

# Developments of Islamic Banking in Bangladesh April-June, 2015



Research Department  
Bangladesh Bank

# Quarterly Report Preparation Committee<sup>1</sup>

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*'The value driven, speculation-averse risk-sharing features of Islamic finance attribute greater inclusivity and stability supportiveness to it. Islamic banks and financial institutions fared better than conventional ones in the last global financial crisis, which may be a reason why we see niche presence of Islamic financing widening steadily in non-Muslim countries including the advanced Western economies. ....With its ethical, inclusivity promoting and stability enhancing attributes, Islamic finance undoubtedly bears promise of playing major beneficial role in our socioeconomic development.'* --Governor, Bangladesh Bank.<sup>2</sup>

## **Developments of Islamic Banking Industry in Bangladesh during April-June 2015**

Islamic Banking Industry has been playing a crucial role in mobilizing deposits and financing key sectors of the economy in Bangladesh since its inception in 1983. This report gives an overview of the Islamic Banking Industry regarding the developments taking place during the April-June 2015 quarter. At present, Islamic banking industry comprising 8 full-fledged Islamic banks, 19 Islamic banking branches of 9 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks is providing Islamic financial services in Bangladesh. At the end of April-June 2015 quarter, deposits, investments and surplus of liquidity of Islamic banking industry grew by 3.89%, 3.46% and 3.29% respectively 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.

### ***Highlights on Islamic Banking Sector in Bangladesh, April-June 2015***

- ✓ **Total Deposits** in Islamic banking industry reached at Tk. 152448.47 crores at the end of April-June 2015 quarter, which increased by Tk. 5714.11 crores or by 3.89% compared to previous quarter and by Tk. 18792.41 crores or by 14.06% compared to corresponding quarter of the last year.
- ✓ **Total Investments** (Loans in conventional sense) in Islamic banking sector stood at Tk. 131090.91 crores at the end of April-June 2015 quarter, which went up by Tk. 4381.57 crores or by 3.46% and by Tk. 17290.34 crores or by 15.19% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **Investment-Deposit Ratio** (Credit-Deposit Ratio in conventional sense) reached at 0.86 in April-June 2015 quarter which remained same at the previous quarter and was 0.85 at the end of June 2014.
- ✓ **Surplus Liquidity** of Islamic banking industry stood at Tk. 12403.96 crores at the end of April-June 2015 quarter, which was higher by Tk. 395.41 crores (3.29%) and Tk. 1646.25 crores (15.30%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
- ✓ **Total Remittances** mobilized by the Islamic banking sector stood at Tk. 9318.64 crores at the end of April-June 2015 quarter, which was higher by Tk. 652.62 crores or by 7.53% and by Tk. 426.27 crores or by 4.79% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **The Number of Branches** of Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 960 at the end of the quarter under review which was 934 during the previous quarter and 887 during the same quarter of the last year.
- ✓ **Total Manpower** in Islamic banking sector was 27487 in number at the end of the quarter under review which was greater by 150 persons than that of the last quarter and by 1140 persons compared to the same quarter of the last year.

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<sup>2</sup> Keynote address delivered by Dr. Atiur Rahman, Governor, Bangladesh Bank at a IFSB-BB Seminar on the Prospects and Challenges in Development of Islamic Finance for Bangladesh held on 23 September 2013 at Hotel Purbani International, Dhaka.

**Table 1: Islamic Banking Activities in Bangladesh, April-June 2015**

	June-15#	March-14	June-14	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
<b>Total Deposits* (In Crore Taka)</b>	<b>152448.47</b>	<b>146734.36</b>	<b>133656.05</b>	<b>5714.11</b>	<b>18792.41</b>	<b>3.89</b>	<b>14.06</b>
a) Full-fledged Islamic Banks	144737.79	138988.45	126671.44	5749.34	18066.35	4.14	14.26
b) Conventional banks having Islamic banking branches	5161.76	5297.56	4904.07	-135.80	257.69	-2.56	5.25
c) Islamic banking windows	2548.91	2448.34	2080.54	100.56	468.37	4.11	22.51
<b>Total Investments* (In Crore Taka)</b>	<b>131090.91</b>	<b>126709.34</b>	<b>113800.56</b>	<b>4381.57</b>	<b>17290.34</b>	<b>3.46</b>	<b>15.19</b>
a) Full-fledged Islamic Banks	124574.84	120767.36	108469.03	3807.48	16105.81	3.15	14.85
b) Conventional banks having Islamic banking branches	4630.47	4123.58	3764.00	506.89	866.47	12.29	23.020
c) Islamic banking windows	1885.59	1818.40	1567.53	67.20	318.06	3.70	20.29
<b>Investment/Deposit Ratio</b>	<b>0.86</b>	<b>0.86</b>	<b>0.85</b>	<b>0.00</b>	<b>0.01</b>	<b>-0.42</b>	<b>0.99</b>
a) Full-fledged Islamic Banks	0.86	0.87	0.86	-0.01	0.00	-0.94	0.51
b) Conventional banks having Islamic banking branches	0.90	0.78	0.77	0.12	0.13	15.25	16.88
c) Islamic banking windows	0.74	0.74	0.75	0.00	-0.01	-0.40	-1.81
<b>Liquidity Surplus(+)/Deficit(-) (In Crore Taka)</b>	<b>12403.96</b>	<b>12008.55</b>	<b>10757.71</b>	<b>395.41</b>	<b>1646.25</b>	<b>3.29</b>	<b>15.30</b>
a) Full-fledged Islamic Banks	11142.69	10487.36	9336.42	655.33	1806.27	6.25	19.35
b) Conventional banks having Islamic banking branches	977.97	1243.49	1193.56	-265.52	-215.59	-21.35	-18.06
c) Islamic banking windows	283.30	277.69	227.73	5.61	55.57	2.02	24.40
<b>Total Remittance</b>	<b>9318.64</b>	<b>8666.02</b>	<b>8892.37</b>	<b>652.62</b>	<b>426.27</b>	<b>7.53</b>	<b>4.79</b>
a) Full-fledged Islamic Banks	9270.93	8629.83	8841.99	641.10	428.94	7.43	4.85
b) Conventional banks having Islamic banking branches	47.47	36.09	50.07	11.38	-2.60	31.54	-5.19
c) Islamic banking windows	0.2411	0.1037	0.31	0.14	-0.07	132.50	-22.23
<b>Total Branches</b>	<b>960</b>	<b>934</b>	<b>887</b>	<b>26</b>	<b>73</b>	<b>2.78</b>	<b>8.23</b>
a) Full-fledged Islamic Banks	916	890	843	26	73	2.92	8.66
b) Conventional banks having Islamic banking branches	19	19	19	0	0	0.00	0.00
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
<b>Total Manpower</b>	<b>27487</b>	<b>27337</b>	<b>26347</b>	<b>150</b>	<b>1140</b>	<b>0.55</b>	<b>4.33</b>
a) Full-fledged Islamic Banks	26910	26760	25793	150	1117	0.56	4.33
b) Conventional banks having Islamic banking branches	422	423	420	-1	2	-0.24	0.48
c) Islamic banking windows	155	154	134	1	21	0.65	15.67

\* = Excluding Inter-Bank Items.

# Provisional.

**Table 2: Islamic Banking Activities compared with All Banks in Bangladesh**

Item	April-June 15 #		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	3=(2/1*100)
Total Deposits (In Crore Taka)	699183.70	152448.47	21.80
Total Credit (In Crore Taka)	743565.70	131090.91	17.63
Remittances (In Crore Taka)	31575.93	9318.64	29.51
Total Excess Liquidity (In Crore Taka)	102198.53	12403.96	12.14
Total Number of Bank Branches	9131	960	10.51
Total Agricultural Credit (In Crore Taka)	15978.46	841.58	5.27

Source: Statistics Department, DOS & BRPD

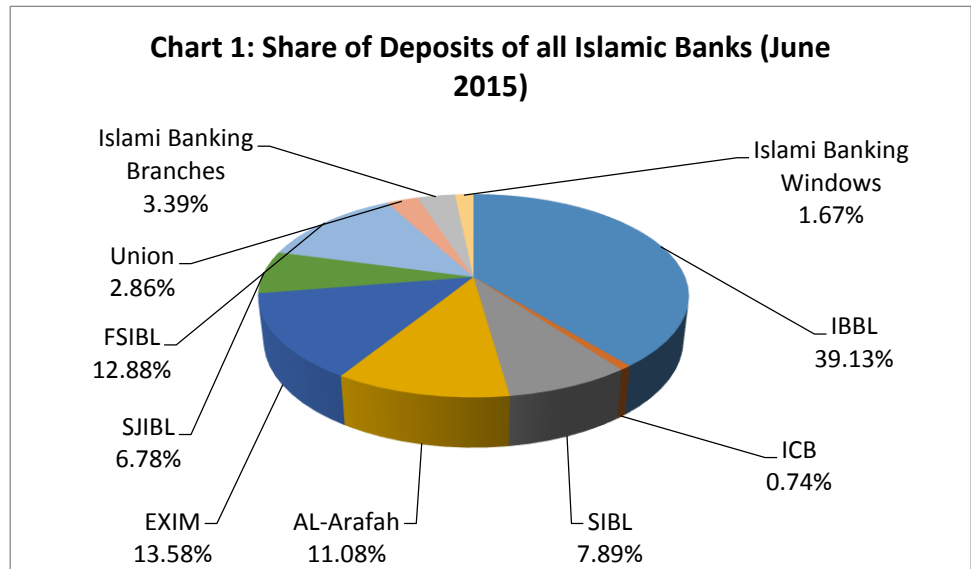
# Provisional

### Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 152448.47 crores at the end of the quarter April-June 2015, which was higher by 5714.11 crores (3.89%) and by Tk. 18792.41 crores (14.06%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 18189.06 crores and time deposit was Tk. 134259.06 crores. The share of total deposits of Islami banks accounted for 21.80% among all banks during the period under review.

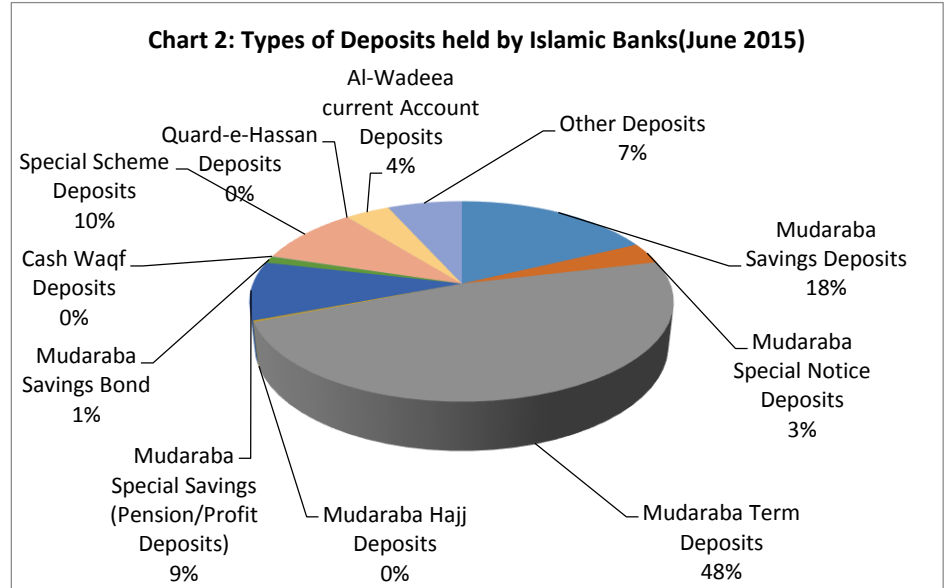
Total deposits of the eight full-fledged Islamic banks accounted for 94.94% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 144737.79 crores as on end June 2015.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (39.13%) [chart-1], followed by Exim Bank Ltd. (13.58%), First Security Islami Bank Ltd.(12.88%), Al-Arafah Islami Bank Ltd. (11.08%), Social Islami Bank Ltd. (7.89%), Shahjalal Islami Bank Ltd. (6.78%), Islami banking branches (3.39%), Union Bank Limited (2.86%), Islami banking windows (1.67%) and ICB Islamic Bank Limited (0.74%).



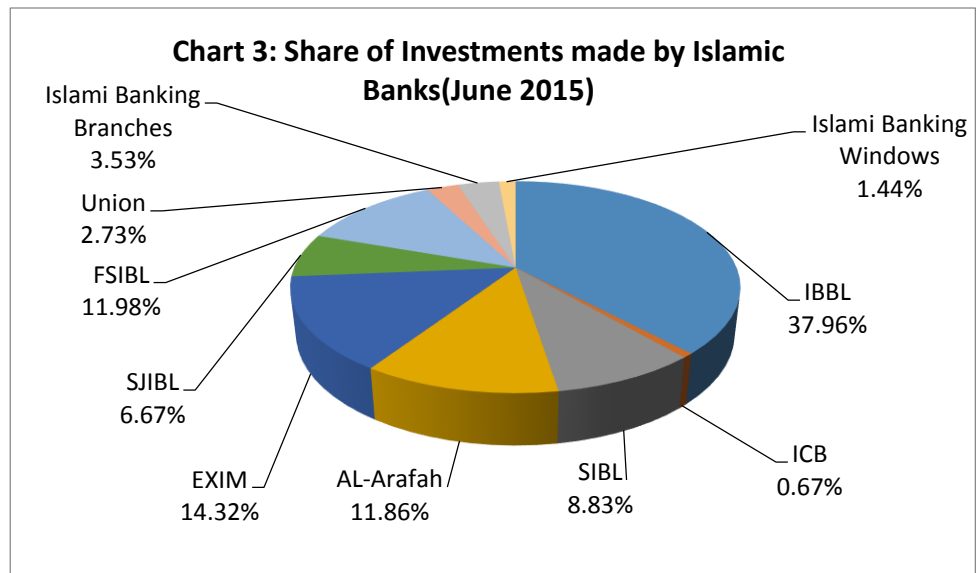
## Types of Deposits

Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (48%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18%), Special Scheme Deposit (10%), Mudaraba Special Savings pension/profit) Deposits (9%), Other deposits(7%), Current Account Deposits (4%), Mudaraba Special Notice Deposits(3%), Mudaraba Savings Bond (1%) etc.



## Investments

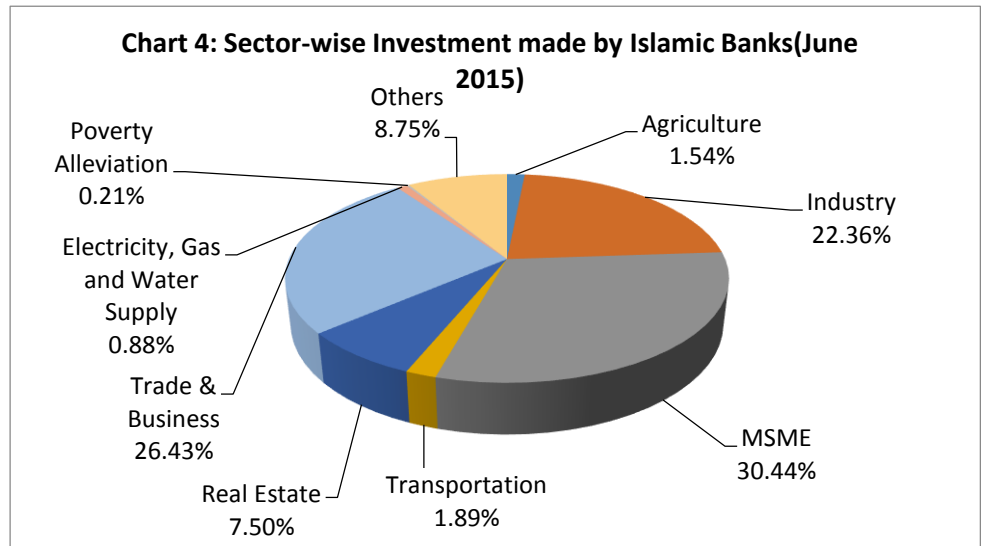
Total amount of investments in Islamic Banking industry reached at Tk. 131090.91 crores at the end of the quarter April-June 2015. During the quarter under review, investments increased by 3.46% and 15.19% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islami banks accounted for 17.63% among all banks.



Among total investments of Islami banks, 95.03% were made by 8 full-fledged Islamic banks, 3.53% by the scheduled banks' Islamic banking branches and the rest 1.44% 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 37.96% at the end of the quarter April-June 2015, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (14.32%), First Security Islami Bank Ltd (11.98%), Al Arafah Islami Bank Ltd. (11.86%), Social Islami Bank Ltd (8.83%), Shahjalal Islami Bank (6.67%), Islami banking branches (3.53%), Union Bank (2.73%), Islami banking windows (1.44%) and ICB Islami Bank Ltd (0.67%).

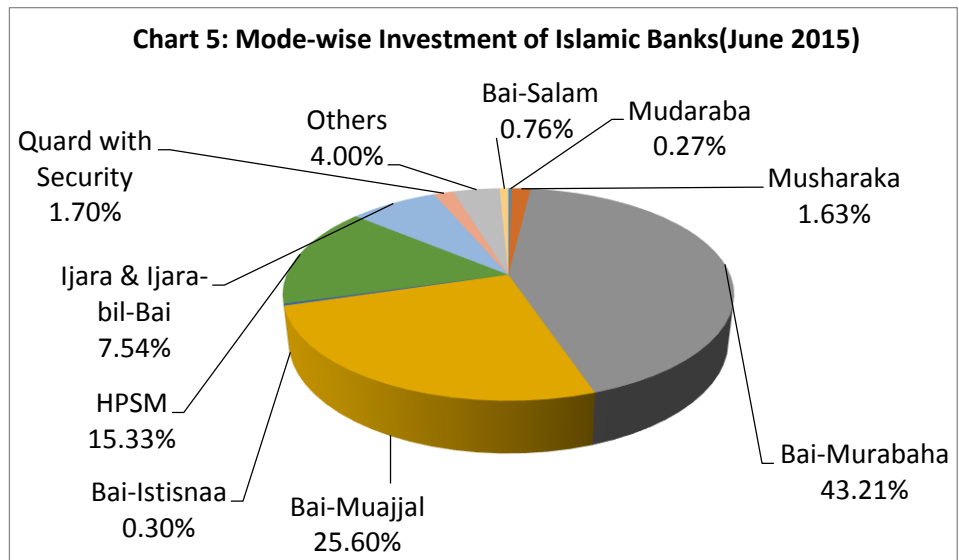
### Sector-wise Investments

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 30.44% (chart-4) at the end of the quarter April-June 2015. The next position was occupied by Business & Trade sector (26.43%) followed by Industrial sector (22.36%), others (8.75%), Real Estate (7.50%), , Transportation (1.89%), Agriculture (1.54%), Electricity, Gas and Water supply (0.88%) and Poverty Alleviation (0.21%).



### Mode-wise investments

The analysis of mode-wise investments revealed that the highest investments was made through Bai-Murabaha mode (43.21%) at the end of the quarter April-June 2015, [chart-5] followed by Bai-Muajjal (25.60%), HPSM (15.33%), Ijara & Ijara-bil-Bai (7.54%), others (4.00%), Quard with Security (1.70%), Musharaka (1.63%), Bai-Salam (0.76%), Bai-Istisna (0.30%) and Mudaraba (0.27%).



### Investment situation in the Agricultural sector

Islamic Banking Industry have made tangible contributions in sectors and sub-sectors of agricultural and rural investment programs. During April-June 2015 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 841.58 crores which was higher by Tk. 316.70 crores and by Tk. 51.41 crores than the previous quarter and the same quarter of the preceding year respectively. The share of total agricultural investment of Islami banks accounted for 5.27% among all banks. Summary of Investments in Agricultural Sector under the Islamic banking framework is provided in table-3:

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

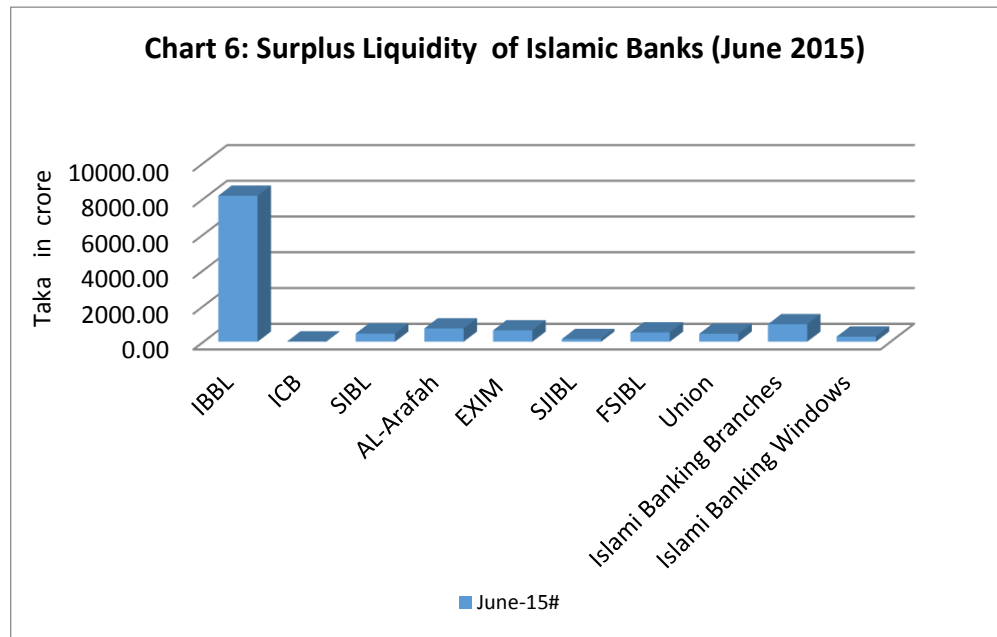
(Taka in crore)

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	
June-15#	25985.50	42039.66	423.73	841.58	510.39	2159.08	512.27	750.85	
March-15	23844.44	37294.70	423.73	524.88	532.71	1736.80	539.71	767.13	
June-14	27711.15	38347.04	510.21	790.17	522.99	2472.63	289.80	512.08	
Changes	Quarterly	2141.06	4744.95	0.00	316.70	-22.31	422.28	-27.45	-16.28
	Annual	-1725.65	3692.62	-86.48	51.41	-12.59	-313.55	222.47	238.77

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### Liquidity Situation

At the end of the quarter April-June 2015, surplus liquidity in the Islamic banking sector stood at Tk.12403.96 crores which was higher by Tk.395.41 crores or by 3.29% and by Tk. 1646.25 crores or by 15.30% 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 7 conventional banks stood at Tk. 11142.69 crores, Tk. 977.97

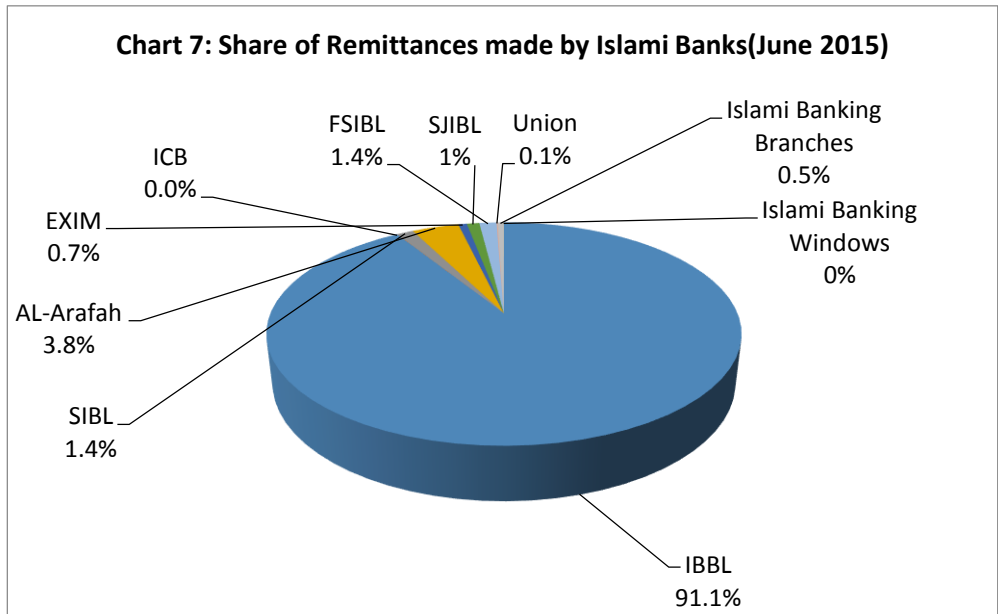


crores and Tk. 283.30 crores respectively. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

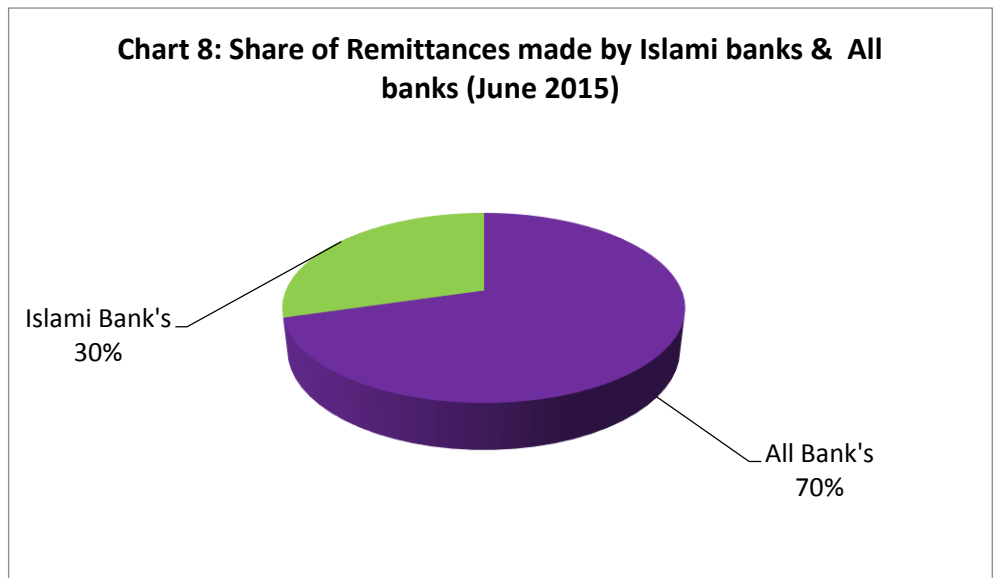


## Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During April-June 2015 amount of remittances reached at Tk.9318.64 crores which was higher by Tk. 652.62 crores or by 7.53% and by Tk. 426.27 crores or by 4.79% than the previous quarter and the corresponding quarter of the last year respectively. Among the Islami banks, Islami Bank Bangladesh Ltd. occupied the top position (91.1%) in respect of remittance collection at the end of June 2015. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (3.8%), First Security Islami Bank Ltd (1.4%) Social Islami Bank Ltd (1.4%), EXIM Bank Ltd. (0.7%), Shahjalal Islami Bank (1.0%), Islamic banking branches(0.5%) and Union Bank Ltd (0.1%). The Islamic Banking Industry accounted for 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-7 and chart-8.



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## Expansion of Branches

At the end of the quarter under review the number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 960 from 934 at the end of the previous quarter

and was 887 at the end of the preceding quarter of June 2014. At the end of April-June 2015 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 916 branches, 9 conventional commercial banks had 19 and 7 conventional banks had 25 windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 10.51% at the end of April-June 2015 quarter. Information on branches of Islamic banks is shown in Table-4.

**Table-4: Number of Bank Branches of Islamic Banks (April-June, 2015)**

Name of the Bank		Urban	Rural*	Total
<b>A)</b>	<b>Full-fledged Islamic Banks</b>	<b>572</b>	<b>344</b>	<b>916</b>
1	Islami Bank Bangladesh Limited*	212	82	294
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	58	50	108
4	Al-Arafah Islami Bank Limited	73	50	123
5	EXIM Bank Limited	51	38	89
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	72	68	140
8	Union Bank Limited	19	17	36
<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>615</b>	<b>345</b>	<b>960</b>

\* Including SME \*\* Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet.

## **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 20.12% in this quarter compared to the previous quarter. At the end of April-June 2015 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.37.61 crores which was Tk. 31.11 crores during the previous quarter.

## **Concluding Remarks and Recommendations**

The Islamic banking sector of Bangladesh, due to popular support and market demand continued to grow at a rapid pace which is reflected by the increasing branch network of Islamic Banking Institutions. Islamic Banking Industry in Bangladesh has been contributing tremendously to spur economic growth and generate employment in the country to fulfill the vision of the government to reach the country at a Middle Income Level by the year 2021. Thereby, this banking industry with more than 20% market share and 27487 employees have been playing a very dominant role in mobilizing deposits and financing in the real sector industries, services and other key sectors of the economy and collecting about a one-third portion of total foreign remittances in Bangladesh.

Despite the escalating activities of Islamic banking sector in Bangladesh, the numbers of rural branches of full-fledged Islamic banks have not increased as per expectation, and the activities of Islamic banking branches/windows of conventional banks as well are also not being expanded to the reach of the rural people. Besides, since SME financing is given highest importance as an important engine of economic growth and as a potential sector of investment in banking industry, most of the full-fledged Islamic banks have not yet fully utilized the refinance facilities extended by the Bangladesh Bank. Their branch activities should be redesigned as per Bangladesh Bank guidelines on sustainable green finance.

Role of the Islamic Banking industry, as a whole, in respect of Islamic Microfinance is not prominent. Since the core objectives of Islamic banking industry is to fulfill the Maqasid-al-Sharia'h i.e. to help expedite the financial inclusion drives with Islamic financial literacy programs to associate the poor and disadvantaged people of the country in small types of income generating activities so that they can get a space to live as a honorable human being. As the bulk of the investments made by Islamic banks has been concentrated in trade and rent-related sectors (about 92% of their total investments, see chart-5), they should invest more in socially desirable and sustainable real sectors especially in micro, share-cropping, non-traditional agriculture and small enterprises.

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 1.9% of total investments). They should pay more attention in R

& D to devising the proper guidelines and policies to promoting investments under Mudaraba and Musharaka modes. They may also consider revising their investment policies in light with the supply-driven investment policies to lessen the incidence of poverty of the country. These type of policies might help achieve the core objectives of Maqasid-al-Sharia'h for which Islamic banks have been thought for establishment by the earlier Islamic Jurists and Economists. Furthermore, to strengthening the knowledge-base of manpower they should also introduce cutting-edge leadership development training programs combining with Sharia'h, finance and economics as well as on emerging country economic and financial issues in their training institutes. They may also consider to have cross-border experiences of Islamic banking to enrich their knowledge and experiences through arranging seminar and conferences on regular basis.

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