

# **Developments of Islamic Banking in Bangladesh**

## **April-June, 2014**



Research Department

**Bangladesh Bank**

## **Developments of Islamic Banking in Bangladesh during April-June 2014\***

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 April-June 2014 quarter, deposits and investments of Islamic banking industry grew by 5.50% and 5.76% respectively, while surplus of liquidity decreased by 3.38% 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, April-June 2014**

- Total deposits in Islamic banking industry reached Tk. 133560.69 crores, which increased by Tk. 6961.94 crores or by 5.50% at the end of April-June 2014 quarter compared to previous quarter and increased by Tk. 22013.32 crores or by 19.73% compared to corresponding quarter of the last year.
- Total investments in Islamic banking sector stood at Tk. 113795.99 crores at the end of April-June 2014 quarter, which went up by Tk. 6197.95 crores or by 5.76% compared to previous quarter and increased by Tk. 17982.76 crores or by 18.77% compared to same quarter of the previous year.
- Investment-Deposit ratio remained unchanged at 0.85 in April-June 2014 as in the previous quarter, which was 0.86 at the end of June 2013.
- At the end of April-June 2014 quarter, surplus liquidity of Islamic banks stood at Tk. 10575.31 crores, which was lower by Tk. 369.91 crores (3.38%) than previous quarter and higher by Tk. 2804.42 crores (36.09%) compared to the corresponding quarter of the preceding year.
- At the end of the quarter under review, number of branches of Islamic banks including Islamic branches/windows of commercial banks was 887 which was 869 during the previous quarter and 809 during the same quarter of the last year.
- Total manpower in Islamic banking sector was 26359 in number at the end of the quarter under review which is greater by 609 persons than that of the last quarter and by 2615 persons compared to the same quarter of the last year.

---

\* The Report has been prepared by Internal and Islamic Economics Division, Research Department, Bangladesh Bank, Central Bank of Bangladesh. Feedbacks are welcome. Feedbacks may be sent to Mr. Md. Goltzare Nabi, Deputy General Manager, Research Department, Bangladesh Bank. E-mail: goltzare.nabi@bb.org.bd

**Table 1: Islamic Banking Activities in Bangladesh, April-June 2014**

	Jun-14#	Mar-14	Jun-13	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
<b>Total Deposits* (In Crore Taka)</b>	133560.69	126598.75	111547.37	6961.94	22013.32	5.50	19.73
a) Full-fledged Islamic Banks	126662.15	119495.75	104598.95	7166.41	22063.20	6.00	21.09
b) Conventional banks having Islamic banking branches	4817.99	5021.89	5260.30	-203.90	-442.31	-4.06	-8.41
c) Islamic banking windows	2080.54	2081.10	1688.12	-0.56	392.42	-0.03	23.25
<b>Total Investments* (In Crore Taka)</b>	113795.99	107598.05	95813.23	6197.95	17982.76	5.76	18.77
a) Full-fledged Islamic Banks	108464.46	102283.08	90834.19	6181.39	17630.27	6.04	19.41
b) Conventional banks having Islamic banking branches	3764.00	3805.66	3897.42	-41.66	-133.42	-1.09	-3.423
c) Islamic banking windows	1567.53	1509.31	1081.62	58.22	485.91	3.86	44.92
<b>Investment/Deposit Ratio</b>	0.85	0.85	0.86	0.00	-0.01	0.25	-0.81
a) Full-fledged Islamic Banks	0.86	0.86	0.87	0.00	-0.01	0.04	-1.39
b) Conventional banks having Islamic banking branches	0.78	0.76	0.74	0.02	0.04	3.09	5.44
c) Islamic banking windows	0.75	0.73	0.64	0.03	0.11	3.89	17.59
<b>Liquidity Surplus(+)/Deficit(-) (In Crore Taka)</b>	10575.31	10945.23	7770.89	-369.91	2804.42	-3.38	36.09
a) Full-fledged Islamic Banks	9336.70	9647.94	6113.02	-311.24	3223.68	-3.23	52.73
b) Conventional banks having Islamic banking branches	1010.88	1106.86	1260.19	-95.98	-249.31	-8.67	-19.78
c) Islamic banking windows	227.73	190.42	397.68	37.30	-169.95	19.59	-42.74
<b>Total Branches</b>	887	869	809	18	78	2.07	9.64
a) Full-fledged Islamic Banks	843	825	766	18	77	2.18	10.05
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>	26359	25750	23744	609	2615	2.37	11.01
a) Full-fledged Islamic Banks	25805	25194	23233	611	2572	2.43	11.07
b) Conventional banks having Islamic banking branches	420	419	426	1	-6	0.24	-1.41
c) Islamic banking windows	134	137	85	-3	49	-2.19	57.65

\* = Excluding Inter-Bank Items

#= Provisional

Source: Islamic Banks  
Note: 1 Crore=10 Million

## Deposits

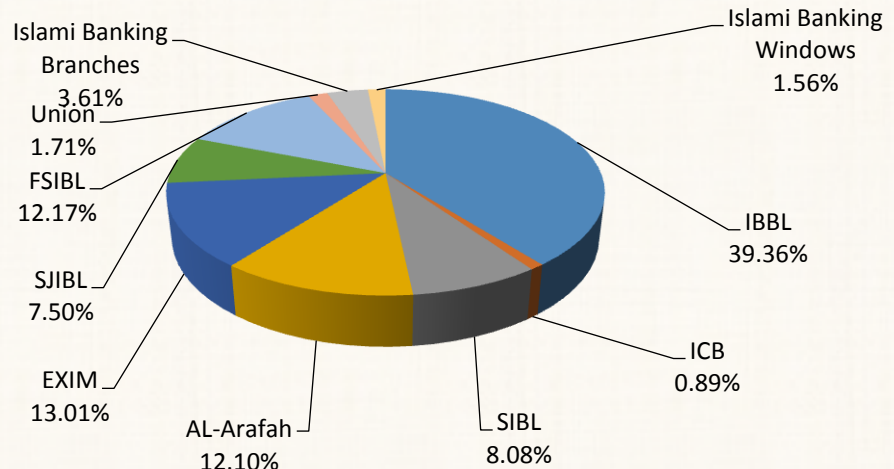
Total deposits of Islamic banking industry stood at Tk. 133560.69 crores during the quarter of April-June 2014, which was higher by Tk. 6961.94 crores (5.50%) and by Tk. 22013.32 (19.73%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 16205.19 crores and time deposit was Tk. 117355.50 crores.

Total deposits of the eight full-fledged Islamic banks accounted for 94.83% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 126662.15 crores as on end June 2014.

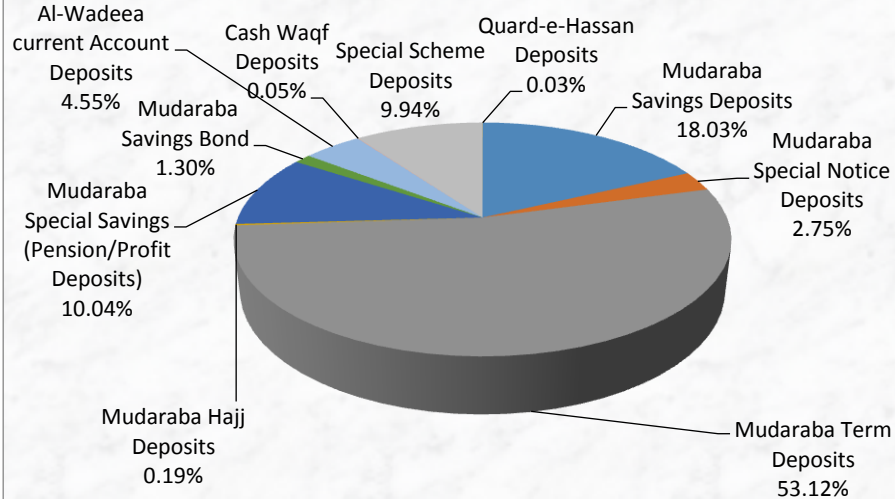
Among Islamic banks, Islami Bank Bangladesh Limited belonged to the biggest share of deposits (39.36%) [chart-1], followed by Exim Bank Ltd. (13.01%), First Security Islami Bank Ltd.(12.17%), Al-Arafah Islami Bank Ltd. (12.10%), Shahjalal Islami Bank Ltd. (7.50%), Islami banking branches (3.61%), Union Bank Limited (1.71%), Islami banking windows (1.56%) and ICB Islamic Bank Limited (0.89%).

Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (53.12%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.03%), Mudaraba Special Savings (pension/profit) Deposits (10.04%), Special Scheme Deposit (9.94%), Current Account Deposits (4.55%) etc.

**Chart 1: Share of Deposits of all Islamic Banks (June 2014)**



**Chart 2: Types of Deposits held by Islamic Banks (June 2014)**

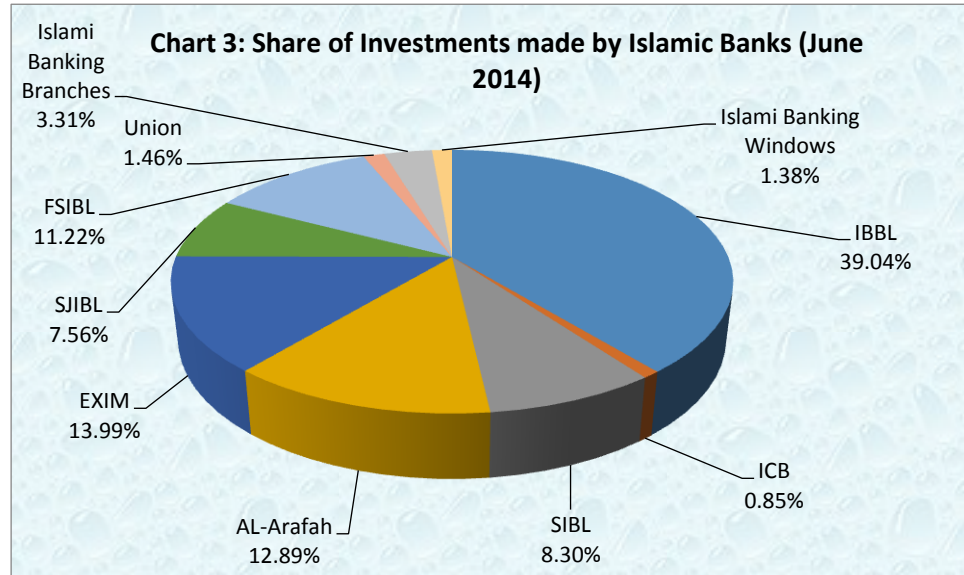


## Investments

Total amount of investments in Islamic Banking industry reached Tk. 113795.99 crores during April-June 2014. During the quarter, investments increased by 5.76% and 18.77% respectively compared to the previous quarter and the corresponding quarter of the preceding year.

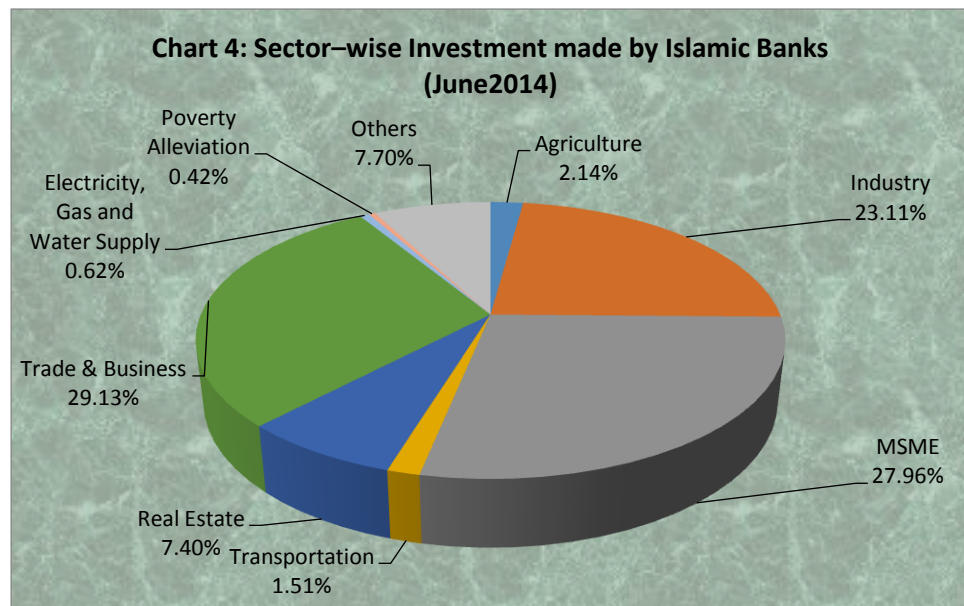
Among total investments, 95.31% were made by 8 full-fledged Islamic banks, 3.31% by the scheduled banks' Islamic banking branches and the rest 1.38% by the scheduled banks' Islamic banking windows.

As in the case of deposits, Islami Bank Bangladesh Ltd attained the highest share in investments which was 39.04% during April-June 2014 (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (13.99%), Al Arafah Islami Bank Ltd. (12.89%), First Security Islami Bank Ltd (11.22%), Social Islami Bank Ltd (8.30%), Shahjalal Islami Bank (7.56%), Union Bank (1.46%) and ICB Islami Bank Ltd (0.85%).



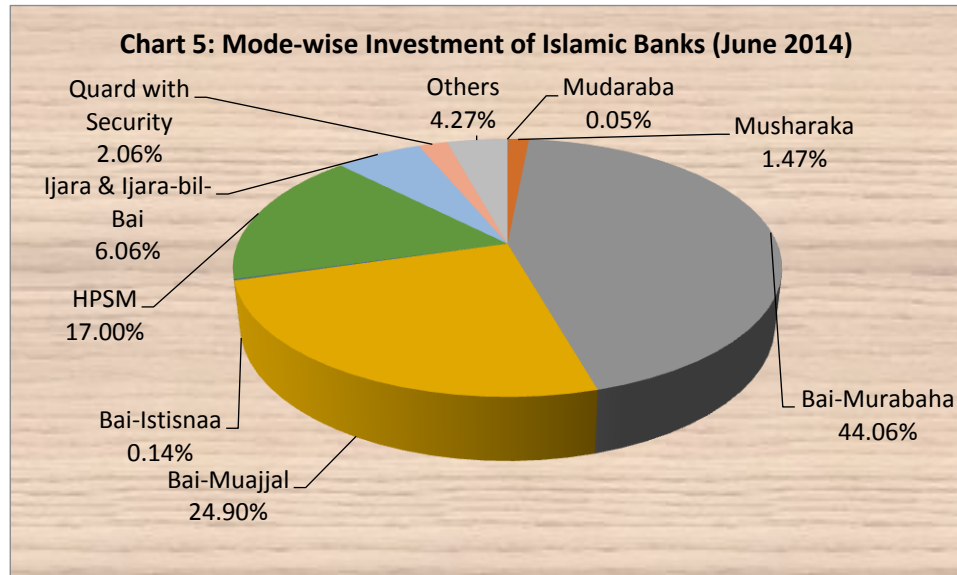
Union Bank (1.46%) and ICB Islami Bank Ltd (0.85%).

After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector was the highest among all sectors which stood at 29.13% (chart-4) at the end of the quarter April-June 2014. The next position was occupied by MSME (Micro, Small and Medium Enterprises) sector (27.96%) followed by Industrial sector (23.11%), others (7.70%), Real Estate (7.40%), Agriculture (2.14%), Transportation (1.51%), Electricity, Gas and Water supply (0.62%) and Poverty Reduction (0.42%).



Real Estate (7.40%), Agriculture (2.14%), Transportation (1.51%), Electricity, Gas and Water supply (0.62%) and Poverty Reduction (0.42%).

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.06%) during April-June 2014 [chart-5] followed by Bai-Muajjal (24.90%), HPSM (17.00%), Ijara & Ijara-bil-Bai (6.06%), others (4.27),

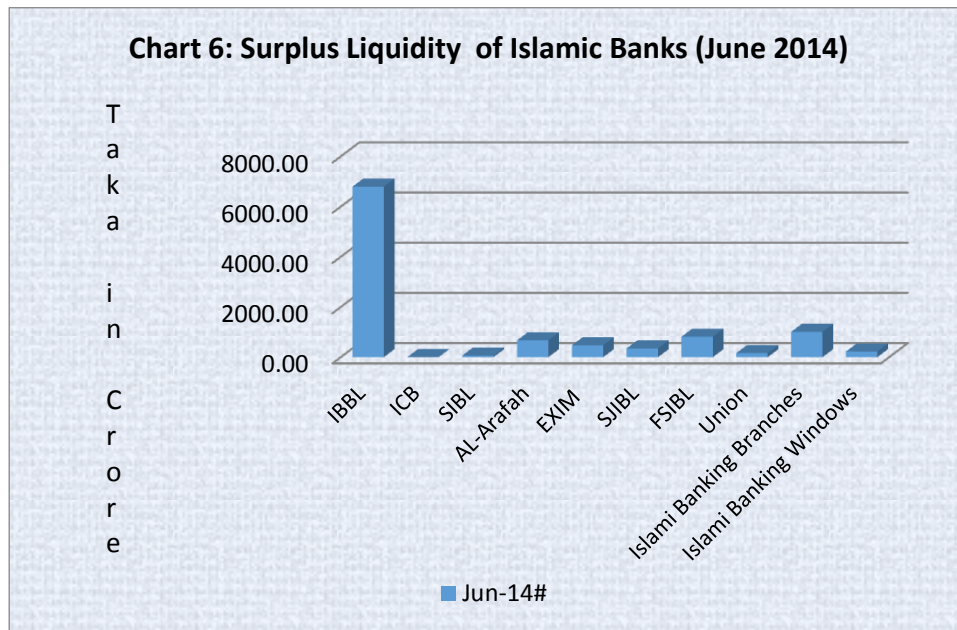


Quard with Security (2.06%), Musharaka (1.47%), Mudaraba (0.05%) and Bai-Istisna (0.14%).

### Liquidity Situation

At the end of the quarter April-June 2014, surplus liquidity in the Islamic banking sector stood at Tk 10575.31 crores which was lower by 3.38% than the last quarter's surplus liquidity of Tk.

10945.23 crores and higher by Tk. 2804.42 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. 9336.70 crores, Tk. 1010.88 crores



and Tk. 227.73 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 887 at the end of the quarter April-June 2014 which was 869 at the end of the preceding quarter and 809 at the end of June 2013. Among them, 8 full-fledged Islamic banks had 843 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
<b>A)</b>	<b>Full-fledged Islamic Banks</b>	<b>535</b>	<b>308</b>	<b>843</b>
1	Islami Bank Bangladesh Limited	208	78	286
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited	51	43	94
4	Al-Arafah Islami Bank Limited	70	45	115
5	EXIM Bank Limited	46	36	82
6	Shahjalal Islami Bank Limited	59	33	92
7	First Security Islami Bank Limited	64	59	123
8	Union Bank Limited	9	9	18
<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>24</b>	<b>1</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	4	1	5
8	Standard Chartered Bank	1	0	1
<b>D)</b>	<b>Total=A+B+C</b>	<b>577</b>	<b>310</b>	<b>887</b>

### Investment situation in the Agricultural sector

During the April-June 2014 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 802.17 crores which was higher by Tk. 50.27 crores than the previous quarter and lower by Tk. 829.77 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	
Jun-14#	27688.70	38337.90	510.21	802.17	523.01	2472.71	289.82	512.08	
Mar-14	19737.93	34164.38	511.98	751.90	685.54	2041.62	366.90	447.43	
Jun-13	51273.20	59257.58	913.36	1631.94	1214.04	1973.05	146.68	489.02	
Changes	Quarterly	7950.77	4173.52	-1.77	50.27	-162.53	431.09	-77.08	64.65
	Annual	-23584.50	-20919.68	-403.15	-829.77	-691.03	499.66	143.14	23.06

# 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. Expenditure on CSR activities declined in this quarter from the previous quarter.

### Conclusion

In 1983 Islamic banking started its journey in our country with the establishment of the Islami Bank Bangladesh Limited. Now Islamic banks are playing very important roles in mobilizing deposits and financing different key sectors of the economy in Bangladesh. Islamic Banks should invest more in socially desirable sectors especially in agriculture 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 surplus liquidity of Islamic banks.