

Developments of Islamic Banking in Bangladesh January-March, 2014



Research Department

Bangladesh Bank

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Bangladesh Islamic banking industry comprising 8 full-fledged Islamic banks, 19 Islamic banking branches of 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks are providing Islamic banking services in the form of deposit mobilization and investments in trade, industry and other sectors including agriculture. During January-March 2014 quarter, deposits, investments and liquidity of Islamic banking industry grew by 5.39%, 3.87% and 16.80% respectively compared to the previous quarter. At the end of quarter, Islamic banking industry accounted for more than one-fifth share of the entire banking industry in terms of deposits and investments.

Highlights of Islamic Banking in Bangladesh, January-March 2014

- Total deposits in Islamic banking industry reached Tk. 126598.74 crores, which increased by Tk. 6471.94 crores or by 5.39% at the end of January-March 2014 quarter compared to previous quarter and increased by Tk. 18708.77 crores or by 17.34% compared to corresponding quarter of the last year.
- Total investments in Islamic banking sector stood at Tk. 107598.05 crores at the end of January-March 2014 quarter, which went up by Tk. 4007.67 crores or by 3.87% compared to previous quarter and increased by Tk. 12720.07 crores or by 13.41% compared to same quarter of the previous year.
- Investment-Deposit ratio stood at 0.85 in January-March 2014, which was 0.86 in the last quarter and 0.88 at the end of March 2013.
- At the end of January-March 2014 quarter, surplus liquidity of Islamic banks stood at Tk. 10945.23 crores, which was higher by Tk. 1574.43 crores (16.80%) than previous quarter and by Tk. 5555.97 crores (103.09%) compared to the corresponding quarter of the preceding year.

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- At the end of the quarter under review, number of branches of Islamic banks including Islamic branches/windows of commercial banks was 869 which was 867 during the previous quarter and 800 during the same quarter of the last year.

- Total manpower in Islamic banking sector was 25719 in number at the end of the quarter under review which is greater by 316 persons than that of the last quarter and by 2535 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities in Bangladesh, January-March 2014

Particulars	Mar-14 [#]	Dec-13	Mar-13	Changes		Percentage (%)	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (In Crore Taka)	126598.74	120126.80	107889.97	6471.94	18708.77	5.39	17.34
a) Full-fledged Islamic Banks	119495.75	113441.43	100664.37	6054.32	18831.37	5.34	18.71
b) Conventional banks having Islamic banking branches	5021.89	4756.19	5666.10	265.70	-644.21	5.59	-11.37
c) Islamic banking windows	2081.10	1929.18	1559.49	151.92	521.61	7.88	33.45
Total Investments* (In Crore Taka)	107598.05	103590.37	94877.98	4007.67	12720.07	3.87	13.41
a) Full-fledged Islamic Banks	102283.08	98151.34	89770.96	4131.74	12512.11	4.21	13.94
b) Conventional banks having Islamic banking branches	3805.66	4019.17	4024.69	-213.51	-219.03	-5.31	-5.442
c) Islamic banking windows	1509.31	1419.86	1082.32	89.45	426.98	6.30	39.45
Investment/Deposit Ratio	0.85	0.86	0.88	-0.01	-0.03	-1.17	-3.35
a) Full-fledged Islamic Banks	0.86	0.87	0.89	-0.01	-0.04	-1.61	-4.02
b) Conventional banks having Islamic banking branches	0.76	0.85	0.71	-0.09	0.05	-10.85	6.69
c) Islamic banking windows	0.73	0.74	0.69	-0.01	0.03	-1.99	4.50
Liquidity Situation (In Crore Taka)	10945.23	9370.80	5389.26	1574.43	5555.97	16.80	103.09
a) Full-fledged Islamic Banks	9647.94	8286.20	2954.65	1361.74	6693.29	16.43	226.53
b) Conventional banks having Islamic banking branches	1106.86	951.77	2100.42	155.10	-993.55	16.30	-47.30
c) Islamic banking windows	190.42	132.83	334.19	57.59	-143.77	43.35	-43.02
Total Branches	869	867	800	2	69	0.23	8.63
a) Full-fledged Islamic Banks	825	823	755	2	70	0.24	9.27
b) Islamic banking branches of Conventional banks	19	19	20	0	-1	0.00	-5.00
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	25719	25403	23184	316	2535	1.24	10.93
a) Full-fledged Islamic Banks	25194	24856	22656	338	2538	1.36	11.20
b) Conventional banks having Islamic banking branches	392	412	407	-20	-15	-4.85	-3.69
c) Islamic banking windows	133	135	121	-2	12	-1.48	9.92
* = Excluding Inter-Bank Items							
[#] = provisional							

Source: Islamic Banks

Note: 1) 1 Crore=10 Million, 2) BD Taka/1 USD=77.63 (as on 3 June, 2014)

Deposits

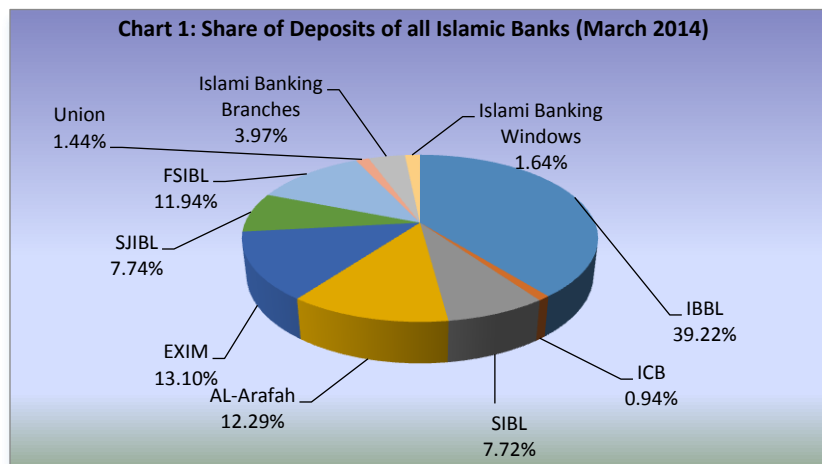
Total deposits of Islamic banking industry stood at Tk. 126598.74 crores during the quarter of January-March 2014, which was higher by Tk. 6471.94 crores (5.39%) and by Tk. 18708.77 (17.34%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 14463.20 crores and time deposit was Tk. 112135.55 crores. The share of Islamic banking industry deposits in overall banking industry stood at 21.30% in March 2014 compared to 21.35% in March 2013.

Total deposits of the eight full-fledged Islamic banks accounted for 94.39% of deposits of the Islamic banking industry.

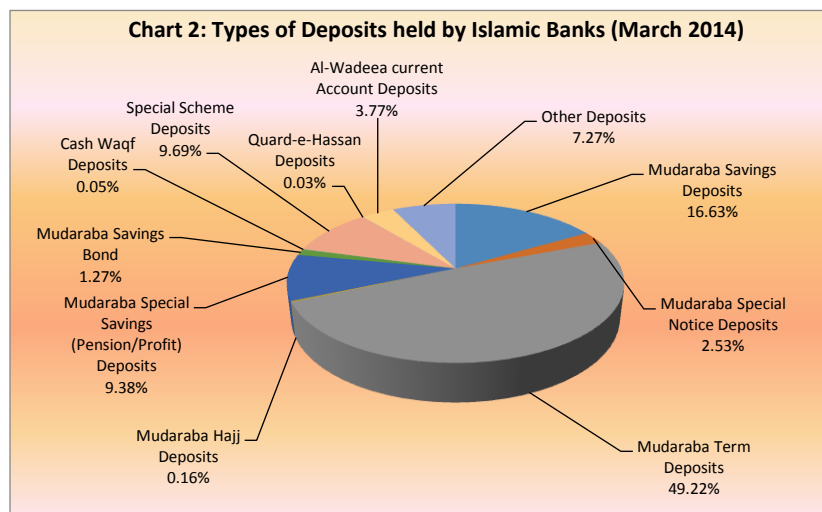
Deposits of 8 full-fledged Islamic banks stood at Tk. 119495.75 crores as on end March 2014.

Among Islamic banks, Islami Bank Bangladesh Limited belonged to the biggest share of deposits (39.22%) [chart-1],

followed by Exim Bank Ltd. (13.10%), Al-Arafah Islami Bank Ltd. (12.29%), First Security Islami Bank Ltd.(11.94%), Shahjalal Islami Bank Ltd. (7.74%) and Union Bank Limited (1.44%).



Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (49.22%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (16.63%), Special Scheme Deposit (9.69%), Mudaraba Special

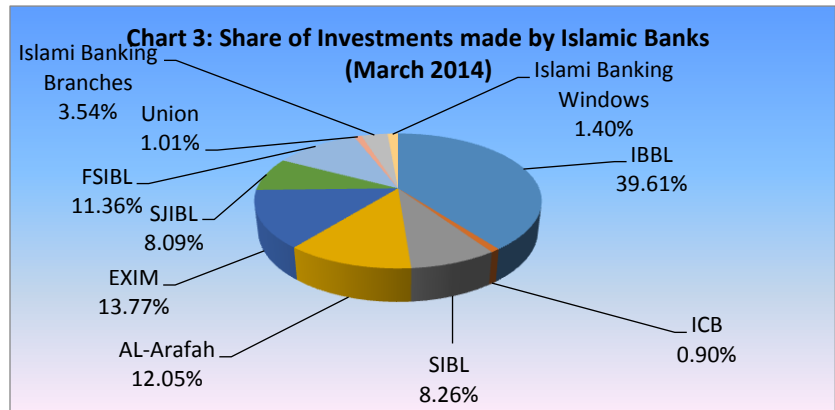


Savings (pension/profit) Deposits (9.38%) and Current Account Deposits (3.77%).

Investments

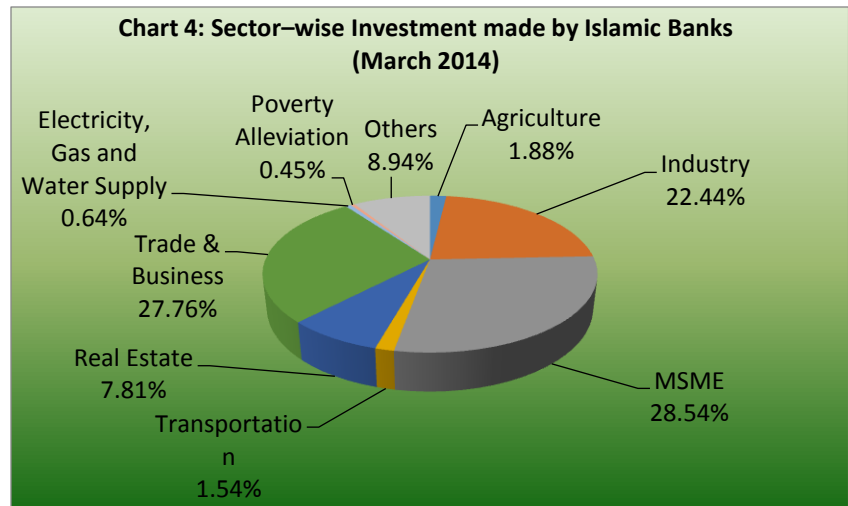
Total amount of investments in Islamic Banking industry reached Tk. 107598.05 crores during January-March 2014 which represents 22.19% share of the whole banking industry. During the quarter, investments increased by 3.87% and 13.41% respectively compared to the previous quarter and the corresponding quarter of the preceding year.

Among total investments, 95.06% were made by 8 full-fledged Islamic banks, 3.54% by the scheduled banks' Islamic banking branches and the rest 1.40% by the scheduled banks' Islamic banking windows. As in the case of deposits, Islami Bank



Bangladesh Ltd attained the highest share in investments which was 39.61% during January-March 2014 (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (13.77%), Al Arafah Islami Bank Ltd. (12.05%), First Security Islami Bank Ltd (11.36%), Social Islami Bank Ltd (8.26%), Shahjalal Islami Bank (8.09%), Union Bank (1.01%) and ICB Islami Bank Ltd (0.90%).

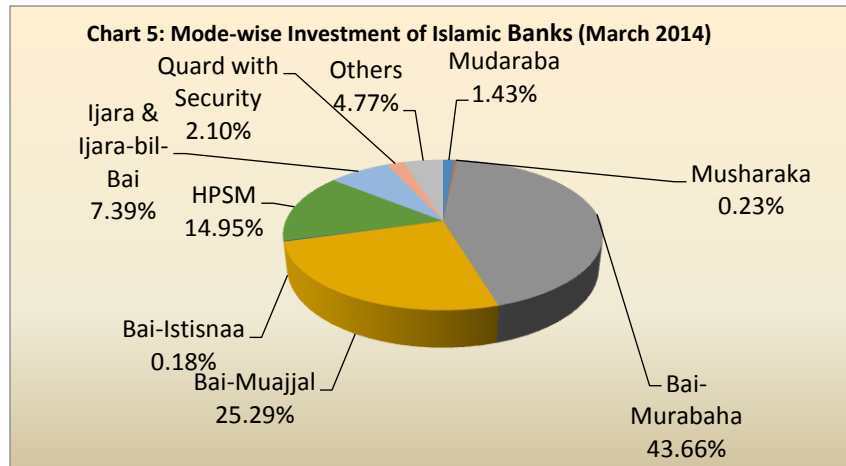
After analyzing the sector-wise investment, it can be observed that investment in the MSME (Micro, Small and Medium Enterprises) sector is the highest among all sectors which stood at



28.54% (chart-4). The next position is occupied by Trade & Business (27.76%) followed by Industrial sector (22.44%), others (8.94%), Real Estate

(7.81%), Agriculture (1.88%), Transportation (1.54%), Electricity, Gas and Water supply (0.64%) and Poverty Reduction (0.45%).

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (43.66%) during January-March 2014 [chart-5] followed by Bai-Muajjal (25.29%), HPSM (14.95%),

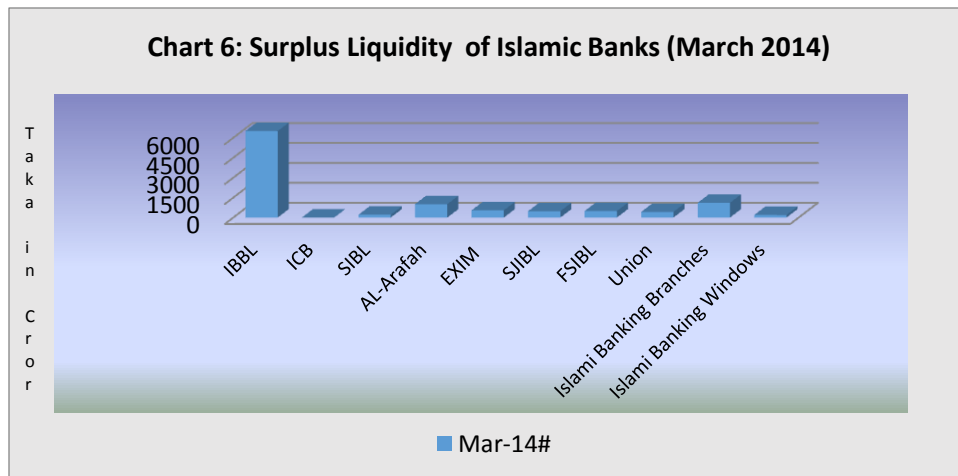


Ijara & Ijara-bil-Bai (7.39%), others (4.77), Quard with Security (2.10%), Mudaraba (1.43%), Musharaka (0.23%), and Bai-Istisna (0.18%).

Liquidity Situation

At the end of the quarter January-March 2014, surplus liquidity in the Islamic banking sector stood at Tk 10945.23 crores which was greater by 16.80% than the last quarter’s surplus liquidity of Tk. 9370.80 crores and by Tk. 5389.26 crores of the same quarter of the previous year. The surplus liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 9647.94 crores, Tk. 1106.86 crores and Tk. 190.42 crores respectively. Summary of surplus liquidity situation in the Islamic Banking sector is shown in chart

6.



Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) was 869 at the end of the quarter January-March 2014 which was 867 at the end of the preceding quarter and 800 at the end of March 2013. Among them, 8 full-fledged Islamic banks had 825 branches, 8 conventional commercial banks had 19 and 7 regular banks had 25 windows. Information on branches of Islamic banks is shown in Table-2.

Table-2: Number of Branches of Islamic Banks

Name of the Bank	Urban	Rural	Total
Full-fledged Islamic Banks	528	297	825
Islami Bank Bangladesh Limited	208	78	286
ICB Islamic Bank Limited	28	5	33
Social Islami Bank Limited	51	43	94
Al-Arafah Islami Bank Limited	66	44	110
EXIM Bank Limited	46	34	80
Shahjalal Islami Bank Limited	59	33	92
First Security Islami Bank Limited	63	54	117
Union Bank Limited	7	6	13
Islamic banking branches of Conventional banks	18	1	19
The City bank Limited	1	0	1
AB Bank Limited	1	0	1
Dhaka Bank Limited	2	0	2
Premier Bank Limited	2	0	2
Prime Bank Limited	5	0	5
Southeast Bank Limited	4	1	5
Jamuna Bank Limited	2	0	2
Bank Alfalah Limited	1	0	1
Islamic banking windows of Conventional banks	24	1	25
Sonali Bank Limited	5	0	5
Agrani Bank Limited	5	0	5
Pubali Bank Limited	2	0	2
Trust Bank Limited	5	0	5
Standard Bank Limited	2	0	2
Bank Asia Limited	4	1	5
Standard Chartered Bank	1	0	1
Total=A+B+C	570	299	869

Investment Situation in the Agricultural sector

During the January-March 2014 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 751.90 crores which was higher by Tk. 139.49 crores than the previous quarter and lower by Tk. 466.67 crores than the same quarter of the preceding year. Summary of Investments in agricultural sector under the Islamic banking framework is provided in table-3:

**Table-3: Summary of Investments in agricultural sector
(Taka in Crore)**

Details	Total Investment		Agricultural Sector						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Recovery	Investment/ Outstanding	Overdue Investment	Classified Investment	
1	2	3	4	5	6	7	8	9	
Mar-14 [#]	19737.93	34164.38	511.98	751.90	685.54	2041.62	366.90	447.43	
Dec-13	21745.03	31696.43	493.52	612.41	515.90	2014.14	230.50	369.38	
Mar-13	50032.20	55405.80	769.64	1218.57	687.77	1602.01	263.24	478.90	
Changes	Quarterly	-2007.10	2467.94	18.46	139.49	169.64	27.48	136.40	78.05
	Annual	-30294.27	-21241.42	-257.66	-466.67	-2.23	439.61	103.66	-31.47

[#] Provisional

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 throughout Bangladesh.

Conclusion

Islamic banks are playing vital roles in mobilizing deposits and financing different key sectors of the economy in Bangladesh. Islamic Banks should invest more in socially desirable sectors like agriculture, micro and small enterprises. They should also pay more attention in promoting investments under Mudaraba and Musharaka modes. It is also imperative to introduce more money market and capital market instruments to use huge surplus liquidity of Islamic banks.