenge is less demand and more macroeconomic volatility: inflation, lira risk and interest-rate swings make nominal growth rates difficult to compare directly with GCC or Malaysian figures. [18]

UK and other non-Muslim-majority markets. The UK remains important less because of domestic Islamic-bank asset volumes than because of legal, liquidity and capital-market infrastructure. The Bank of England expanded its Alternative Liquidity Facility from £200 million to £550 million in 2025; aggregate deposits in the facility averaged approximately £531 million by February 2026. This addresses a long-standing regulatory disadvantage for banks that cannot use interest-bearing liquidity instruments and is a model that other minority-market jurisdictions can emulate. [19]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | REGIONAL ALLOCATION DISCIPLINE

Regional diversification is essential. Geographic exposure should be evaluated through a combination of growth potential, credit quality, currency stability, and regulatory maturity.

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Islamic banking: strong returns, but normalization and concentration are the next tests

Growth and profitability

Global Islamic-bank assets in the IFSB universe increased 9.7% in 2025 to US\$3.05 trillion, with the five-year expansion still comfortably above nominal growth in many mature banking systems. IFSB reports that Islamic banking is systemically significant—generally defined by the organization as exceeding 15% of domestic banking assets—in 16 jurisdictions. [20]

The profitability story is bifurcated. GCC banks benefit from high franchise penetration, relatively low-cost deposit bases and large government/corporate financing pipelines. Pakistan's strongest Islamic banks also achieved unusually high ROEs during the previous high-rate environment, but declining benchmark rates are now compressing spreads. Southeast Asian Islamic banks generally operate with more moderate ROEs but have greater fee, wealth-management and capital-market integration. [21]

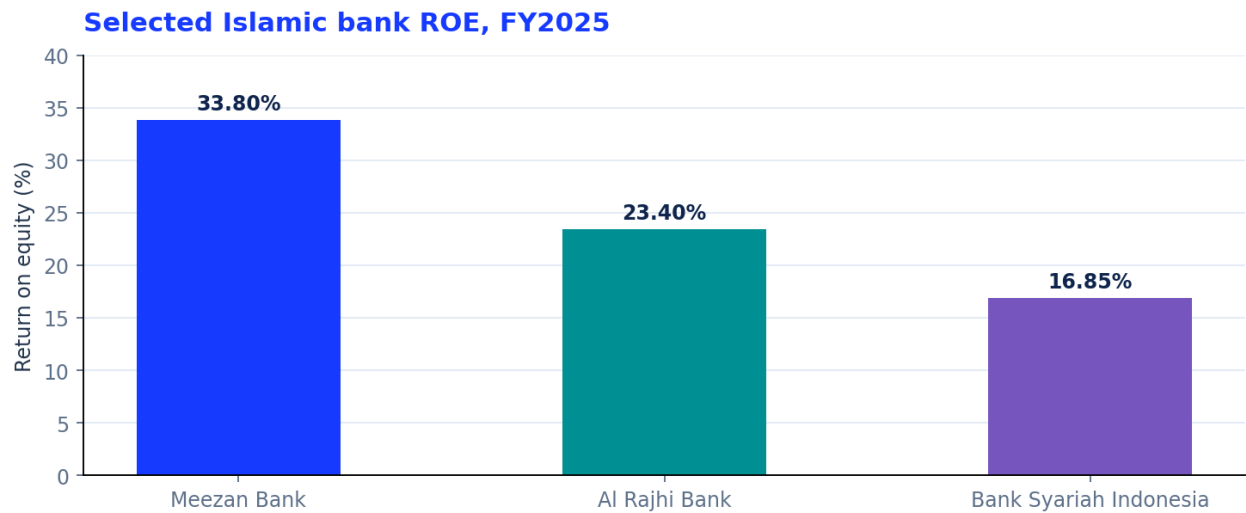
TABLE 04 | Selected bank-level financial and prudential indicators

Institution	Period	Assets	ROA	ROE / RoTE
Al Rajhi Bank, Saudi Arabia	FY2025	SAR1.043tn (~US\$278bn)	2.4%	23.4% ROE
Meezan Bank, Pakistan	FY2025	—	2.0%	33.8% ROE
Bank Syariah Indonesia	FY2025	IDR456.2tn	2.38%	16.85% ROE
Dubai Islamic Bank	FY/9M2025 indicators	AED416bn FY assets	Q1 post-tax ROA 2.1%	9M RoTE 22%
Malaysia Islamic banking system	FY2025	RM1.220tn financing	—	—

Bank-level risk and liquidity indicators (same disclosure periods)

Institution	NPL / NPF	Capital ratios	Liquidity and funding
Al Rajhi Bank, Saudi Arabia	0.75%	CAR 21.9%; Tier 1 20.5%	LCR 168.7%
Meezan Bank, Pakistan	1.8%	CAR 19.2%; Tier 1 16.9%	Strong 91% CASA; ADR 51%
Bank Syariah Indonesia	Gross NPF 1.81%, net 0.47%	CAR 22.0%	LCR 144.5%, NSFR 120.0%
Dubai Islamic Bank	FY NPF 2.65%	9M CAR 16.6%	9M LCR 144%, NSFR 108%
Malaysia Islamic banking system	Sector impaired-financing ratios remain low; CIMB Islamic 1.12% vs sector 1.36%	18.3% total capital ratio	Supported by developed Islamic money markets

FIGURE 03 | Selected FY2025 Islamic bank return on equity



Bank-level ratios are not perfectly comparable because jurisdictions differ in accounting, tax treatment, average-equity calculations and definitions of NPL versus NPF. They are nevertheless useful as a cross-market profitability and resilience snapshot. [22]

A particularly striking example is Meezan: 2025 profit after tax was PKR89.0 billion, but ROE fell from 47.0% in 2024 to 33.8%, and ROA from 2.9% to 2.0%, as Pakistan's policy-rate range fell from the previous 22% peak toward 10.5%–13%. This is a useful warning against treating recent high Islamic-bank ROEs as structural rather than partly cyclical. [23]

Asset quality is sound in the core, uneven at the frontier

IFSB describes system-wide asset quality as broadly resilient but increasingly heterogeneous. Commercial real estate, industrial borrowers and consumer/retail financing have shown early deterioration in some jurisdictions, while Stage 3 exposures have risen at some domestically systemically important Islamic banks. Bangladesh and Kenya stand out as clear outliers with very high reported NPF ratios; several other jurisdictions exceed 5%. [4]

This distinction matters for valuation. A “global Islamic bank” basket effectively combines very different credit regimes: Saudi, Malaysian, UAE and Indonesian banks generally show low-to-moderate NPFs and ample capital buffers; some South Asian and frontier institutions face much higher sovereign exposure, governance problems, foreign-exchange pressures or borrower stress. The industry label is therefore a poor substitute for jurisdiction-level credit analysis. [24]

Capital is comfortable, but sovereign-bank linkages matter

IFSB finds capital adequacy generally above regulatory minima across the core markets, with retained earnings and additional Tier 1/Tier 2 sukuk helping banks replenish buffers. Bangladesh is the conspicuous stressed exception after recognition of previously understated impairments. [20]

The subtler risk is sovereign concentration. Islamic banks frequently hold government sukuk because the supply of alternative Shariah-compliant HQLA is limited. This supports liquidity ratios in normal markets but creates a sovereign-bank nexus: fiscal deterioration can simultaneously impair securities valuations, collateral quality, capital and funding conditions. IFSB explicitly identifies this channel as a growing macroprudential concern. [20]

Liquidity is adequate in ratio terms but structurally thinner

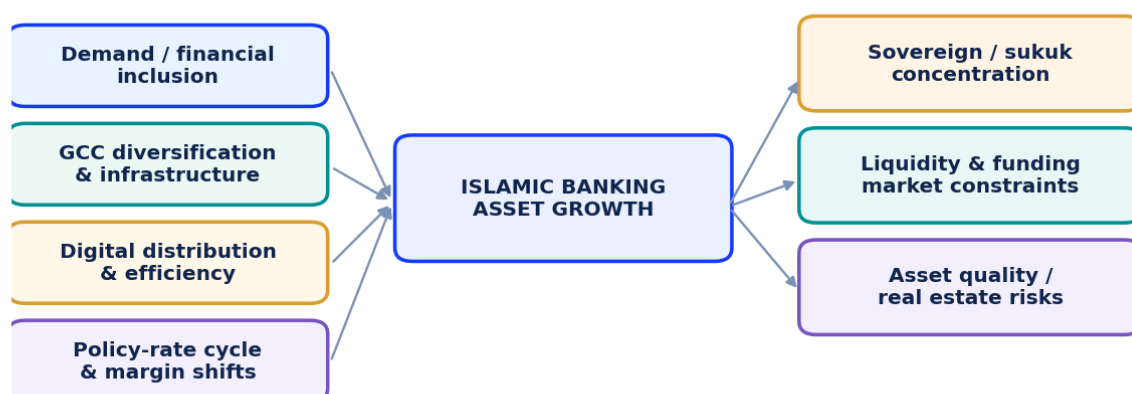
LCR and NSFR measures are generally above regulatory requirements, yet the underlying Islamic liquidity infrastructure remains less complete than that available to conventional banks. IFSB highlights limited HQLA availability, shallow Islamic money markets and widespread dependence on commodity murabaha structures for interbank liquidity. These weaknesses may not be visible in ordinary LCR readings but become more important during system-wide stress. [20]

Malaysia demonstrates what a mature solution can look like. BNM is deepening collateralized Islamic funding markets, standardizing the enhanced Sell-Buy-Back Agreement and Tahawwut Master Agreement, and plans to require the transaction-based Malaysia Islamic Overnight Rate, MYOR-i, for Islamic products beginning in the second half of 2027. [25]

Banking drivers and risks

FIGURE 04 | Drivers and risk transmission channels in Islamic banking

Drivers, transmission channels and resilience risks



Source: Conceptual synthesis of the supplied report; qualitative illustration.

The key transition for 2027–29 is likely to be from rate-driven profitability toward volume, fee-income and operating-efficiency-driven profitability. Banks with strong CASA/current-account franchises, digital distribution and diversified fee businesses should be better positioned than institutions dependent on unusually wide financing spreads. [26]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | BANK PROFITABILITY AND RISK-ADJUSTED VALUE

The financial performance of leading Islamic banks demonstrates that the sector can generate attractive returns while maintaining relatively strong capital buffers.

Nevertheless, high return on equity should not automatically be interpreted as superior long-term profitability.

For instance, Meezan Bank's ROE declined from 47.0% in 2024 to 33.8% in 2025, a reduction of 13.2 percentage points. This occurred as Pakistan's interest-rate environment normalized.

Although the bank maintained strong profitability, the decline demonstrates that part of its previous earnings performance was cyclical rather than entirely structural.

Al Rajhi Bank's 23.4% ROE, 0.75% NPL ratio, and 21.9% capital adequacy ratio indicate a combination of profitability, relatively strong asset quality, and capital capacity.

Future banking valuations should place increasing emphasis on:

Core profitability: Sustainable ROE and ROA after adjusting for the interest-rate cycle.

Asset quality: Non-performing financing, credit concentration, and expected credit losses.

Funding stability: Low-cost current and savings accounts and diversified deposits.

Capital efficiency: Adequate capital relative to financing growth and distributions.

Operating efficiency: Cost-to-income ratios, technology investment, and fee-income generation.

For 2027–2029, the analytical base case anticipates approximately 7–9% annual underlying asset growth across core Islamic banking markets.

This is a reasonable planning range rather than a guaranteed forecast.

Banks maintaining low funding costs and strong customer relationships should be better positioned to preserve profitability during periods of declining financing spreads.

Asset growth alone is insufficient to evaluate Islamic-bank performance. Sustainable earnings, credit quality, and capital efficiency will be more important indicators of shareholder value creation.

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Islamic NBFIs and takaful: faster growth from a much smaller base

“NBFI” requires careful definition in Islamic finance. LSEG separates other Islamic financial institutions (OIFIs)—finance companies, leasing, microfinance, fintech and related institutions—from Islamic funds and takaful. Prudential standards also differ substantially across these businesses, so there is no meaningful global NBFI equivalent of a bank NPL, LCR or CAR ratio. Credit-oriented finance companies should be analyzed using delinquency and funding metrics; takaful through solvency, claims and underwriting results; asset managers through AUM, flows, performance and liquidity. [3]

OIFIs are becoming a meaningful growth layer

LSEG estimates OIFI assets at approximately US\$217 billion in 2025, up around 12%, with growth particularly visible in Saudi Arabia, Pakistan and newer markets. The expansion is strategically important because it broadens Islamic finance beyond deposit-funded banking into leasing, SME finance, microfinance, consumer finance and digital platforms. [27]

Indonesia provides one of the clearest examples. In 2025, OJK reported IDR74.27 trillion of Shariah insurance, guarantee and pension-fund assets, up 10.59%, and IDR124.51 trillion across Shariah financing institutions, venture capital, microfinance and other financial-services companies, up 10.29%. By April 2026, Shariah financing institutions alone held IDR37.20 trillion, alongside IDR4.21 trillion of Shariah venture-capital assets and IDR0.66 trillion in Islamic microfinance institutions. [16]

The strategic opportunity is considerable because Islamic NBFIs can reach segments poorly served by bank collateral models. The corresponding risk is weaker deposit franchises and greater reliance on wholesale funding, which can make finance companies more sensitive to market rates and refinancing conditions than Islamic banks.

Takaful is growing, but underwriting discipline is becoming more important

Global takaful size differs by data universe: IFSB reports US\$71.1 billion of Islamic insurance assets, up 13.9%, whereas LSEG's broader coverage estimates about US\$146 billion, up 9%. Both sources indicate continued expansion, with the GCC representing the largest pool and Southeast Asia providing the deepest retail/family-takaful ecosystems. [28]

IFSB's 2026 stability assessment is more cautious about profitability than the asset-growth numbers suggest. Solvency generally remains within regulatory requirements, but motor and medical claims inflation has weakened underwriting results, increasing dependence on investment income. Some policyholder funds continue to require qard support, and limited retakaful capacity leaves operators retaining more risk than they would in a deeper reinsurance ecosystem. [20]

Malaysia again illustrates both scale and prudential strength. Takaful fund assets reached approximately RM65.2 billion in 2025—RM56.5 billion family and RM8.7 billion general—while the reported takaful capital-adequacy ratio was 224.5%, essentially in line with the conventional insurance sector's 224.6%. Family-takaful penetration reached 19.7%. [29]

Takaful is increasingly intersecting with social and sustainable finance

The next growth stage is not simply conventional insurance reproduced under a Shariah wrapper. Malaysia's iTEKAD Protection initiative uses blended government, philanthropic and participant funding to provide takaful coverage for microentrepreneurs and other underserved groups. BNM also links Islamic financing to its “Greening Halal Businesses” program, illustrating how Islamic banking, takaful and transition finance can form a single ecosystem around SMEs. [25]

This intersection is likely to become more formal. IFSB was consulting in late 2026 on a guidance note addressing climate-related financial risks for Islamic banks and on a recovery-and-resolution guidance note for takaful undertakings, bringing environmental and resilience considerations directly into prudential supervision. [30]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | SPECIALIZED INSTITUTIONS, TAKAFUL AND FINTECH

Islamic non-bank finance represents an opportunity to expand financial inclusion and diversify industry revenues.

However, these institutions may face higher funding costs, weaker liquidity positions, and greater refinancing risks than established deposit-taking banks.

In takaful, underwriting profitability deserves particular attention because medical and motor claims inflation can weaken financial performance despite growth in premium contributions.

From an investment perspective, takaful providers should be assessed using solvency strength, claims experience, underwriting performance, and investment-income dependence.

Digital Islamic banking also offers potential to reduce operating costs and expand customer access.

Nevertheless, digital growth must be supported by effective cyber security, technology governance, and credit-risk management.

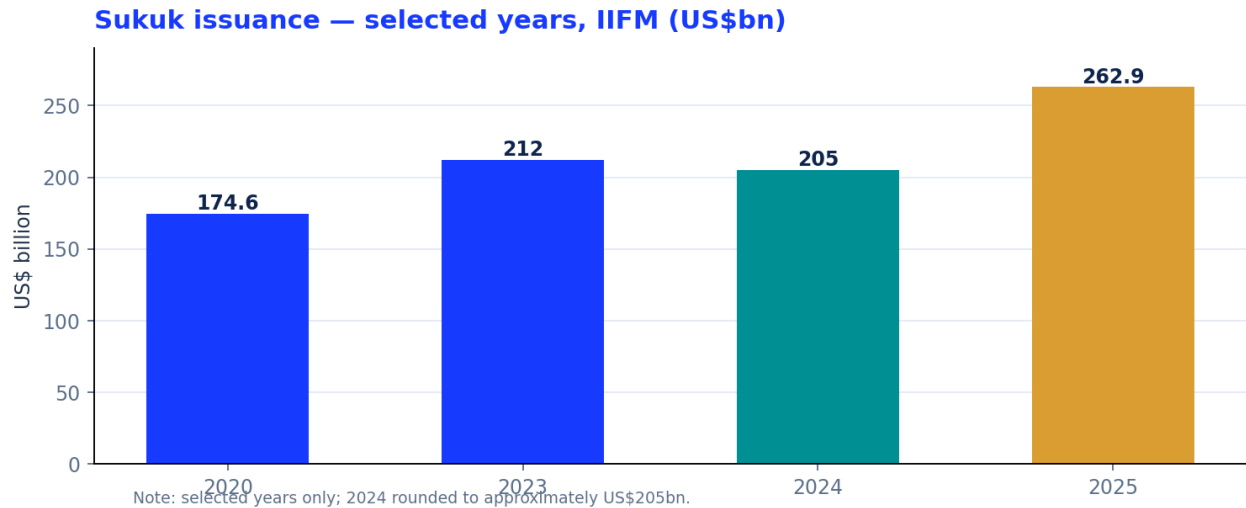
The long-term opportunity in Islamic fintech and non-bank finance is substantial, but sustainable business models and disciplined funding structures will determine financial success.

Dr. Muhammad Abubakar Siddique

Islamic capital markets: sukuk, equities and ETFs

Sukuk has crossed the US\$1 trillion threshold

IIFM's 2026 Sukuk Report puts 2025 global issuance at US\$262.9 billion, up 28.2% from approximately US\$205 billion in 2024. International issuance increased 50.8% to US\$98.9 billion, while domestic issuance rose 17.5% to US\$163.9 billion. IIFM calculates US\$1.015 trillion of sukuk outstanding at end-2025, comprising US\$280.58 billion international and US\$734.93 billion domestic instruments. [31]

FIGURE 05 | Selected-year sukuk issuance, US\$bn

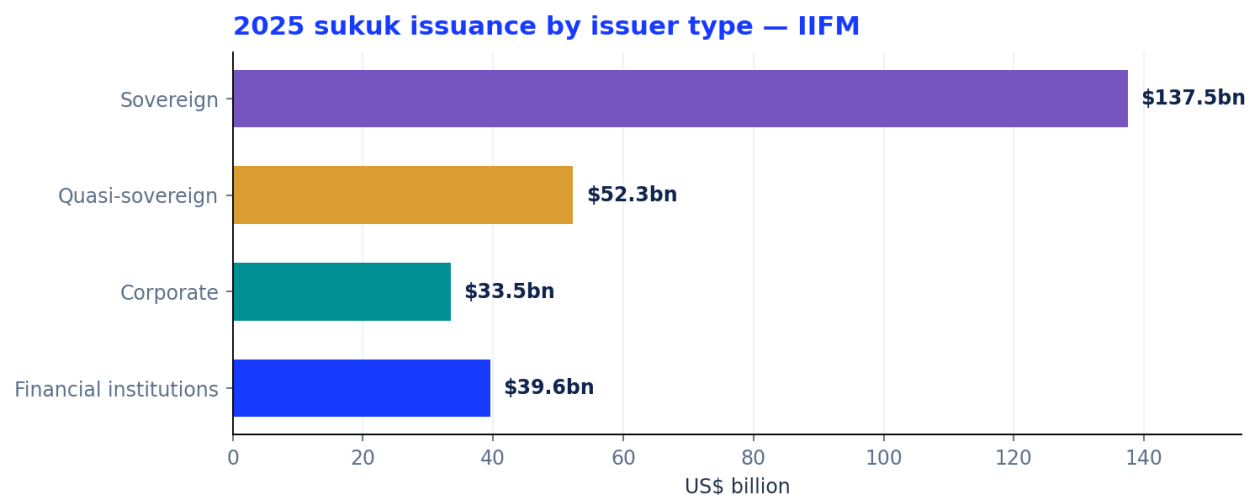
Source: IIFM Sukuk Report 2026; 2024 is rounded.

IIFM's historical series shows issuance rising from US\$174.6 billion in 2020 to US\$262.9 billion in 2025, with a temporary 2022 slowdown, a record US\$212.0 billion in 2023, a modest pullback in 2024 and then a sharp acceleration in 2025. [32]

Why issuance databases differ

TABLE 07 | Sukuk issuance databases: coverage and comparability

2025 dataset	Global issuance	Outstanding	Main analytical implication
IIFM	US\$262.9bn	US\$1.015tn	Long-established domestic + international issuance series
IFSB / Refinitiv	US\$234.5bn	US\$1.101tn	Integrated into prudential/stability framework
ICD-LSEG	~US\$291.4bn	~US\$1.14tn	Broader global Islamic-finance database

FIGURE 06 | Sukuk issuance by issuer category in 2025

Source: IIFM Sukuk Report 2026; US\$bn.

Coverage, tenor thresholds, classification of short-term instruments, reopening treatment and jurisdictional coverage differ. For trend analysis, analysts should therefore use one provider consistently rather than splice headline figures from multiple databases. [33]

Issuer diversification improved materially

Using IIFM's classification, sovereigns remained the largest 2025 segment at US\$137.5 billion, or 52.3% of issuance, but quasi-sovereign issuance jumped 66.5% to US\$52.3 billion. Corporate issuance rose 39.4% to US\$33.5 billion, while financial-institution sukuk increased 28.8% to US\$39.6 billion. [34]

IFSB's differently defined dataset reaches the same qualitative conclusion. Corporates represented 43.4% of its 2025 issuance, sovereigns 30.9% and quasi-sovereigns 21.0%; quasi-sovereign issuance increased 45.4% and corporate issuance 16%, while sovereign issuance declined 18%. Additional Tier 1 sukuk issuance reached roughly US\$8.6 billion, more than doubling from 2024, underscoring banks' growing use of sukuk for regulatory capital. [35]

Geographically, IFSB estimates that the GCC generated 49.8% of 2025 sukuk issuance and East Asia/Pacific 40.7%. On the longer IIFM 2001–2025 cumulative measure, Malaysia accounts for 43.7% of global issuance, Saudi Arabia 15.3% and Indonesia 9.6%. [36]

Yield and duration have become investable again—but not risk-free

As of October 16, 2026, the S&P Dow Jones Sukuk Index—a US-dollar, investment-grade-oriented Shariah-compliant benchmark—contained 177 securities with approximately US\$178 billion market value, a 4.72% weighted coupon, 5.69% yield to maturity/yield to worst, 5.43-year weighted-average maturity and 4.28 modified duration. [37]

The curve offered approximately 5.49% YTM for one-to-three-year sukuk and 5.87% for seven-to-ten-year sukuk, while the A-rated sukuk sub-index yielded around 5.59%. The broad index's yield had been about 4.99% on June 24, implying roughly a 70-basis-point repricing by mid-October. This improved carry for new investors but generated mark-to-market losses for duration-heavy portfolios. [38]

IFSB notes that domestic sovereign sukuk often price at yields similar to or slightly below comparable conventional bonds, reflecting captive Islamic liquidity and strong demand. The more persistent weakness is secondary-market liquidity: bid-ask spreads remain wider in many sukuk markets, and highly customized structures can reduce fungibility and price discovery. [20]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | SUKUK CARRY, DURATION AND CONTRACTUAL RISK

The recent increase in sukuk yields has strengthened their attractiveness as an income-generating investment, particularly for investors seeking Shariah-compliant alternatives to conventional fixed-income securities. However, higher yields should not be interpreted as higher risk-adjusted returns without considering credit quality, duration, market liquidity, and contractual exposure.

The interest-rate sensitivity of sukuk deserves particular attention. With a modified duration of 4.28, a hypothetical 100-basis-point increase in market yields would produce an approximate 4.3% decline in market value, before considering income, convexity, and other market factors. Although higher yields improve prospective income and provide some protection against price fluctuations, they do not eliminate capital losses arising from further yield increases or widening credit spreads. Another important consideration is that Shariah compliance does not automatically ensure creditworthiness, capital protection, or investment liquidity. Sukuk investors must examine the issuer's financial strength, the underlying contractual structure, the enforceability of ownership and investor rights, and the availability of effective remedies in the event of default.

Investment-grade sukuk offer promising income and portfolio-diversification opportunities in the current market environment. Nevertheless, sustainable risk-adjusted returns require disciplined duration management, diversification across issuers and jurisdictions, adequate secondary-market liquidity, and careful examination of contractual rights. Investment decisions should therefore be based on financial fundamentals and structural risk, rather than Shariah compliance or headline yields alone.

Dr. Muhammad Abubakar Siddique

Sustainable sukuk is moving from niche to sub-asset class

LSEG estimates US\$23.8 billion of ESG/sustainability-linked sukuk issuance in 2025, taking outstanding ESG sukuk to approximately US\$73.2 billion. IFSB's classification reports sustainability-related sukuk issuance up roughly 33% and green sukuk almost 94% in 2025. Different labels and databases again explain some variation, but both point to rapid expansion. [39]

The strategic advantage is a potential dual investor base: Shariah-sensitive investors plus conventional ESG mandates. The constraint is that Shariah compliance and sustainability are not synonymous. Shariah screening focuses on prohibited activities, leverage and contractual principles; it does not by itself guarantee climate alignment, low emissions or measurable social impact. [40]

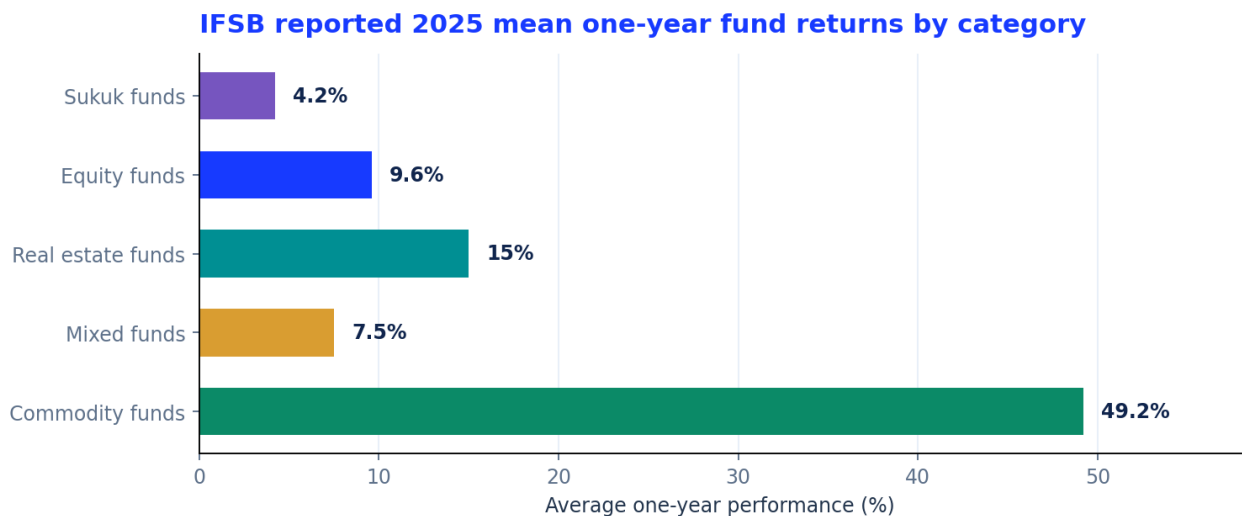
Islamic equities and ETFs: rapid passive-market development

Passive Shariah investing is entering a new scale category. The trend is strongest in US/global equity exposure, where Shariah screens have benefited from heavy representation in profitable, low-leverage technology and growth companies while excluding conventional banks and many highly leveraged firms.

TABLE 08 | Selected Islamic exchange-traded investment funds

Fund / ETF	Exposure	AUM / net assets	2026 performance / yield	Fee	Observation
iShares MSCI World Islamic UCITS ETF (ISWD)	Developed global Shariah equities	US\$1.69bn	+22.48% YTD NAV to Sep. 30	0.30% TER	387 holdings; P/E ~31x
SP Funds S&P 500 Sharia Industry Exclusions ETF (SPUS)	US large-cap Shariah equities	~US\$3.32bn	—	0.45%	One of the largest listed US Shariah ETFs
Wahed FTSE USA Shariah ETF (HLAL)	US Shariah equities	~US\$0.98bn	~+21% YTD market price, Sep. 30	0.50%	Strong 2026 performance, but equity/tech concentration
SP Funds Dow Jones Global Sukuk ETF (SPSK)	Global USD sukuk	US\$467m	5.04% 30-day SEC yield; -2.29% YTD NAV to Sep. 30	0.50%	Demonstrates 2026's higher-yield/duration trade-off

FIGURE 07 | IFSB Islamic fund category one-year performance



Source: IFSB 2026; returns are category averages, not synchronized ETFs.

ISWD figures are from BlackRock/iShares; SPUS and SPSK from SP Funds; HLAL performance is from Schwab's fund data and AUM from market-data reporting. Dates differ slightly, so the table is a market snapshot rather than a synchronized portfolio comparison. [41]

SPSK is particularly instructive: its 5.04% SEC yield looks increasingly attractive for income investors, yet its roughly -2.3% YTD NAV return through September demonstrates that sukuk are not immune to global duration repricing. [42]

Equity performance is also geographically divergent. Indonesia's Sharia Stock Index, for example, was down 18.71% YTD as of April 2026, despite IDR7,225.8 trillion of market capitalization, while US/global Islamic ETFs had risen more than 20% by September. This argues against treating "Islamic equities" as a single factor exposure: country allocation, technology weight, currency and valuation are often more important to returns than the Shariah screen itself. [43]

For 2025, IFSB's broader fund analysis similarly showed substantial dispersion: average one-year performance was approximately 4.2% for sukuk funds, 9.6% for equity funds, 15.0% for real-estate funds, 7.5% for mixed funds and 49.2% for commodity funds. That dispersion reinforces the conclusion that Islamic asset management is now a multi-asset industry rather than simply a Shariah equity niche. [44]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | ISLAMIC EQUITY RISK FACTORS

Strong historical ETF returns should be assessed against valuation levels, sector concentration, and geographic exposure.

Investors should not assume that Shariah compliance automatically provides defensive portfolio characteristics.

Sukuk and Islamic investment funds offer attractive structural opportunities, but disciplined asset allocation is more important than simply increasing exposure to the Islamic finance investment category.

Dr. Muhammad Abubakar Siddique

Regulation, fintech, consolidation and ESG

The regulatory agenda is moving from permissibility to institutional architecture

The most consequential global regulatory issue remains AAOIFI's proposed Shariah Standard No. 62 on sukuk. AAOIFI stated in April 2025 that the standard had not been finalized and was being redrafted after industry consultation. As of October 2026, AAOIFI's own exposure-draft page still lists the sukuk standard as a draft. The risk that initially concerned the market—more restrictive treatment of debt-like or asset-based structures and potentially greater equity-like characteristics—therefore remains an overhang rather than a finalized rule. [45]

That distinction matters. Analysts should not build base-case valuation assumptions on an enacted SS62 regime; they should instead treat finalization, grandfathering and jurisdictional adoption as regulatory scenarios.

Several other standards are already operational. AAOIFI's FAS 45 on quasi-equity, FAS 46 on off-balance-sheet assets under management and FAS 47 on transfers between investment pools became effective January 1, 2026, materially improving financial reporting around investment accounts and fiduciary assets. AAOIFI also issued GS23 on the application of Shariah-governance principles to Islamic windows, while its broader issued-governance suite now includes standards covering central Shariah boards, internal Shariah audit, sukuk governance and Shariah compliance. [46]

IFSB's IFSB-31, adopted in July 2025, shifts the focus from whether institutions possess Shariah boards to whether supervisors can assess their effectiveness, independence, accountability and integration into board-level governance. It applies across banks, takaful and Islamic capital-market institutions. [47]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | GOVERNANCE AND REGULATORY FRAGMENTATION

Stronger accounting and governance standards are positive developments for the industry's long-term credibility.

However, inconsistent regulatory adoption could increase documentation costs, reduce cross-border product compatibility, and fragment financial markets.

The principal risks requiring continuous monitoring include:

Credit concentration: Excessive exposure to sovereign borrowers, commercial property, or related parties.

Liquidity limitations: Inadequate availability of Shariah-compliant high-quality liquid assets and developed money markets.

Regulatory fragmentation: Differences in Shariah interpretation, financial reporting, and sukuk structures.

Macroeconomic instability: Currency depreciation, financing-rate volatility, and geopolitical disruptions.

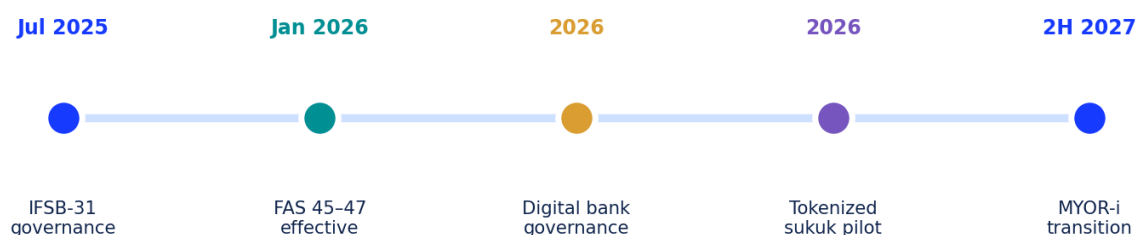
Operational risk: Cybersecurity vulnerabilities and governance weaknesses arising from rapid digitalization.

These risks reinforce the need for strong internal controls and transparent financial disclosure.

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FIGURE 08 | Regulatory development timeline

Selected regulatory and innovation milestones



Source: AAOIFI, IFSB and Securities Commission Malaysia; selected milestones.

The milestones are drawn from AAOIFI, IFSB, Malaysia's Securities Commission, SBP and related official regulatory releases. [48]

National regulatory developments

TABLE 10 | National regulatory developments

Jurisdiction	Recent development	Market significance
Malaysia	Maqasid-al-Shariah sukuk guidance; tokenized-sukuk pilot; MYOR-i transition from 2H2027	Links Shariah governance, sustainability, tokenization and benchmark reform
Saudi Arabia	Open-banking rollout; Shariah-governance disclosure requirements; D360 digital Islamic bank	Competition shifting toward digital distribution and API-enabled services
Indonesia	Islamic-window spin-off requirements under POJK 11/2023; multiple spin-offs/restructurings underway	May create larger stand-alone Islamic franchises and clearer governance
Pakistan	SBP strategic objective of a Shariah-compliant banking system; conversion guidelines and 2026 rule changes	Structural rather than incremental growth catalyst, but execution risk is high
Türkiye	Digital participation banks expanding under participation-banking framework	Low-cost entry model may accelerate sector penetration
UK	Bank of England Alternative Liquidity Facility expanded to £550m	Reduces liquidity-regulation disadvantage for Islamic banks

Sources: BNM/SC Malaysia, SAMA, OJK, SBP, TKBB and Bank of England. [49]

Fintech has moved from front-end apps to core market infrastructure

The first stage of Islamic fintech centered on payments, crowdfunding and mobile banking. The current phase is more consequential because it touches **licensed digital banks, open banking, tokenized securities, wholesale settlement and Shariah governance itself.**

Malaysia now has licensed Islamic digital-bank models including AEON Bank and KAF Digital Bank. Saudi Arabia has D360 and is moving further into regulated open banking and payment initiation. Türkiye has added digital participation banks. AAOIFI's decision in July 2026 to develop a dedicated governance standard for digital Islamic banks is a clear signal that these models are becoming institutionally significant rather than experimental. [50]

Tokenization is the capital-market frontier. Malaysia's Securities Commission-supported pilot involved a RM100 million, one-year wakalah sukuk by Khazanah within a larger RM20 billion program, demonstrating that distributed-ledger issuance can be tested on institutional-quality sovereign-related credit rather than only fintech proof-of-concepts. [51]

The principal risks are not only technological. Tokenized sukuk raise questions over legal title, enforceability, asset ownership, smart-contract governance, cybersecurity, operational resilience, AML/CFT and whether the tokenized representation preserves

the same Shariah rights as the underlying security. Malaysia's regulatory guidance explicitly highlights legal, disclosure, technology, operational and financial-crime risks. [52]

M&A and restructuring are becoming more supervisory-driven

The most important recent consolidation case is Bangladesh, where stress at several Islamic banks led to plans for combining First Security Islami Bank, Social Islami Bank, Union Bank, Global Islami Bank and EXIM Bank into Sammilito Islami Bank. The restructuring follows severe asset-quality, liquidity and governance problems that IFSB links partly to concentrated related-party lending and inadequate oversight. [53]

This is qualitatively different from the strategic GCC consolidation wave of previous years: it is a resolution and recapitalization exercise rather than a scale-driven merger. Indonesia's 2025–26 Islamic-window spin-offs represent another form of structural consolidation, creating dedicated legal entities rather than simply growing conventional-bank windows. [54]

For the next several years, the most likely consolidation pattern is therefore threefold: regulatory conversions of conventional institutions, spin-offs of Islamic windows into dedicated entities, and supervisory-led combinations of weak banks. AAOIFI's forthcoming conversion-governance standard directly anticipates that trend. [55]

ESG is increasingly embedded, but “Islamic” should not be conflated with “ESG”

The philosophical overlap between Islamic finance and sustainable finance—real-economy linkage, avoidance of harmful activities and emphasis on social welfare—creates a natural distribution opportunity. Yet it is important analytically to maintain separate screens. A Shariah-compliant oil company can pass an Islamic screen without being low-carbon; a conventional green bond can finance a climate-positive project without satisfying Islamic contractual rules. [40]

The most investable intersection is currently sustainable sukuk, followed by value-based banking and social takaful. Malaysia has institutionalized this approach through value-based intermediation, green support for halal SMEs and iTEKAD social takaful. IFSB's climate-risk work suggests the next step will be integration into capital, risk-management and supervisory frameworks rather than sustainability remaining a product-label exercise. [56]

Outlook and conclusion

Base case for the next one to three years

The structural outlook remains favorable, but 2026 is likely to mark a cyclical pause rather than a reversal. S&P's October 2026 outlook expects Islamic-finance growth to slow this year and recover in 2027, conditional on geopolitical normalization. Moody's similarly sees long-term fundamentals as intact even while the near-term sukuk path is unusually uncertain. LSEG projects the broader industry from roughly US\$6.5 trillion in 2025 to above US\$10.5 trillion by 2030. [57]

That LSEG endpoint implies an approximate 10.2% compound annual growth rate. A mechanical interpolation—not an official LSEG annual forecast—would put the broader industry around US\$7.8 trillion in 2027, US\$8.6 trillion in 2028 and US\$9.5 trillion in 2029 if that CAGR were realized smoothly. Actual growth will be much less linear because exchange rates, oil prices, interest rates, geopolitics and sukuk issuance can shift annual reported asset values significantly. [58]

Analytical base case for this analysis is therefore:

TABLE 11 | Base-case outlook by segment, 2027–2029

Segment	2027–29 base-case direction	Principal upside catalyst	Principal downside risk
Islamic banking	~7–9% annual underlying asset growth in core markets	GCC investment cycle, Pakistan/Indonesia penetration, digital banks	Margin normalization, CRE/consumer credit, sovereign exposure
Islamic NBFIs	Low-double-digit growth from a small base	SME finance, digital distribution, leasing/microfinance	Wholesale-funding sensitivity, uneven supervision
Takaful	High-single/low-double-digit growth	Low penetration, bancatakaful, social takaful	Medical/motor claims, limited retakaful

Segment	2027–29 base-case direction	Principal upside catalyst	Principal downside risk
Sukuk	Outstanding market continues expanding; annual issuance volatile around a high base	Fiscal/project funding, bank capital, investor demand	Geopolitics, higher global yields, SS62 uncertainty
Islamic funds / ETFs	Likely to remain among the fastest-growing segments	Passive investing, wealth growth, cross-border platforms	Tech/equity concentration, valuation, liquidity
Sustainable Islamic finance	Faster than overall industry from small base	Dual ESG/Shariah investor demand	Taxonomy fragmentation and greenwashing concerns

FINANCIAL ANALYST'S EXPERT ASSESSMENT | FORWARD-LOOKING ASSESSMENT

The next phase of Islamic financial-sector development to be shaped by profitability normalization and more selective capital allocation.

In the banking sector, deposit pricing, operating efficiency, and financing quality are likely to have a greater influence on earnings than balance-sheet expansion alone.

For sukuk, investor demand should remain supported by income opportunities and government financing needs, although global interest-rate developments may create valuation volatility.

Islamic investment funds and ETFs could continue to attract capital as distribution channels expand, but returns will remain closely tied to underlying asset valuations.

Regulatory standardization and deeper Islamic money markets to become increasingly important for financial stability.

Overall, the industry's structural growth prospects is favorable, while recognizing that financial returns will differ considerably across institutions, asset classes, and countries.

Dr. Muhammad Abubakar Siddique

These are analytical ranges, not official forecasts. They are anchored to the IFSB's recent segment growth, LSEG's 2030 trajectory, S&P's 2027 recovery expectation and observed regulatory pipelines. [59]

What could make the upside case stronger

The industry could sustain double-digit growth if geopolitical conditions normalize, GCC infrastructure and diversification spending remains strong, Indonesian and Pakistani Islamic penetration rises, African/Central Asian regulatory frameworks mature, and tokenization meaningfully reduces issuance and distribution costs. LSEG specifically identifies Africa and Central Asia as emerging opportunity regions, while Moody's sees substantial long-term potential in Central Asia as legislation and demand develop. [60]

A second upside lever would be deeper secondary markets. More standardized sukuk documentation, benchmark-sized issuance, domestic pension/insurance investors and central-bank eligible Shariah HQLA could lower liquidity premiums and make sukuk more attractive to conventional global fixed-income portfolios. IFSB repeatedly identifies these market-infrastructure gaps as constraints on current development. [20]

What would break the base case

The most material near-term risk is geopolitical rather than specifically Islamic-finance related. Core Islamic-finance markets are unusually concentrated in the Gulf and Middle East; energy or shipping disruption can affect growth, fiscal balances, bank credit quality, foreign issuance and investor risk premia simultaneously. S&P's 2027 outlook explicitly conditions its expected recovery on normalization of current Middle East disruptions. [61]

A second risk is a disorderly global yield repricing. The jump in benchmark sukuk YTM from roughly 5.0% in June to 5.69% by mid-October 2026 illustrates the sensitivity of even investment-grade Islamic fixed income to global duration and Treasury-market movements. [9]

A third is regulatory fragmentation. If a final AAOIFI Sukuk Standard 62 materially alters ownership, transferability or recourse requirements and jurisdictions implement it inconsistently, existing structures could fragment into different eligible investor universes. That is a scenario risk today—not a finalized regulatory outcome—because the standard remains in draft. [45]

Finally, banking-system risks are likely to emerge first through concentration rather than aggregate capital inadequacy: commercial real estate, sovereign exposures, connected lending in weaker jurisdictions and reliance on a limited range of liquidity-management instruments. The Bangladesh episode shows that high reported system growth can coexist with severe institution-level governance and credit problems. [62]

Actionable takeaways

TABLE 12 | Practical analytical priorities for investors and regulators

Stakeholder	Analytical priority for 2027–29
Bank-equity investors	Separate structural franchise ROE from rate-cycle windfalls. Low NPFs, high CASA/current-account funding, fee-income growth and digital efficiency are more durable than unusually wide financing spreads.
Sukuk investors	Current mid-5% investment-grade yields improve carry, but duration, sovereign concentration, secondary liquidity and structure-specific documentation deserve as much attention as headline credit ratings.
Islamic ETF/fund investors	Strong 2026 Shariah-equity returns should be viewed alongside technology concentration and elevated valuation multiples; geographic and factor diversification remain essential.
Islamic banks/NBFIs	Prioritize Shariah-compliant liquidity buffers, sovereign/CRE stress testing, cyber resilience and governance architecture ahead of faster digital growth.
Policymakers	The highest-return reforms are deeper local-currency sukuk curves, Shariah HQLA and central-bank facilities, standardized disclosure, credible resolution frameworks and harmonized Shariah supervision.
Capital-market regulators	Tokenization should be treated as market infrastructure rather than a technology pilot: legal finality, custody, investor rights, AML/CFT and Shariah treatment need to be resolved together.

These priorities follow directly from the profitability, liquidity, market-depth and governance weaknesses identified by IFSB, the regulatory direction set by AAOFI, and the shift toward digital and sustainable products documented by national regulators and LSEG. [63]

Conclusion. The global Islamic-finance industry has entered a different phase from the bank-led expansion of its first decades. Banking remains the anchor, but the fastest growth is increasingly occurring in sukuk, funds, ETFs, digital institutions and specialized non-bank finance. The strongest markets—Saudi Arabia and the wider GCC, Malaysia and increasingly Indonesia—combine structural demand with regulatory infrastructure; Pakistan and Türkiye offer higher growth potential but greater macro volatility; the UK remains strategically important as an international legal and liquidity center; and Africa and Central Asia offer the most credible frontier-market expansion story. [64]

For investors, the central question has shifted from whether Islamic finance will grow to which parts of the ecosystem will convert growth into durable risk-adjusted returns. High-quality banks still offer attractive profitability and capital buffers, but normalized rates make deposit franchise and operating efficiency increasingly important. Sukuk now offer meaningful income again, but liquidity and duration cannot be ignored. Islamic ETFs are scaling rapidly, but recent returns come with increasingly visible sector-concentration risk. For policymakers, the decisive bottleneck is no longer basic product availability; it is market depth, Shariah and prudential harmonization, credible liquidity and resolution infrastructure, and governance capable of keeping pace with digitalization and tokenization. [65]

FINANCIAL ANALYST'S EXPERT ASSESSMENT | INVESTMENT THESIS AND FINAL ANALYST ASSESSMENT

However, the industry's next phase should be judged not merely by the growth of financial assets, but by its ability to generate sustainable profitability, maintain financial stability, and allocate capital efficiently.

This analysis indicates that well-capitalized Islamic banks with diversified financing portfolios, stable deposit bases, and strong risk-management frameworks should be comparatively better positioned to withstand monetary and economic volatility.

The expanding sukuk market and Islamic investment-fund industry also provide opportunities for portfolio diversification and long-term capital-market development.

Nevertheless, strong asset growth must be evaluated alongside sovereign concentration, credit quality, liquidity, regulatory uncertainty, and market valuations.

Central investment thesis of the analysis is that Islamic finance is transitioning from growth-led expansion toward a more mature financial ecosystem where quality of earnings, financial discipline, governance, and risk-adjusted returns will determine long-term investment performance.

Accordingly, a selective, fundamentally driven investment strategy appears more appropriate than broad exposure based solely on industry growth expectations.

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Source references and documentation

Original source-reference numbering has been retained from the master report. URLs are preserved as supplied; figures have not been independently verified in this design edition.

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Methodology, conventions and publication note

Primary research baseline

The comprehensive document “**Global Islamic Finance Market: Growth, Resilience and the Next Phase of Market Deepening**” is the master research file. The second supplied report provides the Financial Analyst’s first-person market assessments, which have been integrated next to relevant evidence.

Dates and comparability

The latest globally comparable sector asset data refer predominantly to 2025. Certain market quotations and selected country indicators were available through October 2026. Capital-market issuance represents flow; outstanding instruments and balance-sheet assets represent stock. No arithmetic aggregation of the IFSB and ICD–LSEG market universes is appropriate.

Forecast disclaimer

The 2027–2029 assessment ranges and scenario interpretations are analyst judgments, not guaranteed returns or official institution forecasts. The 2030 global industry projection is from the ICD–LSEG source named in the original report.

Source integrity

Original inline numeric citations [1]–[65], source URLs, tables and substantive findings from the master file have been retained. Market statistics and web references in the provided documents have not been independently audited for this publication-design task.

Publication attribution

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