

# Developments of Islamic Banking in Bangladesh<sup>1</sup>



October- December, 2017

**Islamic Banking Cell  
Research Department  
Bangladesh Bank**

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## Developments of Islamic Banking Industry in Bangladesh during October-December 2017

Islamic banking has expanded three times of its size from 2007, with Compound Annual Growth Rate (CAGR) of 11.6% and takaful sector has grown 5 times with a CAGR of 19.34% during this period. Islamic banking sector has already become systemically important in over 12 countries with more than 15% market share globally.<sup>2</sup> The total assets of the Islamic banking industry of IFSB member countries grew from USD 1,391 billion in 2016Q1 to USD 1,480 billion in 2017Q1 (calculated from country-wise aggregated data converted into USD terms using end-period exchange rates). Total funding/liabilities increased from USD 1,283 billion in 2016Q1 to USD 1,362 billion in 2017Q1. Gross nonperforming financing ratio (gross nonperforming financing to total financing) showed an improvement with a decrease from 5.9% in 2016Q1 to 5.2% in 2017Q1. On the liquidity indicators, the liquid assets ratio (liquid assets to total assets) decreased over the period from 35.7% in 2016Q1 to 34.5% in 2017Q1, while liquid assets to short-term liabilities ratio increased from 13.9% in 2016Q1 to 14.6% in 2017Q1.<sup>3</sup>

Islamic Banking has remarkably captured the interest of both Islamic and contemporary economists. Parker (1993), observes that the introduction of Islamic banking principles by various western bankers have shown a positive results which indicates that Islamic banking systems can work effectively in both developed as well as developing nations regardless of religious boundary. The introduction of interest-free and equity-based Islamic banking system, proved its significance in the country's banking sector which continued to show strong growth since its inception in 1983 in tandem with the growth in the economy, as reflected by the increased market share as well as in mobilizing deposits and financing key sectors of the economy in Bangladesh. This report gives an overview of the Islamic Banking Industry regarding the developments taking place during the October-December 2017 quarter. As at the end of December 2017, 8 full-fledged Islamic banks are operating with 1124 branches out of total 9955 branches of the banking industry; in addition, 19 Islamic banking branches of 9 conventional commercial banks and 25 Islamic banking windows of 8 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the October-December 2017 quarter, deposits, investments, and remittance of Islamic banking industry grew by 5.03%, 4.07% and 12.06 % respectively while surplus liquidity increased by 34.93% compared to the previous quarter. Islamic Banking Industry accounted for more than one-fifth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review.

*At the end of the quarter October-December 2017, surplus liquidity increased significantly compared to previous quarter but declined compared to corresponding quarter of the previous year. Actually Islamic banks in Bangladesh have been facing excess liquidity problem since long as they cannot invest in Government Treasury Bills and Bonds because of the very interest bearing nature of those monetary instruments.*

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<sup>2</sup> 23 October 2017, Press Release, IFSB, Speech by the Acting Secretary General of the IFSB at the IFSB Summit, 2017.

<sup>3</sup> The IFSB Bulletin Volume 5 Issue 2 | Dec 2017, page-4.

### *Highlights on Islamic Banking Sector in Bangladesh, October-December 2017*

<b>Total Deposits</b>	Total Deposits in Islamic banking industry reached at Tk. 214259.42 crores at the end of October-December 2017 quarter, which increased by Tk. 10252.36 crores or by 5.03% compared to previous quarter and by Tk. 26564.52 crores or by 14.15% compared to corresponding quarter of the last year.
<b>Total Investments</b>	Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 201101.96 crores at the end of October-December 2017 quarter, which went up by Tk. 7857.68 crores or by 4.07% and by Tk. 32144.48 crores or by 19.03% compared to previous quarter and same quarter of the preceding year respectively.
<b>Investment-Deposit Ratio</b>	Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) reached at 0.94 in October-December 2017 quarter which was 0.95 at the previous quarter of this year and 0.90 at the end of December 2016.
<b>Surplus Liquidity</b>	Surplus Liquidity of Islamic banking industry stood at Tk. 8719.91 crores at the end of October-December 2017 quarter, which was increased by Tk. 2257.50 crores (34.93%) and lowered by Tk. 2145.45 crores (19.75%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
<b>Total Remittances</b>	Total Remittances mobilized by the Islamic banking sector stood at Tk. 11070.85 crores at the end of October-December 2017 quarter, which was higher by Tk. 1191.14 crores or by 12.06% compared to the previous quarter and higher by Tk. 1901.21 crores or by 20.73% compared to the same quarter of the preceding year.
<b>Branches</b>	The Number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 1168 at the end of the quarter under review which was 1126 during the previous quarter and 1050 during the same quarter of the last year.
<b>Manpower</b>	Total Manpower in Islamic banking sector was 30606 in number at the end of the quarter under review which was greater by 270 persons than that of the last quarter and by 1717 persons compared to the same quarter of the last year.

**Table 1: Islamic Banking Activities compared with all banks in Bangladesh**

Items	October-December 2017@			July-September 2017@
	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 (In Crore Taka)	926179.30	214259.42	23.13	22.79
Total Credit (In Crore Taka)	844435.60	201101.96	23.81	24.22
Remittances (In Crore Taka)	28903.28	11070.85	38.30	36.14
Total Excess Liquidity (In Crore Taka)	97122.96*	8719.91	8.98	7.47
Total Number of Bank Branches	9955	1168	11.73	11.52
Total Agricultural Credit (In Crore Taka)	40148.89	3317.05	8.26	8.87

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

@ Provisional, \* Data up to November 2017

**Table 1: Islamic Banking Activities in Bangladesh, October-December 2017**

	December-17#	September-17#	December-16#	Changes		% Changes	
	Quarter	Quarter	Quarter	Quarterly	Annual	Quarterly	Annual
<b>Total Deposits* ( Taka in Crore)</b>	<b>214259.42</b>	<b>204007.06</b>	<b>187694.90</b>	<b>10252.36</b>	<b>26564.52</b>	<b>5.03</b>	<b>14.15</b>
a) Full-fledged Islamic Banks	203698.12	193601.39	178861.93	10096.73	24836.19	5.22	13.89
b) Conventional banks having Islamic banking branches	5866.19	6010.61	5284.57	-144.42	581.62	-2.40	11.01
c) Islamic banking windows	4695.11	4395.06	3548.40	300.05	1146.70	6.83	32.32
<b>Total Investments* (Taka in Crore)</b>	<b>201101.96</b>	<b>193244.27</b>	<b>168957.48</b>	<b>7857.68</b>	<b>32144.48</b>	<b>4.07</b>	<b>19.03</b>
a) Full-fledged Islamic Banks	191279.35	183675.33	160831.13	7604.02	30448.21	4.14	18.93
b) Conventional banks having Islamic banking branches	5583.04	5525.00	5185.84	58.04	397.20	1.05	7.659
c) Islamic banking windows	4237.20	4043.95	2940.50	193.26	1296.70	4.78	44.10
<b>Investment/Deposit Ratio</b>	<b>0.94</b>	<b>0.95</b>	<b>0.90</b>	<b>-0.01</b>	<b>0.04</b>	<b>-0.91</b>	<b>4.27</b>
a) Full-fledged Islamic Banks	0.94	0.95	0.90	-0.01	0.04	-1.02	4.43
b) Conventional banks having Islamic banking branches	0.95	0.92	0.98	0.03	-0.03	3.54	-3.01
c) Islamic banking windows	0.90	0.92	0.83	-0.02	0.07	-1.92	8.90
<b>Liquidity Surplus(+)/Deficit(-) (Taka in Crore)</b>	<b>8719.91</b>	<b>6462.41</b>	<b>10865.36</b>	<b>2257.50</b>	<b>-2145.45</b>	<b>34.93</b>	<b>-19.75</b>
a) Full-fledged Islamic Banks	7791.84	5718.52	9510.71	2073.32	-1718.87	36.26	-18.07
b) Conventional banks having Islamic banking branches	190.12	443.73	922.43	-253.61	-732.31	-57.15	-79.39
c) Islamic banking windows	737.95	300.16	432.22	437.79	305.72	145.85	70.73
<b>Total Profits (Taka in Crore)</b>	<b>2989.64</b>	<b>1992.47</b>	<b>3072.35</b>	<b>997.17</b>	<b>-82.71</b>	<b>50.05</b>	<b>-2.69</b>
a) Full-fledged Islamic Banks	2748.13	1825.76	2835.06	922.37	-86.93	50.52	-3.07
b) Conventional banks having Islamic banking branches	161.41	121.47	186.66	39.94	-25.26	32.88	-13.53
c) Islamic banking windows	80.10	45.25	50.63	34.86	29.48	77.04	58.22
<b>Total Remittances (Taka in Crore)</b>	<b>11070.85</b>	<b>9879.72</b>	<b>9169.64</b>	<b>1191.14</b>	<b>1901.21</b>	<b>12.06</b>	<b>20.73</b>
a) Full-fledged Islamic Banks	10980.14	9808.79	9074.99	1171.35	1905.15	11.94	20.99
b) Conventional banks having Islamic banking branches	57.45	60.17	85.80	-2.71	-28.35	-4.51	-33.04
c) Islamic banking windows	33.26	10.76	8.85	22.50	24.41	209.03	275.95
<b>Total Branches</b>	<b>1168</b>	<b>1126</b>	<b>1050</b>	<b>42</b>	<b>118</b>	<b>3.73</b>	<b>11.24</b>
a) Full-fledged Islamic Banks	1124	1082	1007	42	117	3.88	11.62
b) Conventional banks having Islamic banking branches	19	19	18	0	1	0.00	5.56
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
<b>Total Manpower</b>	<b>30606</b>	<b>30336</b>	<b>28889</b>	<b>270</b>	<b>1717</b>	<b>0.89</b>	<b>5.94</b>
a) Full-fledged Islamic Banks	30032	29763	28323	269	1709	0.90	6.03
b) Conventional banks having Islamic banking branches	396	394	395	2	1	0.51	0.25
c) Islamic banking windows	178	179	171	-1	7	-0.56	4.09

\* = Excluding Inter-Bank Items

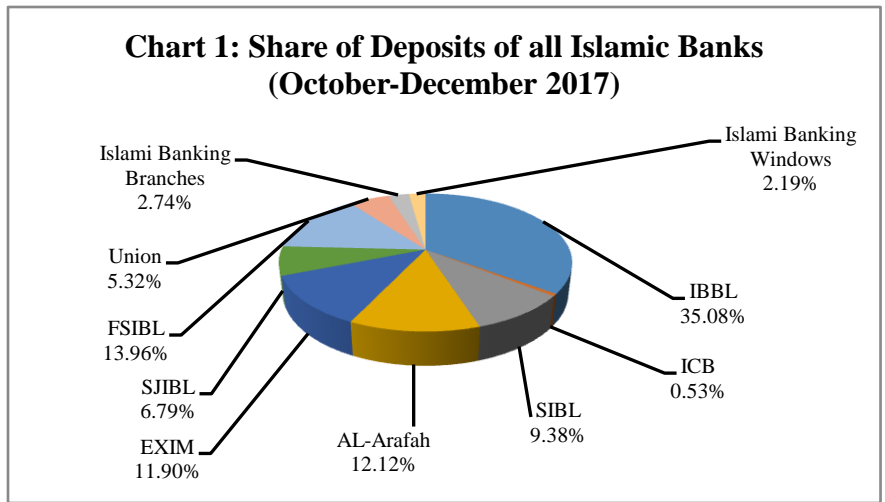
#Provisional

## Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 214259.42 crores at the end of October-December 2017 quarter, which increased by Tk. 10252.36 crores or by 5.03% compared to previous quarter and by Tk. 26564.52 crores or by 14.15% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 26368.53 crores and time deposit was Tk. 187890.89 crores. The share of total deposits of Islami banks accounted for 23.13% among all banks during the period under review.

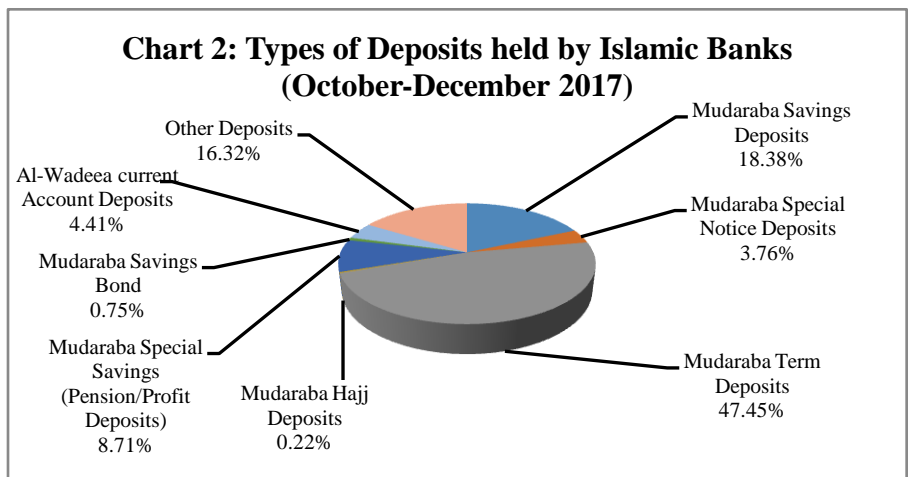
Total deposits of the eight full-fledged Islamic banks accounted for 95.07% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 203698.12 crores as on end December 2017.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.08%) [chart-1], followed by First Security Islami Bank Ltd. (13.96%), Al-Arafah Islami Bank Ltd. (12.12%), Exim Bank Ltd. (11.90%), Social Islami Bank Ltd. (9.38%), Shahjalal Islami Bank Ltd. (6.79%), Union Bank Limited (5.32%), Islami banking branches (2.74%), Islami banking windows (2.19%) and ICB Islamic Bank Limited (0.53%).



## Types of Deposits

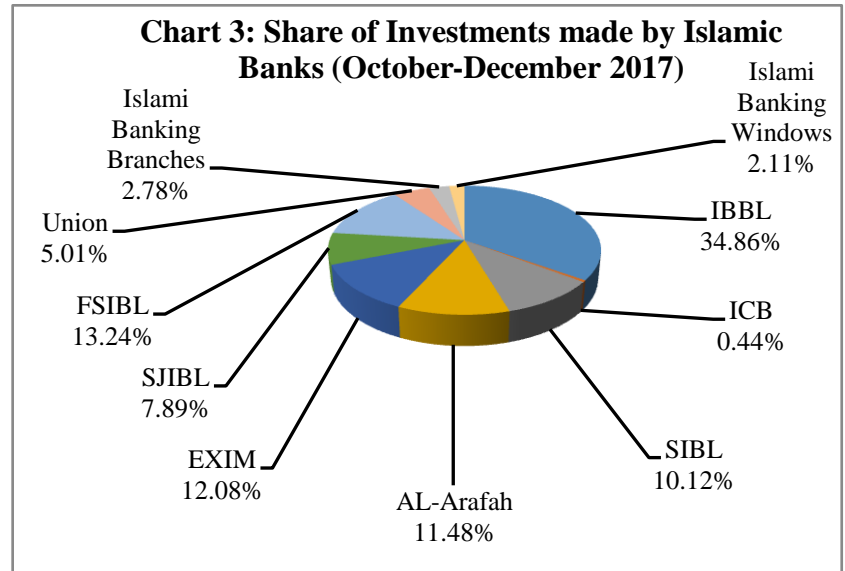
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (47.45%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.38%), Other deposits (16.32%), Mudaraba Special Savings (pension/profit) Deposits (8.71%), Al-Wadeeah Current Account Deposits (4.41%), Mudaraba Special Notice Deposits (3.76%), Mudaraba Savings Bond (0.75%) and Mudaraba Hajj Deposits (0.22%) etc.



## Investments

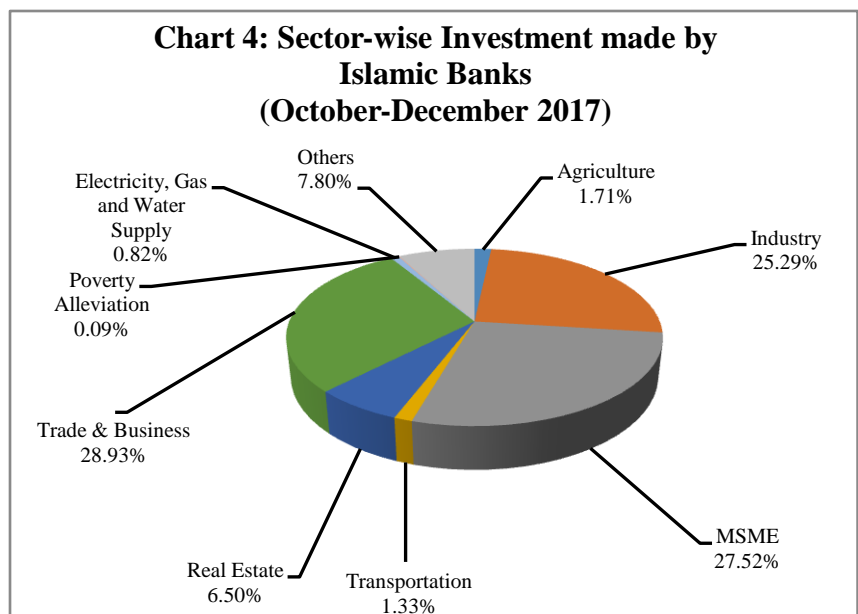
Total amount of investments in Islamic Banking industry reached at Tk. 201101.96 crores at the end of the quarter October-December 2017. During the quarter under review, investments increased by 4.07 % and 19.03% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 23.81% among all banks.

Among total investments of Islami banks, 95.12% were made by 8 full-fledged Islamic banks, 2.78% by the scheduled banks' Islamic banking branches and the rest 2.11% by the scheduled banks' Islamic banking windows. As in the case of investments, Islami Bank Bangladesh Ltd. attained the highest share in investments which was 34.86% at the end of the quarter October-December 2017, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.24%), EXIM Bank Ltd. (12.08%), Al Arafah Islami Bank Ltd. (11.48%), Social Islami Bank Ltd (10.12%), Shahjalal Islami Bank (7.89%), Union Bank (5.01%), Islami banking branches (2.78%), Islami banking windows (2.11%) and ICB Islami Bank Ltd (0.44%).



## Sector-wise Investments

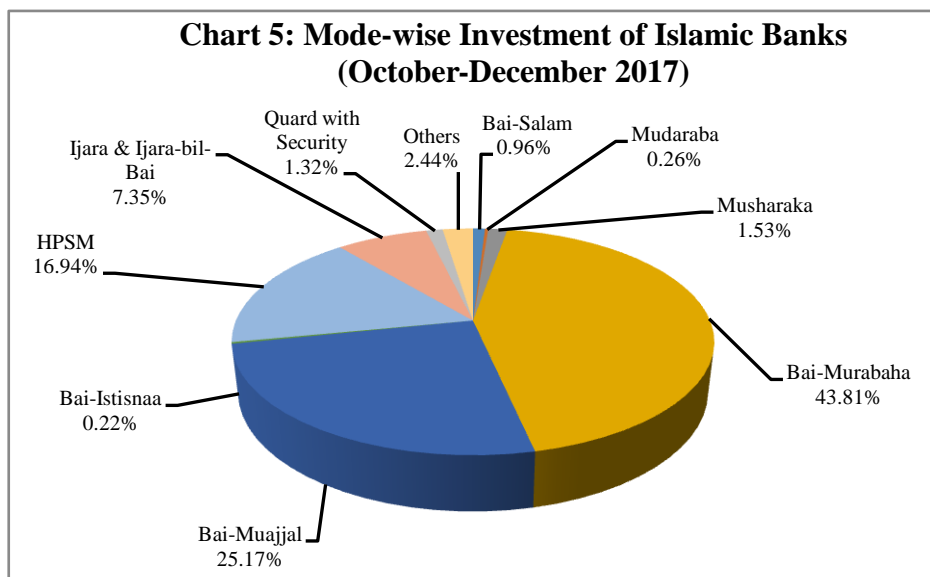
After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector (28.93%) sector was the highest among all sectors (chart-4) at the end of the quarter October-December 2017. The next position was occupied by MSME (Micro, Small and Medium Enterprises) which stood at 27.52% followed by Industrial sector (25.29%), Others (7.80%), Real Estate (6.50%), Agriculture (1.71%), Transportation (1.33%), Electricity, Gas and Water supply (0.82%) and Poverty Alleviation (0.09%).





## Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (43.81%) at the end of the quarter October-December 2017, [chart-5] followed by Bai-Muajjal (25.17%), HPSM (16.94%), Ijara & Ijara-bil-Bai (7.35%), others (2.44%), Musharaka (1.53%), Quard with Security (1.32%), Bai-Salam (0.96%), Mudaraba (0.26%) and Bai-Istisnaa (0.22%).



## Investment situation in the Agricultural sector

Islamic Banking Industry has made tangible contributions in sectors and sub-sectors of agricultural and rural investment programs. During October-December 2017 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 763.39 crores which is lower by Tk. 3.46 crores and Tk. 115.50 crores than the previous quarter and the same quarter of the preceding year respectively. The share of total agricultural investment of Islamic banks accounted for 8.26% among all banks during the quarter under review. Summary of Investments in Agricultural Sector under the Islamic banking framework is provided in Table-3:

**Table-3: Summary of Investments in Agricultural Sector**

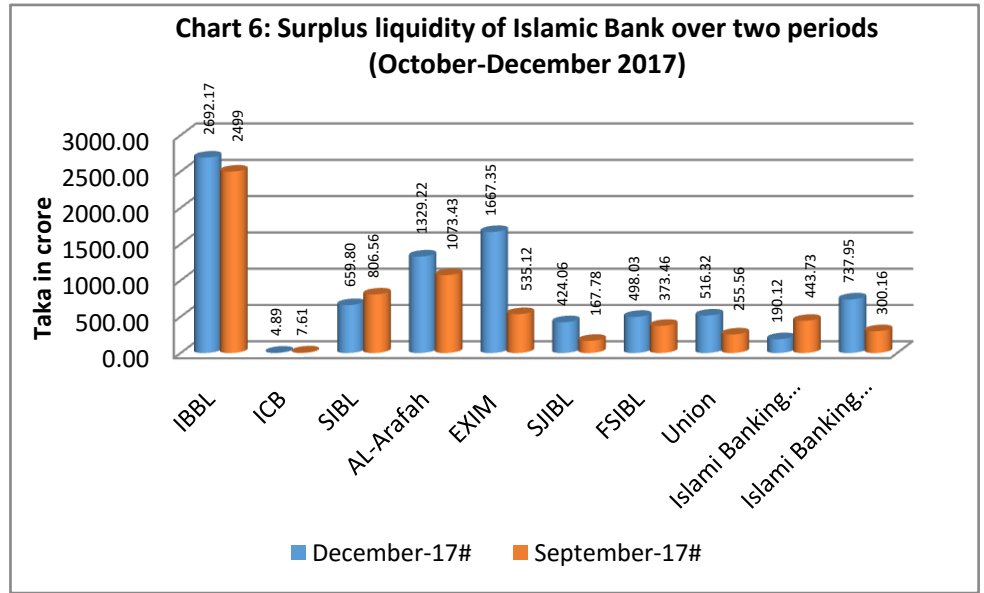
(Tk. In crore)

Details	Total Investment		Agricultural Sector						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Target Achieved	Recovery	Investment/ Outstanding	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8	9	10
December-17#	29914.09	58442.80	606.27	763.39	125.92	949.84	3317.05	647.02	1047.21
September-17#	29993.03	51893.42	584.60	766.85	131.17	606.22	3453.25	1891.35	1172.91
December-16#	28125.18	50666.87	497.79	878.88	176.56	652.61	2740.57	265.99	913.53
Quarterly Changes	-78.94	6549.39	21.66	-3.46	-5.26	343.62	-136.20	-1244.33	-125.70
Annual Changes	1788.91	7775.94	108.47	-115.50	-50.64	297.23	576.48	381.03	133.68

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## Liquidity Situation

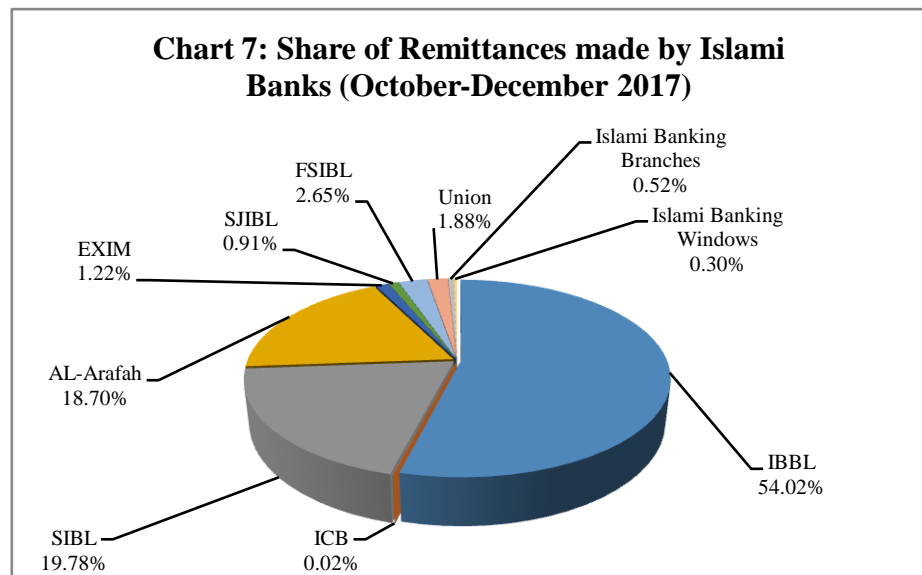
At the end of the quarter October-December 2017, surplus liquidity in the Islamic banking sector stood at Tk. 8719.91 crores which was increased by Tk. 2257.50 crores or by 34.93% and lowered by Tk. 2145.45 crores or by 19.75% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 7791.84 crores, Tk. 190.12 crores and Tk. 737.95 crores respectively. It is



observed that at the end of the quarter October-December 2017, surplus liquidity increased significantly compared to previous quarter but declined compared to corresponding quarter of the previous year. Actually Islamic banks in Bangladesh have been facing excess liquidity problem since long as they cannot invest in Government Treasury Bills and Bonds because of the very interest bearing nature of those monetary instruments. The share of total excess liquidity of Islamic banks accounted for 8.98% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

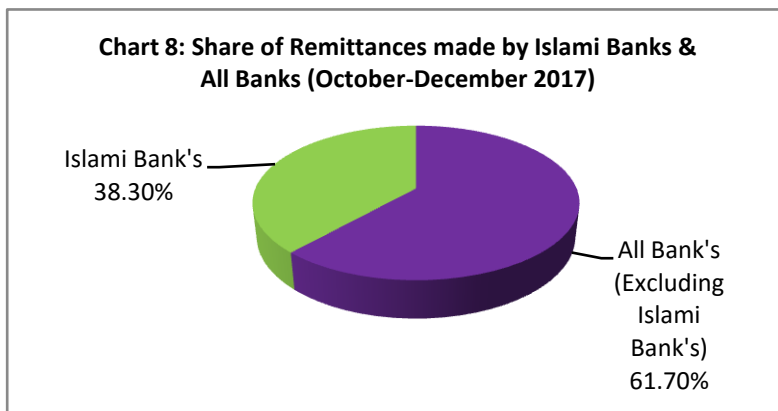
## Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry of the country is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During October-December 2017, amount of remittances reached at Tk. 11070.85 crores which was higher by Tk. 1191.14 crores or by 12.06% and higher by Tk. 1901.21 crores or by 20.73% than



the previous quarter and the corresponding quarter of the last year respectively. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (54.02%) in respect of remittance collection at the end of October-December 2017. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (19.78%), Al Arafah Islami Bank Ltd. (18.70%), First Security Islami Bank Ltd (2.65%), Union Bank Ltd (1.88%), EXIM Bank Ltd. (1.22%), Shahjalal Islami Bank (0.91%), Islamic banking branches (0.52%), and Islamic banking windows (0.30%).

The Islamic Banking Industry accounted for 38.30% share of remittances collected by the entire banking industry at the end of the quarter under review. Remittance collections of all scheduled banks, all Islamic banks, and Islamic banking branches/windows of conventional banks are provided in chart-8.



### 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 Sharia'h-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 increased by 204.56 % in this quarter compared to the previous quarter. At the end of October-December 2017 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.132.53 crores which was Tk. 43.51 crores and Tk. 346.19 crores during the previous quarter and preceding quarter of December 2016 respectively.

### Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1168 at the end of the quarter under review which was 1126 at the end of the previous quarter and was 1090 at the end of the preceding quarter of December 2016. At the end of October-December 2017 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1124 branches, 9 conventional commercial banks had 19 and 7 conventional banks had 25 windows. The share of total bank branches of Islami banks among all scheduled banks accounted for 11.73% at the end of the quarter under review. Information on branches of Islamic banks is shown in Table-4.

**Table 4: Number of Bank Branches of Islamic Banks (October-December, 2017)**

	Name of the Bank	Urban	Rural *	Total
<b>A)</b>	<b>Full-fledged Islamic Banks</b>	<b>672</b>	<b>452</b>	<b>1124</b>
1	Islami Bank Bangladesh Limited *	231	101	332
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	73	65	138
4	Al-Arafah Islami Bank Limited	83	71	154
5	EXIM Bank Limited	66	52	118
6	Shahjalal Islami Bank Limited	70	43	113
7	First Security Islami Bank Limited	87	81	168
8	Union Bank Limited	34	34	68
<b>B)</b>	<b>Islamic banking branches of Conventional banks</b>	<b>18</b>	<b>1</b>	<b>19</b>
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
<b>C)</b>	<b>Islamic banking windows of Conventional banks</b>	<b>25</b>	<b>0</b>	<b>25</b>
1	Sonali Bank Limited	5	0	5
2	Janata Bank Limited**			
3	Agrani Bank Limited	5	0	5
4	Pubali Bank Limited	2	0	2
5	Trust Bank Limited	5	0	5
6	Standard Bank Limited	2	0	2
7	Bank Asia Limited	5	0	5
8	Standard Chartered Bank	1	0	1
<b>D)</b>	<b>Total=A+B+C</b>	<b>715</b>	<b>453</b>	<b>1168</b>

### Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 262 branches and 14 meetings held during the quarter October-December 2017. Total numbers of publications published by the Islamic banks are 6, of which 05 publications were published by Islami Bank Bangladesh Ltd. And 01 publication was published by First Security Islami Bank Ltd. during the quarter under review. Besides, Islamic banks have organized 61 seminar/workshop/conference and 83 training courses in home and abroad. The participants of foreign training course was 13 in number for boost up the Sharia'h based knowledge of its employees during October-December 2017 quarter.

## **Concluding Remarks and Recommendations**

Among different segments of Bangladesh's Islamic finance Industry, Islamic banking industry dominates. The Islamic banking segment continued to show rapid expansion in terms of growth of assets, deposits, investments, and number of account holders. Now the Islamic banking sector accounts for more than 20% market share of the entire banking sector and it plays a significant role in mobilizing deposits and financing different sectors of the economy. During the quarter under review it is observed that, total deposits in Islamic banking industry increased by 5.03% at the end of October-December 2017 quarter compared to previous quarter which was increased by 2.30% at the end of July-September 2017 quarter. On the other hand, total Investments in Islamic banking sector went up by 4.07% at the end of October-December 2017 quarter which was increased by 4.32% at the end of July-September 2017 quarter. It is noteworthy that the pace of deposit growing is more than the rate of investment during the quarter. Surplus Liquidity of Islamic banking industry stood at Tk. 8719.91 crores at the end of October-December 2017 quarter, which was increased by Tk. 2257.50 crores (34.93%) and lowered by Tk. 2145.45 crores (19.75%) compared to the previous quarter and corresponding quarter of the preceding year respectively. surplus liquidity increased significantly compared to previous quarter. total investment increased this quarter mainly in the sector like MSME, Trade & Business and Industry through the operational mechanism of different modes. 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 true modes like Mudaraba and Musharaka are at a minimal level (only 1.79% of total investments). They should pay more attention in Research & Development (R&D) to devising the proper guidelines and policies to promoting investments under Mudaraba and Musharaka modes. Islamic banks may explore and innovate new sharia'h based financial instruments for better liquidity management. As sharia'h is the backbone of the Islamic banking industry, a comprehensive Islamic legal infrastructure with clear ground and commitment is necessary to help expedite Islamic financial industry to spur as it intends for ensuring human welfare.

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