

Developments of Islamic Banking in Bangladesh¹

January-March 2021



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Developments of Islamic Banking in Bangladesh January-March 2021

Global Islamic financial sector continues to grow following its risk sharing, resilience, inclusive and real asset backed transactions features. In tandem with global trends, Bangladesh Islamic banking sector has also recorded robust growth due to policy supports from Bangladesh Bank and public demand. Recently Bangladesh Bank on behalf of the Government has issued sovereign investment sukuk which will smooth liquidity management of Islamic banks, help financing budget deficit and promote Islamic capital markets to raise funds for infrastructure and industrial projects towards achieving higher inclusive GDP growth including sustainable development goals (SDGs).

At the end of March 2021, Bangladesh's 10 full-fledged Islamic banks have been operating with 1558 branches out of total 10767 branches of the whole banking sector. In addition, 19 Islamic banking branches of 8 conventional commercial banks and 178 Islamic banking windows of 11 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the January-March 2020, deposits and investment grew by 9.44% and 9.62% respectively, while excess liquidity increased by 3.72% and remittance decreased by 26.51% compared to that of the last quarter.

The market share of Islamic banks in entire banking sector has increased to 27.54 percent in terms of deposits and 27.72 percent in terms of investments at the end of January-March, 2021. Market share in terms of deposits and investments were 25.33 percent and 25.69 percent at the end of the preceding quarter. The conversion of conventional Standard Bank and NRB Global Bank into Islamic banks has contributed to the promotion of market share of Islamic banks. NRB Global Bank has been renamed as Global Islami Bank.

Similar to conventional banks, Islamic banks are playing vital roles in addressing negative impacts of Covid-19 pandemic. Key steps of Islamic banks for mitigation of adverse impact of the pandemic include keeping branches open to a limited extent during lockdown period, implementation of financial stimulus package as directed by Bangladesh Bank, extension of time for repayment of loans & advances, timely delivery of remittances, undertaking safety measures for staff and emphasizing on online banking and virtual meeting as well as training.

Highlights: Islamic Banking Sector in Bangladesh, January-March 2021

Total Deposits

Total deposits in Islamic banking sector reached BDT 3577.92 billion at the end of March 2021 which increased by BDT 308.70 billion or 9.44% compared to the end of December 2020 and by BDT 731.81 million or 25.71 % compared to the same period of the last year.

Total Investment

Total Investment (loans & advances in conventional banking system) of Islamic banking sector stood at BDT 3223.98 billion at the end of March 2021 which went up by BDT 283.05 billion or 9.62% and by BDT 550.89 billion or 10.02% compared to the end of December 2020 and the end of same period of the last year respectively.

Investment-Deposit Ratio

At the end of March 2021, Investment-Deposit ratio (Credit-Deposit ratio in conventional sense) stood at 0.90 which was at 0.90 at the end of December 2020 and 0.94 at the end of March 2019.

Excess Liquidity

Excess liquidity of Islamic banking sector stood at BDT 304.09 billion at the end of March 2021 which was higher by BDT 72.29 billion (3.72%) and by BDT 231.80 billion (320.66%) than that of the end of December 2020 and that of the end of the same period of the last year respectively.

Total Remittances

Total remittances mobilized by the Islamic banking sector stood at BDT 157.34 billion during January-March 2021, which was lower by BDT 56.75 billion or by 26.51% and higher by BDT 56.75 billion or 56.41% than that of the December quarter 2020 and the March quarter 2019 respectively. Islamic banks have accounted for 32.82% share of remittances mobilized by the entire banking sector during January-March 2021.

Branches

The number of branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1755 at the end of March 2021 which was 1528 at the end December 2020 and 1428 at end March of last year.

Manpower

Total employment in the Islamic banking sector stood at 43288 at the end of March 2021 which was 38784 at the end of December 2020 and 36372 at end March 2019.

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

(In Billion BDT)

Items	January-March 2021 [@]			October-December 2020 [@]
	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	12989.72	3577.92	27.54	25.33
Total loans & advances	11630.26	3223.98	27.72	25.69
Remittances	479.42	157.34	32.82	40.51
Total excess liquidity	1981.16	304.09	15.35	14.32
Total number of bank branches	10767	1755	16.30	14.21
Total agricultural credit	64.35	11.83	18.38	13.41

Source: Statistics Department and MPD, Bangladesh Bank.

[@] Provisional

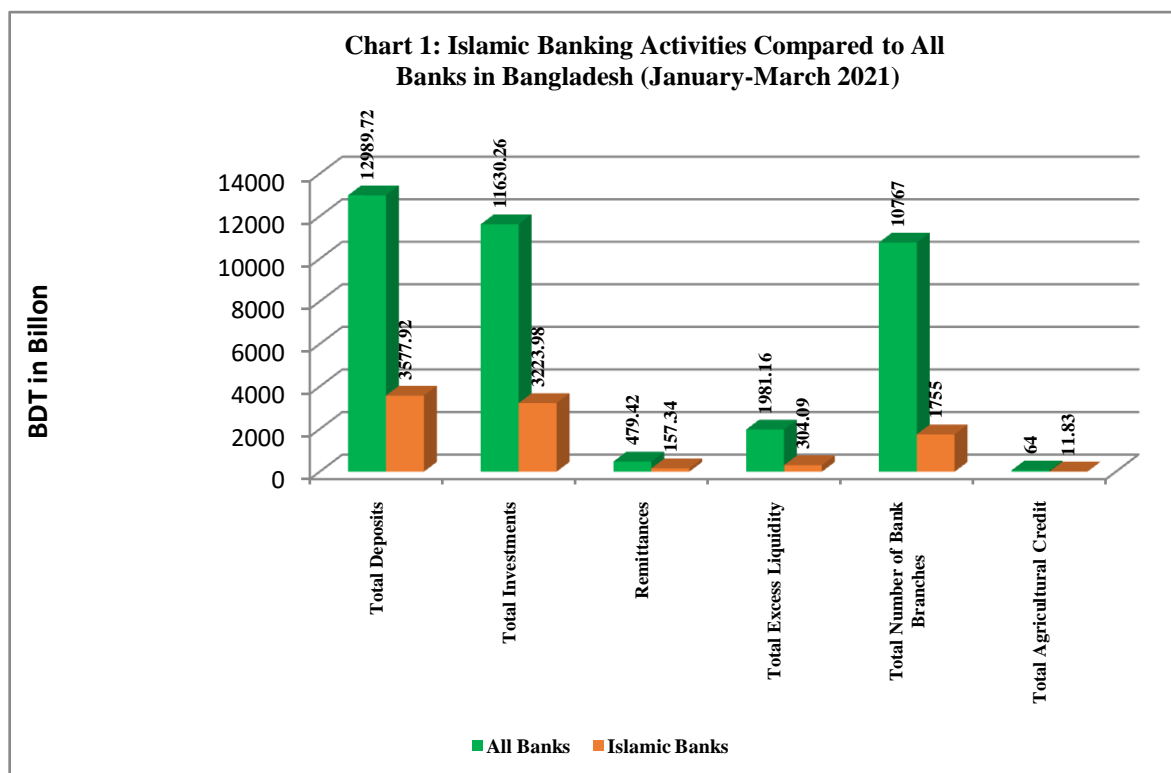


Table 2: Activities of Islamic Banking Sector in Bangladesh, January-March 2021

(In Billion BDT)

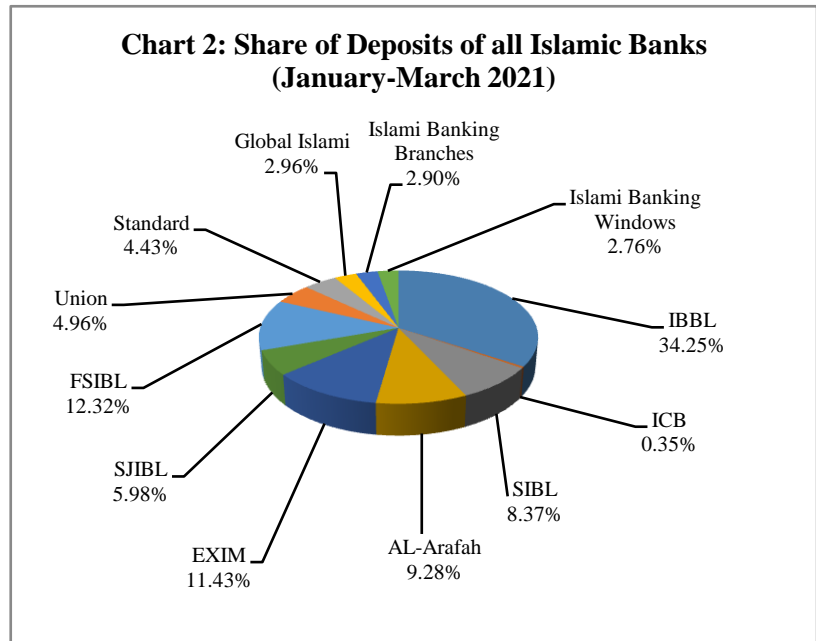
Statistics of Islamic banking Sector	March-21 ^P Quarter	December - 20 ^P Quarter	March - 19 ^P Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total deposits* (outstanding)	3577.92	3269.22	2846.12	308.70	731.81	9.44	25.71
a) Full-fledged Islamic banks	3375.10	3060.00	2673.41	315.10	701.70	10.30	26.25
b) Conventional banks having Islamic banking branches	103.89	101.81	88.49	2.08	15.40	2.04	17.41
c) Islamic banking windows	98.93	107.41	84.22	-8.48	14.71	-7.89	27.53
Total Investment* (outstanding)	3223.98	2940.94	2673.09	283.05	550.89	9.62	10.02
a) Full-fledged Islamic Banks	3076.90	2790.73	2544.22	286.18	532.68	10.25	9.69
b) Conventional banks having Islamic banking branches	86.40	77.52	73.64	8.87	12.75	11.44	5.27
c) Islamic banking windows	60.69	72.69	55.22	-12.00	5.46	-16.51	9.89
Investment-Deposit ratio	0.90	0.90	0.94	0.00	-0.04	0.00	-4.22
a) Full-fledged Islamic Banks	0.91	0.91	0.95	0.00	-0.04	-0.04	-4.21
b) Conventional banks having Islamic banking branches	0.83	0.76	0.83	0.07	0.00	9.21	-0.08
c) Islamic banking windows	0.57	0.77	0.66	-0.21	-0.09	-26.88	-13.70
Liquidity excess(+)/shortfall(-)	304.09	293.18	72.29	10.91	231.80	3.72	320.66
a) Full-fledged Islamic Banks	262.15	255.08	48.56	7.08	213.60	2.77	439.86
b) Conventional banks having Islamic banking branches	16.05	17.48	2.17	-1.43	13.89	-8.17	640.73
c) Islamic banking windows	25.88	20.62	21.56	5.26	4.32	25.53	20.03
Total remittances	157.34	214.09	100.59	-56.75	56.75	-26.51	56.41
a) Full-fledged Islamic banks	156.06	210.90	100.08	-54.83	55.98	-26.00	55.93
b) Conventional banks having Islamic banking branches	0.91	2.84	0.32	-1.94	0.58	-68.13	182.00
c) Islamic banking windows	0.38	0.36	0.19	0.20	0.19	5.32	99.42
Total number of branches	1755	1528	1428	277	327	14.86	22.90
a) Full-fledged Islamic Banks	1558	1311	1274	247	284	18.84	22.29
b) Conventional banks having Islamic banking branches	19	19	19	0.00	0.00	0.00	0.00
c) Islamic banking windows	178	198	135	-20	43	-10.10	31.85
Total number of manpower	43288	38784	36372	4504	6916	11.61	19.01
a) Full-fledged Islamic Banks	42367	37810	35530	4557	6837	12.05	19.24
b) Conventional banks having Islamic banking branches	372	349	361	23	11	6.59	3.05
c) Islamic banking windows	549	625	481	-76	68	-12.16	14.14

* = Excluding inter-bank items.

^P= Provisional.

Mobilization of Deposits

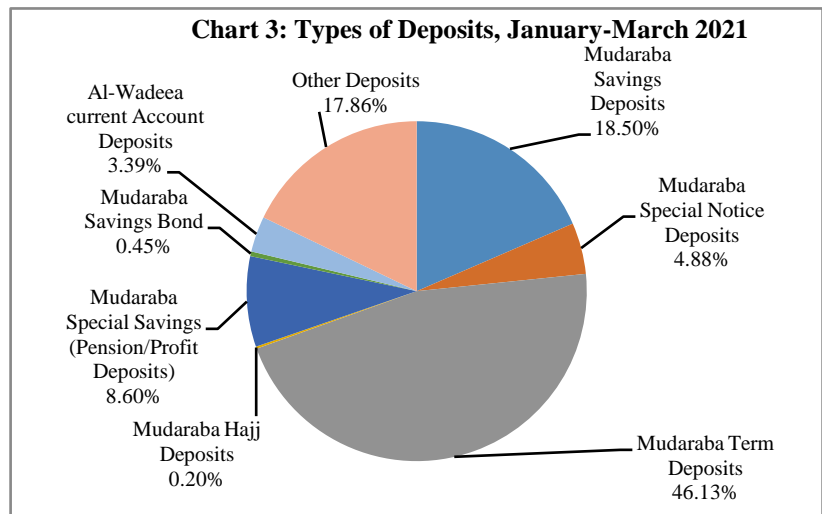
Total deposits in Islamic banking sector reached BDT 3577.92 billion at the end of March 2021, which increased by BDT 308.70 billion or 9.44% compared to that of the end of December 2020 and by BDT 731.81 billion or 25.71% compared to that of the of same month of last year. Among the total deposits, demand deposit was BDT 377.34 billion and time deposit was BDT 3200.58 billion. The share of total deposits of Islamic banks accounted for 27.54% among all banking sector at the end of March 2020.



Deposits of 10 full-fledged Islamic banks stood at BDT 3375.10 billion at the end of March 2021. Total deposits of the eight full-fledged Islamic banks accounted for 94.33% of deposits of the Islamic banking sector. Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (34.25%) followed by First Security Islami Bank Ltd. (12.32%), EXIM Bank Ltd. (11.43%), Al-Arafah Islami Bank Ltd. (9.28%), Social Islami Bank Ltd. (8.37%), Shahjalal Islami Bank Ltd. (5.98%), Union Bank Limited (4.96%), Standard Bank Ltd. (4.43%), Global Islami Bank (2.96%), Islamic banking branches (2.90%), Islamic banking windows (2.76%) and ICB Islamic Bank Limited (0.35%) [Chart-2].

Types of Deposits

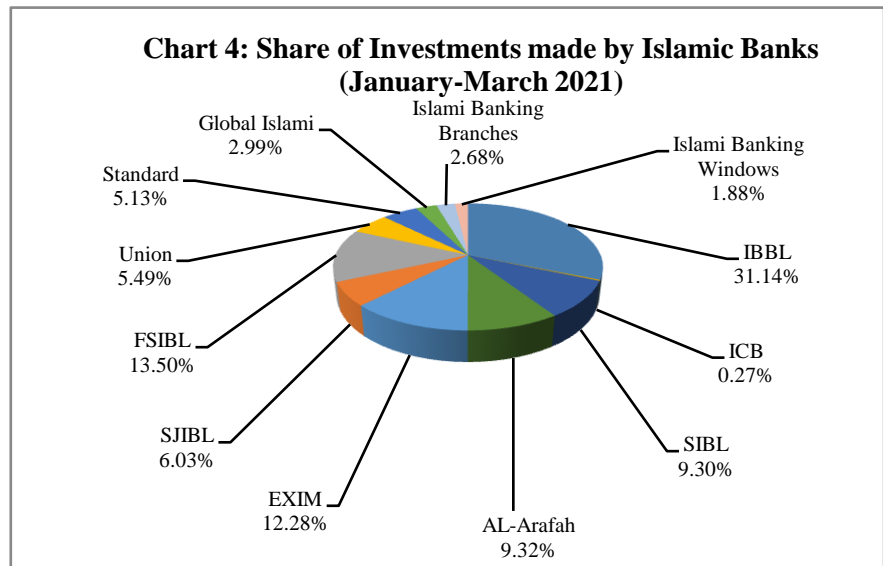
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (46.13%) followed by Mudaraba Savings Deposits (MSD) (18.50%), Other Deposits (17.86%), Mudaraba Special Savings (pension/profit) Deposits (8.60%), Mudaraba Special Notice Deposits (4.88%), Al-Wadeeah Current Account Deposits (3.39%), Mudaraba Savings Bond (0.45%) and Mudaraba Hajj Deposits (0.20%) . during



January-March 2021. [Chart-3].

Investment

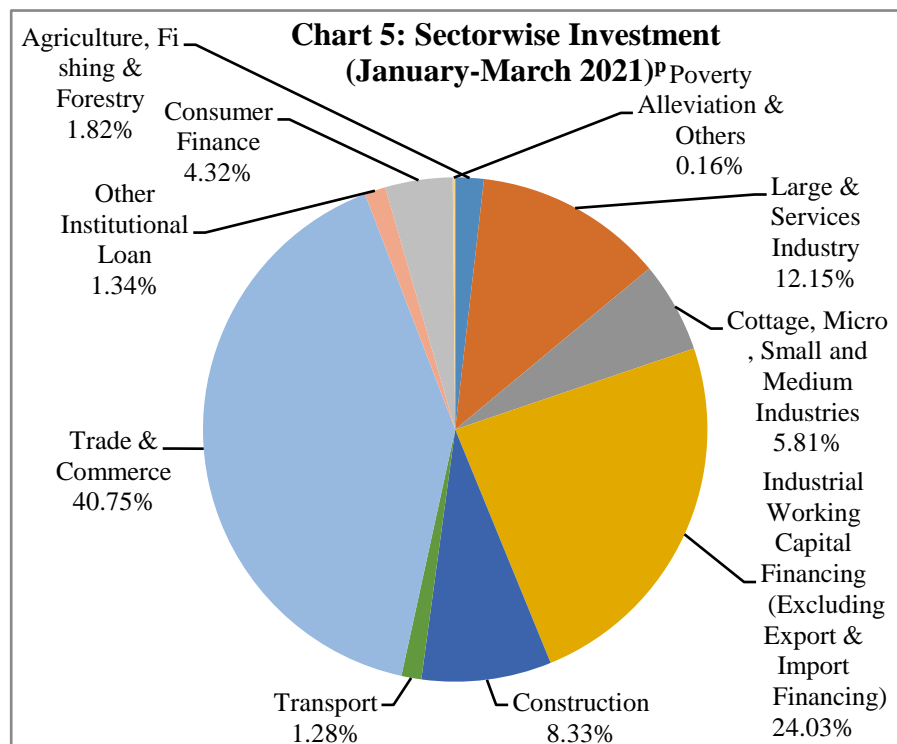
Total investment (loans & advances in conventional banking system) in Islamic banking sector stood at BDT 3223.98 billion at the end of March 2021, which went up by BDT 283.05 billion or 9.62% and by BDT 550.89 million or 10.02% compared to that of the end of December 2020 and of the end of same period of preceding year respectively. The share of total investment of Islamic banks accounted for 27.72% among all banks loans & advances.



Out of total investment of Islamic banks, 95.44% was made by 10 full-fledged Islamic banks, 2.68% by the conventional bank’s Islamic banking branches and the rest 1.88% by the conventional bank’s Islamic banking windows. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investment(31.14%) at the end of March 2021 followed by First Security Islami Bank Ltd. (13.50%), EXIM Bank Ltd. (12.28%), Al-Arafah Islami Bank Ltd. (9.32%), Social Islami Bank Ltd. (9.30%), Shahjalal Islami Bank Ltd. (6.03%), Union Bank Ltd. (5.49%), Standard Bank Ltd. (5.13%), Global Islami Bank (2.99%), and ICB Islamic Bank Ltd. (0.27%), (Chart-4).

Sector-wise Investment

Analyzing the sector-wise investment, in the Trade and Commerce sector (40.75%) was found to be the highest among all sectors at the end of March 2021 (Chart-5). The next position was occupied by Industrial Working Capital Financing which stood at 24.03% followed by Large & Services Industry (12.15%), Construction (8.33%), CMSM (Cottage, Micro, Small and Medium Industries) (5.81%), Consumer Finance (4.32%), Agriculture, Fishing and Forestry (1.82%), Other Institutional Loan (1.34%), Transport (1.28%) and

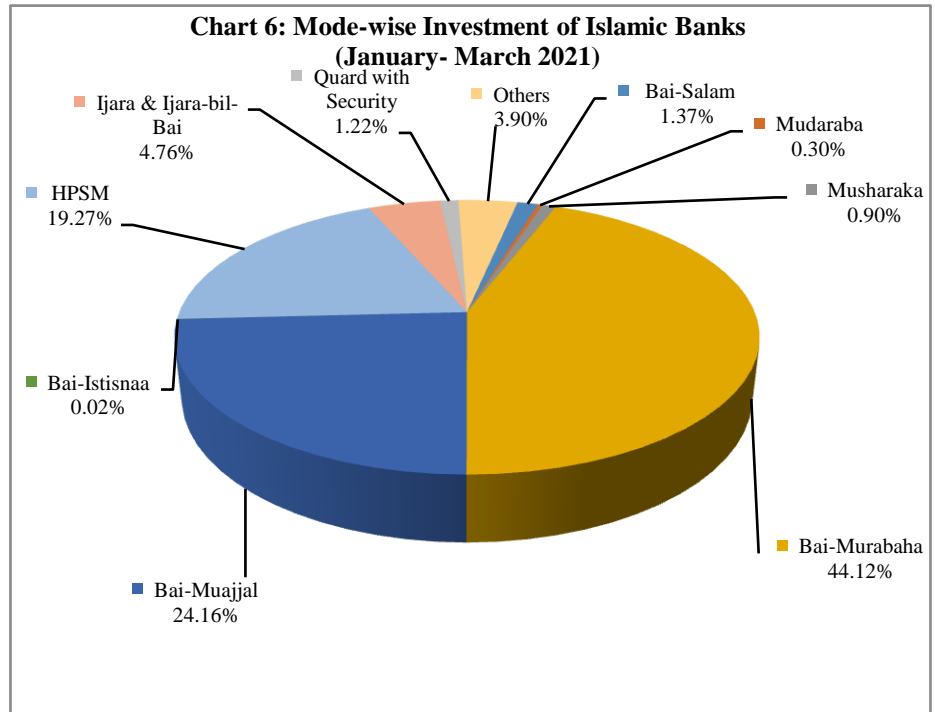


Poverty Alleviation & Others (0.16%).

P =Provisional

Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was made through Bai-Murabaha mode (44.12%) at the end March 2021 followed by Bai-Muajjal (24.16%), HPSM (19.27%), Ijara & Ijara-bil Bai (4.76%), Others (3.90%), Bai-Salam (1.37%), Quard with Security (1.22%), Musharaka (0.90%), Mudaraba (0.30%), and Bai-Istisna (0.02%). [Chart-6]



Investment Situation in the Agricultural Sector

Islamic banking sector has made significant contributions in different sub-sectors of agricultural and rural credit programs. During January-March 2021, investment in agricultural sector made by Islamic banking sector reached BDT 11.83 billion which was lower by BDT 0.31 billion than that of the previous quarter and higher by BDT 0.49 billion compared to that of the end of the same quarter of the preceding year. The share of total agricultural credit of Islamic banks accounted for 18.38% 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:

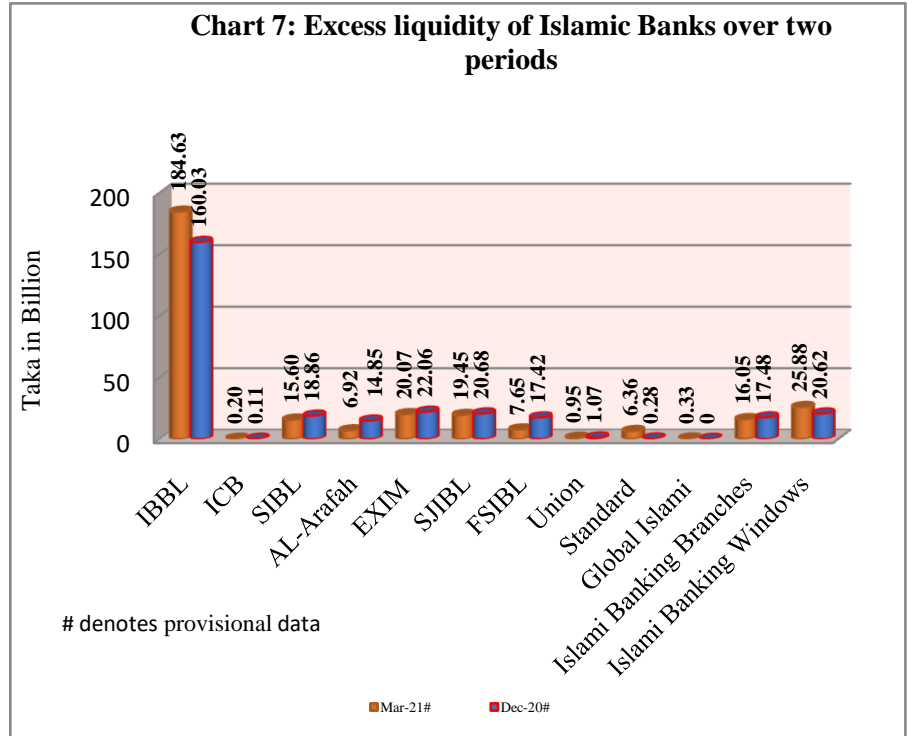
Table-3: Summary of Investment in Agricultural Sector (BDT In Billion)

Details	Investment in agricultural sector during the quarter						
	Investment target	Actual Investment disbursement	Target achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	4	5	6	7	8	9	10
March-2021#	11.80	11.83	100.28	13.07	42.29	2.73	13.85
December-2020#	11.27	12.14	107.71	12.19	39.68	11.51	12.15
March - 2020#	17.78	11.34	0.64	10.18	33.18	11.32	14.71
Quarterly Changes	0.53	-0.31	-7.44	0.88	2.61	-8.78	1.70
Annual Changes	-5.98	0.49	99.64	2.89	9.12	-8.59	-0.86

Provisional

Liquidity Situation

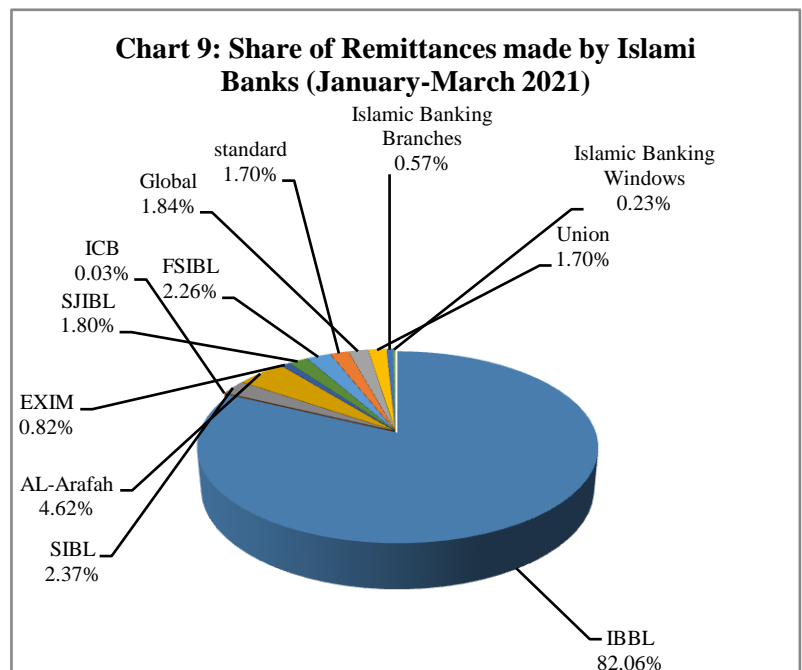
Excess liquidity of Islamic banking sector stood at BDT 304.09 billion at the end of March 2021, which was higher by BDT 10.91 billion (3.72%) and higher BDT 231.80 billion (320.66%) than that of the end of December 2020 and the end of same month of the last year respectively. The excess liquidity of 10 Islamic banks, Islamic banking branches of conventional banks and Islamic banking windows of conventional banks stood at BDT 262.15 billion, BDT 16.05 billion and BDT 25.88 billion respectively. Summary of liquidity situation in the Islamic banking sector is shown in chart-7.



Remittances Mobilized by the Islamic Banking Sector

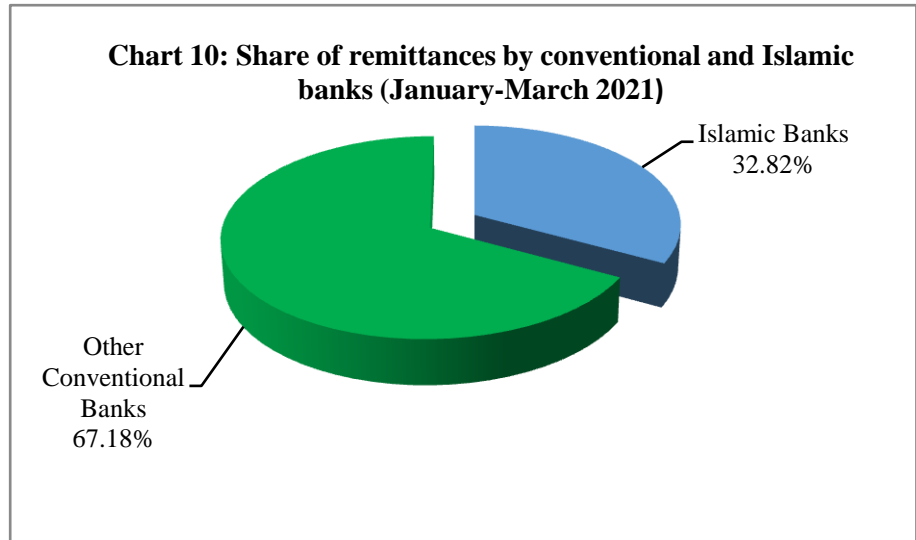
Islamic banking industry of the country is playing a vital role in collecting foreign remittances and disbursing the same among beneficiaries across the country. Total remittances mobilized by the Islamic banking sector stood at BDT 157.34 billion during January-March 2021, which was lower by BDT 56.75 billion or 26.51% and higher by BDT 56.75 billion or 56.41% than that of October-December 2020 and January-March 2020 respectively.

Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (82.06%) in respect of remittance collection during January-March 2021.



The other Islamic banks and their shares of mobilizing remittances were Al-Arafah Islami Bank Ltd. (4.62%), Social Islami Bank Ltd (2.37%), First Security Islami Bank Ltd (2.26%), Global Islami Bank (1.84%), Shahjalal Islami Bank (1.80%), Union Bank Ltd (1.70%), Standard Bank Ltd. (1.70%), EXIM Bank Ltd. (0.82%), Islamic banking branches of conventional banks (0.57%), Islamic banking windows (0.23%) and ICB Islamic Bank (0.03%) [Chart-8].

The Islamic banking sector accounted for 32.82% share of remittances mobilized by the entire banking sector during the quarter under review. Remittance mobilizations of all scheduled banks, all Islamic banks including Islamic banking branches and windows of conventional banks are provided in chart-9.



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 January-March 2021 had been recorded at BDT 1.54 billion which was BDT 1.28 billion in October-December 2020 and BDT 1.03 billion in January-March 2020.

Expansion of Branches:

The number of branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached 1755 at the end of the quarter under review which was 1528 during the previous quarter and 1428 during the same quarter of the last year. At the end of January-March 2021, 10 full-fledged Islamic banks had 1558 branches, 8 conventional commercial banks had 19 Islamic banking branches and 11 conventional banks had 178 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 16.30% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (January-March 2021)

Name of the Bank		Urban	Rural *	Total
1		2	3	4=(2+3)
A)	Full-fledged Islamic Banks	891	697	1558
1	Islami Bank Bangladesh Limited *	247	126	373
2	ICB Islamic Bank Limited	32	1	33
3	Social Islami Bank Limited *	88	80	168
4	Al-Arafah Islami Bank Limited	96	88	184
5	EXIM Bank Limited	71	61	132
6	Shahjalal Islami Bank Limited	71	61	132
7	First Security Islami Bank Limited	109	86	195
8	Union Bank Limited	47	49	96
9	Standard Bank Limited	83	85	138
10	Global Islami Bank Limited	47	60	107
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	0	0
C)	Islamic banking windows of Conventional banks	164	14	178
1	Sonali Bank Limited	58	0	58
2	Janata Bank Limited**	0	0	0
3	Agrani Bank Limited	15	0	15
4	Pubali Bank Limited	17	0	17
5	Trust Bank Limited	15	0	15
6	Bank Asia Limited	5	0	5
7	Standard Chartered Bank	1	0	1
8	Mercantile Bank	35	10	45
9	Midland Bank	2	0	2
10	NRBC Bank	8	0	8
11	One Bank Limited***	2	0	2
12	United Commercial Bank***	6	4	10
D)	Total=A+B+C	1073	712	1755

* Including SME branches **Janata Bank Limited has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started, ***,One Bank and UCB Limited have started offering Islamic services through dedicated windows.

Bangladesh Government Islamic Securities

This section focuses on Bangladesh Government Islamic Securities comprising Sovereign Investment Sukuk and Bangladesh Government Islamic Investment Bond (GIIB).

Issue of Maiden Sovereign Investment Sukuk and Its Huge Response

Bangladesh Bank on behalf of the Government has issued maiden sukuk on December 28th, 2020 to raise BDT 80.00 billion for the implementation of a safe water supply project across the nation. The overall cost of the project is estimated at BDT 88.51 billion of which BDT 8.51 billion will be provided by the Government according to the prospectus¹. The Finance Ministry and Bangladesh Bank will act as the originator and a special purpose vehicle (SPV) respectively. In first phase, the Government collected BDT 40.00 billion for the projects through an auction held on December 28th, 2020. Investors submitted bids worth BDT 15.15 billion during the auction. The issue has been oversubscribed by near four times. The second auction was held in June 9, 2021 to raise remaining amount of fund worth BDT 40.00 billion which was also oversubscribed nearly by 8 times. The huge oversubscription indicates vivid prospect of sukuk market in Bangladesh

The sukuk holders would receive a profit of 4.69 percent on their aggregate investment in the Islamic sukuk. Bangladesh Bank has fixed the rate-based on the Bangladesh Government Islamic Investment Bond (BGIIB). Profits will be paid to investors on a half-yearly basis. A client will have to invest a minimum of BDT 10,000 in the security, and there is no upper limit. Banks, corporate institutions and individuals will be permitted to invest. The sukuk will mature in five years.

Bangladesh Government Islamic Investment Bond (BGIIB)

Bangladesh Government Islamic Investment Bond (BGIIB) introduced in 2004 was the only approved Shariah compliant security other than the newly issued sukuk to maintain the SLR by the Islamic banks. However, the limitation of the BGIIB is that Government cannot borrow from BGIIB fund due to absence of Shariah compliant projects. Given this, only Islamic banks can borrow from this fund in case of liquidity shortage which is mobilized through selling of the GIIB securities based on mudarabah principle. Islamic banks avail this fund at a provisional rate of profit based on its Mudarabah short notice deposit accounts which are adjusted after finalization of accounts and rate of profit of the concerned Islamic banks. Table 1 shows the trend of sale, financing and net balance over the periods during FY10-FY20.

¹ https://www.bb.org.bd/mediaroom/notice/sukuk_prospectus.pdf

Table 1: Bangladesh Government Islamic Investment Bond**(Billion BDT)**

	Sale	Financing	Net Balance
FY10	23.40	15.40	8.00
FY11	25.30	22.80	2.50
FY12	31.48	31.26	0.22
FY13	107.13	67.78	39.35
FY14	121.34	24.37	96.96
FY15	135.84	25.40	110.44
FY16	122.94	37.80	85.95
FY17	84.01	54.70	29.31
FY18	92.95	81.20	11.75
FY19	107.11	84.80	22.31
FY20	131.88	67.82	64.06

Source: Annual Report, Bangladesh Bank, Various issues

Concluding Remarks and Recommendations

In Bangladesh, Islamic banking sector plays significant role in mobilizing deposits and financing various economic activities. Among different segments of Bangladesh's Islamic financial sector, Islamic banking sector dominates with more than 27% share of the entire banking sector. The other segments of Islamic financial sector such as Islamic capital market, Islamic insurance (Takaful) and microfinance sector may also flourish systematically if supportive policies are adopted and implemented.

As Islam prohibits usury, Islamic banks cannot invest in interest-bearing Government treasury bills and investment bonds existing in the market. So, the recent introduction of Sukuk will smooth liquidity management of Islamic banks, help budget deficit administration and promote Islamic capital market.

The investments made by Islamic banks in ideal Islamic modes like Mudaraba and Musharaka are at a minimal level (below 2% of total investments). Given this, Islamic banks should pay more attention in Research and Development (R&D) to develop proper guidelines and policies to promote investments under Mudaraba and Musharaka modes. Islamic banks can also play increase investments in microfinance programs and women enterprises towards poverty alleviation and empowerment of the poor. It would promote welfare oriented banking as directed by objectives of Islamic Shariah popularly known as Maqasid al Shariah.

To address Shariah compliance issues of Islamic financial industry properly, adoption of Shariah standards from International accounting and auditing organizations will be useful. In this regard, Islamic banks and conventional banks having Islamic banking branches and windows may undertake necessary action to be the member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

In addition, Bangladesh's Islamic banking sector also needs to increase the application of Shariah-compliant fintech to carry out financial transactions more efficiently.

The outbreak of Covid-19 has created challenges for Islamic banking sector as conventional banking sector. Islamic banking sector needs to properly implement stimulus packages to mitigate adverse impacts of the pandemic and maintain its development roles in the national economy by promoting saving-investment process and trade activities further. In fact, the Covid-19 pandemic is a real test for Islamic banks for maintaining resilience and employing usual commercial tools as well as social tools in the recovery process of the national economy. Islamic banks should focus on support for the poor and destitute through enhanced investments in small and micro enterprises and increased expenditures in CSR activities.

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