

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



**July- September, 2017**

**Islamic Banking Cell  
Research Department  
Bangladesh Bank**

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# Quarterly Report Preparation Committee

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## Developments of Islamic Banking Industry in Bangladesh during July-September 2017

Islamic banking has expanded three times of its size from 2007, with CAGR of 11.6% and takaful sector has grown 5 times with a GAGR 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>

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 July-September 2017 quarter. As at the end of September 2017, 8 full-fledged Islamic banks are operating with 1082 branches out of total 9774 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 July-September 2017 quarter, deposits, investments and remittance of Islamic banking industry grew by 2.30%, 4.32% and 11.42% respectively while surplus liquidity declined by 18.05% 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.

*Though surplus liquidity declined compared to previous quarter as well as 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.*

### Highlights on Islamic Banking Sector in Bangladesh, July-September 2017

#### Total Deposits

Total Deposits in Islamic banking industry reached at Tk. 204007.06 crores at the end of July-September 2017 quarter, which increased by Tk. 4582.15 crores or by 2.30% compared to previous quarter and by Tk. 25869.89 crores or by 14.52% compared to corresponding quarter of the last year.

#### Total Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 193244.27 crores at the end of July-September 2017 quarter, which went up by Tk. 7999.34 crores or by 4.32% and by Tk. 34394.59 crores or by 21.65% compared to previous quarter and same quarter of the preceding year respectively.

#### Investment-Deposit Ratio

Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) reached at 0.95 in July-September 2017 quarter which was 0.93 at the previous quarter of this year and 0.89 at the end of September 2016.

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

**Surplus Liquidity**

Surplus Liquidity of Islamic banking industry stood at Tk. 6462.41 crores at the end of July-September 2017 quarter, which was lower by Tk. 1423.59 crores (18.05%) and Tk. 4938.89 crores (43.32%) compared to the previous quarter and corresponding quarter of the preceding year respectively.

**Total Remittances**

Total Remittances mobilized by the Islamic banking sector stood at Tk. 9879.72 crores at the end of July-September 2017 quarter, which was higher by Tk. 1012.90 crores or by 11.42% compared to the previous quarter and higher by Tk. 501.13 crores or by 5.34% compared to the same quarter of the preceding year.

**Branches**

The Number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 1126 at the end of the quarter under review which was 1112 during the previous quarter and 1051 during the same quarter of the last year.

**Manpower**

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	July-September 2017@			April-June 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)	895190.20	204007.06	22.79	22.72
Total Credit (In Crore Taka)	797789.40	193244.27	24.22	23.98
Remittances (In Crore Taka)	27334.09	9879.72	36.14	30.88
Total Excess Liquidity (In Crore Taka)	86463.12*	6462.41	7.47	7.12
Total Number of Bank Branches	9774	1126	11.52	11.44
Total Agricultural Credit (In Crore Taka)	38951.86	3453.25	8.87	3.97

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

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**Table 2: Islamic Banking Activities in Bangladesh, July-September 2017**

	September-17#	June-17#	September-16	Changes		% Changes	
	Quarter	Quarter	Quarter	Quarterly	Annual	Quarterly	Annual
<b>Total Deposits* ( Taka in Crore)</b>	<b>204007.06</b>	<b>199424.90</b>	<b>178137.17</b>	<b>4582.15</b>	<b>25869.89</b>	<b>2.30</b>	<b>14.52</b>
a) Full-fledged Islamic Banks	193601.39	189767.37	169608.57	3834.02	23992.82	2.02	14.15
b) Conventional banks having Islamic banking branches	6010.61	5377.59	5163.39	633.02	847.21	11.77	16.41
c) Islamic banking windows	4395.06	4279.95	3365.20	115.11	1029.85	2.69	30.60
<b>Total Investments* (Taka in Crore)</b>	<b>193244.27</b>	<b>185244.93</b>	<b>158849.69</b>	<b>7999.34</b>	<b>34394.59</b>	<b>4.32</b>	<b>21.65</b>
a) Full-fledged Islamic Banks	183675.33	176564.35	151698.47	7110.97	31976.86	4.03	21.08
b) Conventional banks having Islamic banking branches	5525.00	5031.37	4385.14	493.63	1139.86	9.81	25.994
c) Islamic banking windows	4043.95	3649.21	2766.08	394.74	1277.87	10.82	46.20
<b>Investment/Deposit Ratio</b>	<b>0.95</b>	<b>0.93</b>	<b>0.89</b>	<b>0.02</b>	<b>0.06</b>	<b>1.98</b>	<b>6.23</b>
a) Full-fledged Islamic Banks	0.95	0.93	0.89	0.02	0.05	1.97	6.07
b) Conventional banks having Islamic banking branches	0.92	0.94	0.85	-0.02	0.07	-1.75	8.23
c) Islamic banking windows	0.92	0.85	0.82	0.07	0.10	7.91	11.94
<b>Liquidity Surplus(+)/Deficit(-) (Taka in Crore)</b>	<b>6462.41</b>	<b>7886.01</b>	<b>11401.30</b>	<b>-1423.59</b>	<b>-4938.89</b>	<b>-18.05</b>	<b>-43.32</b>
a) Full-fledged Islamic Banks	5718.52	6693.52	10015.06	-975.00	-4296.54	-14.57	-42.90
b) Conventional banks having Islamic banking branches	443.73	689.34	699.40	-245.61	-255.67	-35.63	-36.56
c) Islamic banking windows	300.16	503.14	686.84	-202.98	-386.68	-40.34	-56.30
<b>Total Remittances (Taka in Crore)</b>	<b>9879.72</b>	<b>8866.82</b>	<b>9378.59</b>	<b>1012.90</b>	<b>501.13</b>	<b>11.42</b>	<b>5.34</b>
a) Full-fledged Islamic Banks	9808.79	8791.42	9301.68	1017.37	507.11	11.57	5.45
b) Conventional banks having Islamic banking branches	60.17	66.40	73.50	-6.23	-13.34	-9.39	-18.14
c) Islamic banking windows	10.76	9.01	3.41	1.76	7.35	19.51	215.68
<b>Total Branches</b>	<b>1126</b>	<b>1112</b>	<b>1051</b>	<b>14</b>	<b>75</b>	<b>1.26</b>	<b>7.14</b>
a) Full-fledged Islamic Banks	1082	1068	1006	14	76	1.31	7.55
b) Conventional banks having Islamic banking branches	19	19	20	0	-1	0.00	-5.00
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

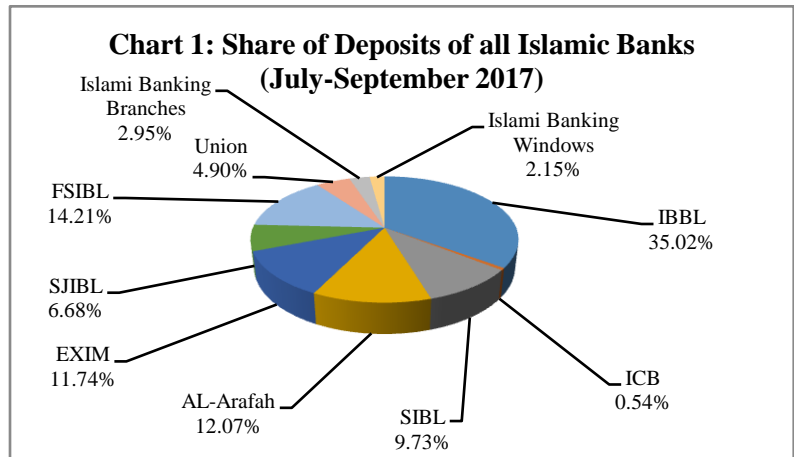
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## Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 204007.06 crores at the end of the quarter July-September 2017, which was higher by 4582.15 crores (2.30%) and by Tk. 25869.89 crores (14.52%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 23742.04 crores and time deposit was Tk. 180265.02 crores. The share of total deposits of Islami banks accounted for 22.79% among all banks during the period under review.

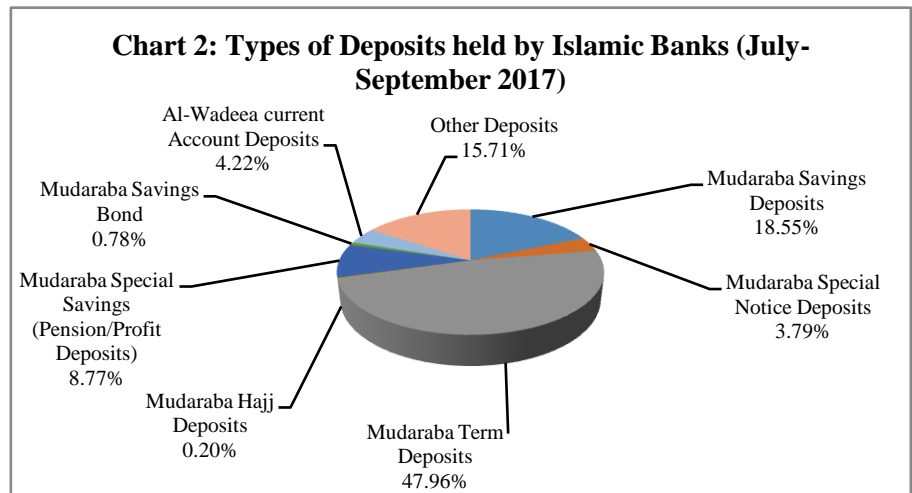
Total deposits of the eight full-fledged Islamic banks accounted for 94.90% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 193601.39 crores as on end September 2017.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.02%) [chart-1], followed by First Security Islami Bank Ltd.(14.21%), Al-Arafah Islami Bank Ltd. (12.07%), Exim Bank Ltd. (11.74%), Social Islami Bank Ltd. (9.73%), Shahjalal Islami Bank Ltd. (6.68%), Union Bank Limited (4.90%), Islami banking branches (2.95%), Islami banking windows (2.15%) and ICB Islamic Bank Limited (0.54%).



## Types of Deposits

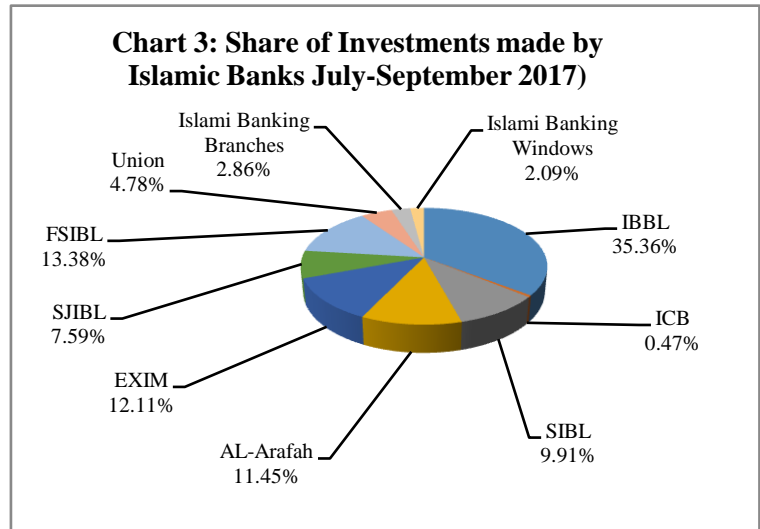
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (47.96%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.55%), Other deposits (15.71%), Mudaraba Special Savings pension/profit Deposits (8.77%), Al-Wadeeah Current Account Deposits (4.22%), Mudaraba Special Notice Deposits (3.79%), Mudaraba Savings Bond (0.78%) and Mudaraba Hajj Deposits (0.20%) etc.



## Investments

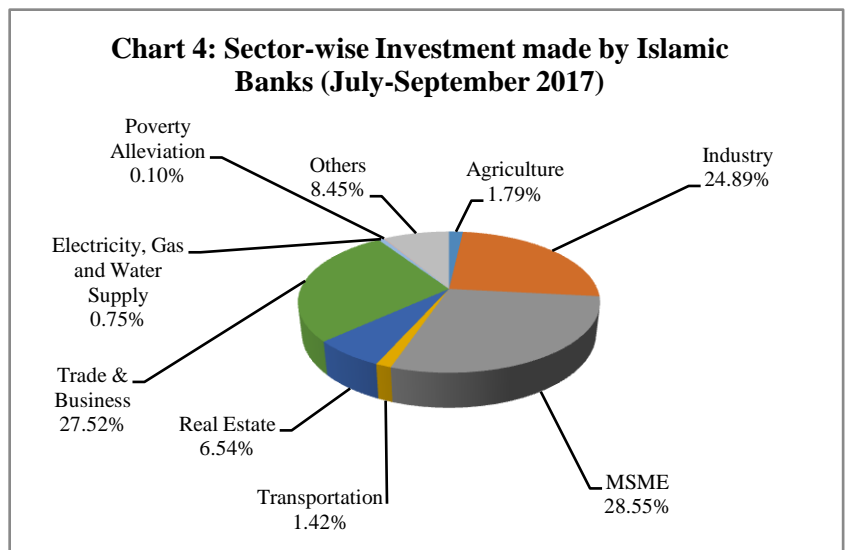
Total amount of investments in Islamic Banking industry reached at Tk. 193244.27 crores at the end of the quarter July-September 2017. During the quarter under review, investments increased by 4.32% and 21.65% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 24.22% among all banks.

Among total investments of Islami banks, 95.05% were made by 8 full-fledged Islamic banks, 2.86% by the scheduled banks' Islamic banking branches and the rest 2.09% 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 35.36% at the end of the quarter July-September 2017, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.38%), EXIM Bank Ltd. (12.11%), Al Arafah Islami Bank Ltd. (11.45%), Social Islami Bank Ltd (9.91%), Shahjalal Islami Bank (7.59%), Union Bank (4.78%), Islami banking branches (2.86%), Islami banking windows (2.09%) and ICB Islami Bank Ltd (0.47%).



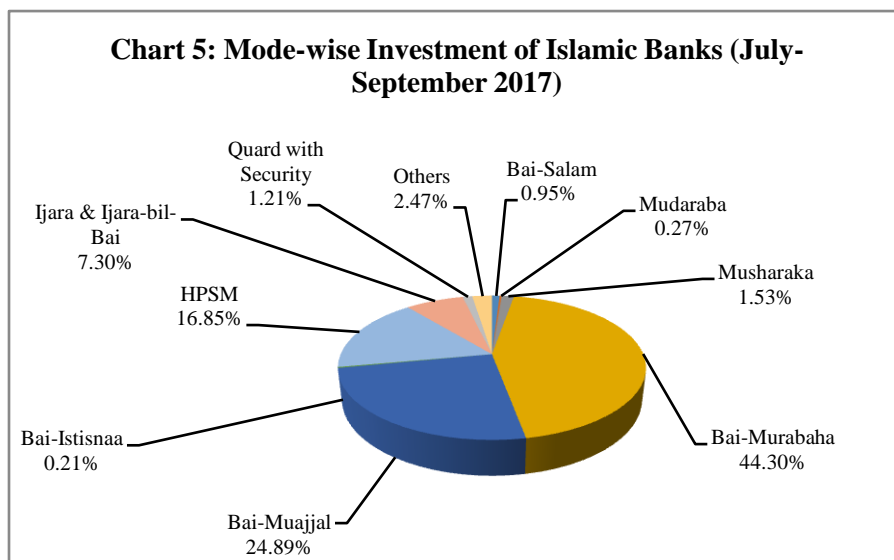
## Sector-wise Investments

After analyzing the sector-wise investment, it can be observed that investment in the MSME (Micro, Small and Medium Enterprises) sector was the highest among all sectors which stood at 28.55% (chart-4) at the end of the quarter July-September 2017. The next position was occupied by Trade & Business sector (27.52%) followed by Industrial sector (24.89%), Others (8.45%), Real Estate (6.54%), Agriculture (1.79%), Transportation (1.42%), Electricity, Gas and Water supply (0.75%) and Poverty Alleviation (0.10%).



## Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.30%) at the end of the quarter July-September 2017, [chart-5] followed by Bai-Muajjal (24.89%), HPSM (16.85%), Ijara & Ijara-bil-Bai (7.30%), others (2.47%), Musharaka (1.53%), Quard with Security (1.21%), Bai-Salam (0.95%), Mudaraba (0.27%) and Bai-Istisna (0.21%).



## 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 July-September 2017 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 766.85 crores which is lower by Tk. 66.75 crores and higher by Tk. 16.82 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 8.87% 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**

(Taka in crore)

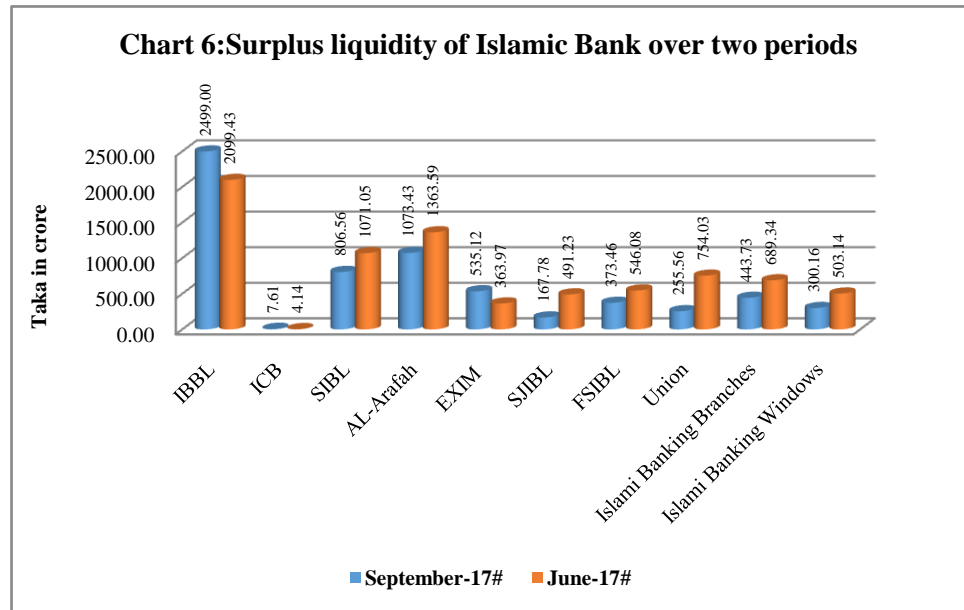
Details	Total Investment		Agricultural Sector						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Target Achieved	Recovery	Investment/ Outstanding	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8	9	10
September -17#	29993.03	51893.42	584.60	766.85	131.17	606.22	3453.25	1891.35	1172.91
June -17	31010.69	54175.07	511.54	833.59	162.96	606.16	3270.58	454.26	1121.27
September -16	28147.97	42194.40	490.72	750.03	152.84	544.83	2273.82	296.99	1114.25
Quarterly Changes	-1017.66	-2281.65	73.06	-66.75	-31.78	0.06	182.67	1437.08	51.64
Annual Changes	1845.06	9699.02	93.88	16.82	-21.67	61.39	1179.43	1594.36	58.66

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## Liquidity Situation

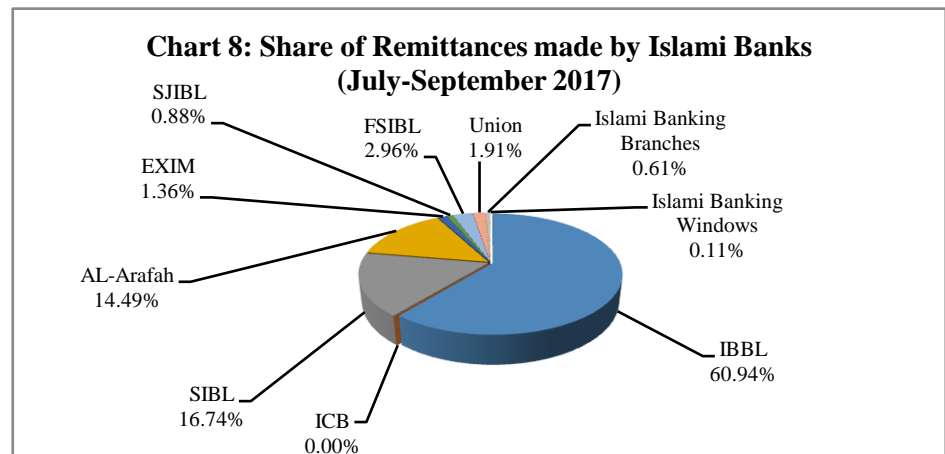
At the end of the quarter July-September 2017, surplus liquidity in the Islamic banking sector stood at Tk.6462.41 crores which was lower by Tk. 1423.59 crores or by 18.05% and by Tk. 4938.89 crores or by 43.32% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of



conventional banks and Islamic windows of conventional banks stood at Tk. 5718.52 crores, Tk. 443.73 crores and Tk. 300.16 crores respectively. Though surplus liquidity declined compared to previous quarter as well as 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 7.47% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

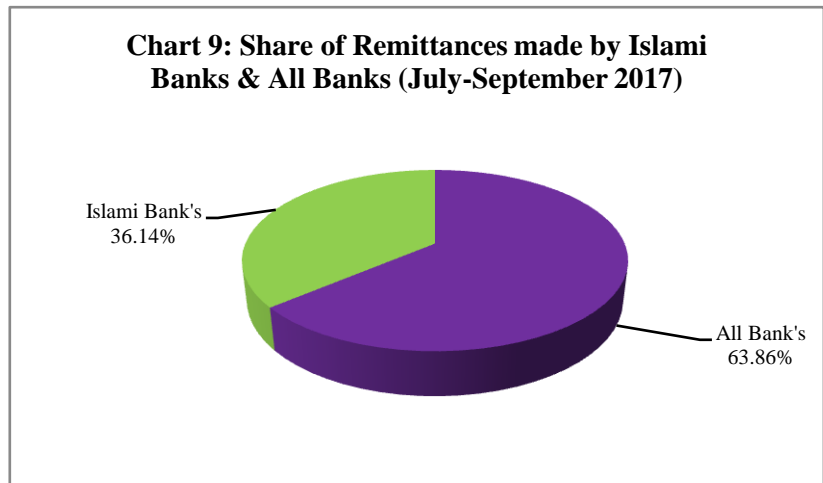
## Remittances Mobilized by the Islamic Banking Sector

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 July-September 2017 amount of remittances reached at Tk. 9879.72 crores which was higher by Tk. 1012.90 crores or by 11.42% and higher by Tk. 501.13 crores or by 5.34% 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 (60.94%) in respect of remittance collection at the end of July-September 2017. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (16.74%), Al Arafah Islami Bank Ltd. (14.49%), First Security Islami Bank Ltd (2.96%), Union Bank Ltd (1.91%), EXIM Bank Ltd. (1.36%), Shahjalal Islami Bank (0.88%), Islamic banking branches (0.61%) and Islamic banking windows (0.11%).

The Islamic Banking Industry accounted for 36.14% 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-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 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 decreased by 16.57% in this quarter compared to the previous quarter. At the end of July-September 2017 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.43.51 crores which was Tk. 60.08 crores and Tk. 48.59 crores during the previous quarter and preceding quarter of September 2016 respectively.

## Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1126 at the end of the quarter under review which was 1112 at the end of the previous quarter and was 1051 at the end of the preceding quarter of September 2016. At the end of July-September 2017quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1082 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 11.52% 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 (July-September, 2017)**

Name of the Bank		Urban	Rural	Total
<b>A)</b>	<b>Full-fledged Islamic Banks</b>	<b>650</b>	<b>432</b>	<b>1082</b>
1	Islami Bank Bangladesh Limited *	229	99	328
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	72	63	135
4	Al-Arafah Islami Bank Limited	75	71	146
5	EXIM Bank Limited	63	50	113
6	Shahjalal Islami Bank Limited	66	38	104
7	First Security Islami Bank Limited	85	76	161
8	Union Bank Limited	32	30	62
<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	0	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**	0	0	0
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>693</b>	<b>433</b>	<b>1126</b>

\* Including SME

\*\*Janata Bank Limited has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started.

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

Islamic banks' Sharia'h Supervisory Boards have inspected 295 branches and 11 meetings held during the quarter July-September 2017. Total numbers of publications published by the Islamic banks are 7, of which the number of publication was Islami Bank Bangladesh Ltd. 04, First Security Islami Bank Ltd. 02 and ICB Islamic Bank Ltd. 01 during the quarter under review. Besides, Islamic banks have organized 21 seminar/workshop/conference and 120 training course in home and the participants of foreign training course is 8 in number for boost up the Sharia'h based knowledge of its employees during July-September 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 investment increased this quarter mainly in the sector like MSME, Trade & Business 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 1.81% 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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