

Developments of Islamic Banking in Bangladesh¹



April- June, 2017

**Islamic Banking Cell
Research Department
Bangladesh Bank**

¹Prepared by Islamic Banking Cell, Research Department, Bangladesh Bank (Central Bank of Bangladesh). Feedbacks are welcome. Feedbacks may be sent to Md. Golzare Nabi, Deputy General Manager, Research Department, Bangladesh Bank. (E-mail: golzare.nabi@bb.org.bd), Md. Mokhlesur Rahman, Joint Director, Research Department, Bangladesh Bank. (E-mail: mokhlesur.rahman2@bb.org.bd) and Razeul Islam, Assistant Director, Research Department, Bangladesh Bank. (E-mail: razeul.islam@bb.org.bd).

Quarterly Report Preparation Committee

Chairman

Dr. Md. Akhtaruzzaman

Economic Adviser

Coordinator

Md. Abdul Awwal Sarker

General Manager

Team Member

Md. Golzare Nabi

Deputy General Manager

Md. Mokhselur Rahman

Joint Director

Razeul Islam

Assistant Director

Developments of Islamic Banking Industry in Bangladesh during April-June 2017

Islamic banks have grown worldwide in number as well as in size and are being practiced on even more intensive scale. 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 April-June 2017 quarter. As at the end of June 2017, 8 full-fledged Islamic banks are operating with 1068 branches out of total 9720 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 April-June 2017 quarter, deposits, investments and remittance of Islamic banking industry grew by 4.82%, 4.60% and 33.13% respectively while surplus liquidity declined by 1.81% 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, April-June 2017

Total Deposits	Total Deposits in Islamic banking industry reached at Tk. 199424.90 crores at the end of April-June 2017 quarter, which increased by Tk. 9167.21 crores or by 4.82% compared to previous quarter and by Tk. 23889.48 crores or by 13.61% compared to corresponding quarter of the last year.
Total Investments	Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 185244.93 crores at the end of April-June 2017 quarter, which went up by Tk. 8151.27 crores or by 4.60% and by Tk. 28625.03 crores or by 18.28% 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 0.93 in April-June 2017 quarter which was 0.93 at the previous quarter of this year and 0.89 at the end of June 2016
Surplus Liquidity	Surplus Liquidity of Islamic banking industry stood at Tk. 7886.01 crores at the end of April-June 2017 quarter, which was lower by Tk. 145.61 crores (1.81%) and Tk. 3051.13 crores (27.90%) 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. 8866.82 crores at the end of April-June 2017 quarter, which was higher by Tk. 2206.66 crores or by 33.13% compared to the previous quarter and lower by Tk. 825.88 crores or by 8.52% 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 1112 at the end of the quarter under review which was 1092 during the previous quarter and 1042 during the same quarter of the last year.

Manpower

Total Manpower in Islamic banking sector was 30336 in number at the end of the quarter under review which was greater by 289 persons than that of the last quarter and by 1492 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities compared with all banks in Bangladesh

Items	April-June 2017@		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	3=(2/1*100)
Total Deposits (In Crore Taka)	877882.80	199424.90	22.72
Total Credit (In Crore Taka)	772594.90	185244.93	23.98
Remittances (In Crore Taka)	28714.25	8866.82	30.88
Total Excess Liquidity (In Crore Taka)	110800.00	7886.01	7.12
Total Number of Bank Branches	9720	1112	11.44
Total Agricultural Credit (In Crore Taka)	20998.70	833.59	3.97

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

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Table 2: Islamic Banking Activities in Bangladesh, April-June 2017

	June-17@	March-17	June-16	Changes		% Changes	
	Quarter	Quarter	Quarter	Quarterly	Annual	Quarterly	Annual
Total Deposits* (Taka in Crore)	199424.90	190257.70	175535.42	9167.21	23889.48	4.82	13.61
a) Full-fledged Islamic Banks	189767.37	181207.99	167260.60	8559.38	22506.77	4.72	13.46
b) Conventional banks having Islamic banking branches	5377.59	5289.28	5293.05	88.31	84.54	1.67	1.60
c) Islamic banking windows	4279.95	3760.42	2981.77	519.52	1298.17	13.82	43.54
Total Investments* (Taka in Crore)	185244.93	177093.67	156619.90	8151.27	28625.03	4.60	18.28
a) Full-fledged Islamic Banks	176564.35	169071.21	149363.21	7493.14	27201.15	4.43	18.21
b) Conventional banks having Islamic banking branches	5031.37	4805.41	4500.45	225.96	530.92	4.70	11.797
c) Islamic banking windows	3649.21	3217.05	2756.24	432.16	892.97	13.43	32.40
Investment/Deposit Ratio	0.93	0.93	0.89	0.00	0.04	-0.21	4.11
a) Full-fledged Islamic Banks	0.93	0.93	0.89	0.00	0.04	-0.28	4.19
b) Conventional banks having Islamic banking branches	0.94	0.91	0.85	0.03	0.09	2.98	10.04
c) Islamic banking windows	0.85	0.86	0.92	0.00	-0.07	-0.34	-7.76
Liquidity Surplus(+)/Deficit(-) (Taka in Crore)	7886.01	8031.62	10937.14	-145.61	-3051.13	-1.81	-27.90
a) Full-fledged Islamic Banks	6693.52	6662.74	9606.59	30.78	-2913.07	0.46	-30.32
b) Conventional banks having Islamic banking branches	689.34	855.98	1064.72	-166.64	-375.38	-19.47	-35.26
c) Islamic banking windows	503.14	512.89	265.83	-9.74	237.31	-1.90	89.27
Total Remittances (Taka in Crore)	8866.82	6660.16	9692.70	2206.66	-825.88	33.13	-8.52
a) Full-fledged Islamic Banks	8791.42	6609.92	9638.12	2181.50	-846.70	33.00	-8.78
b) Conventional banks having Islamic banking branches	66.40	43.81	52.80	22.58	13.59	51.54	25.75
c) Islamic banking windows	9.01	6.43	1.78	2.58	7.23	40.09	407.08
Total Branches	1112	1092	1042	20	70	1.83	6.72
a) Full-fledged Islamic Banks	1068	1048	998	20	70	1.91	7.01
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
Total Manpower	30336	30047	28844	289	1492	0.96	5.17
a) Full-fledged Islamic Banks	29763	29478	28278	285	1485	0.97	5.25
b) Conventional banks having Islamic banking branches	394	393	399	1	-5	0.25	-1.25
c) Islamic banking windows	179	176	167	3	12	1.70	7.19

* = Excluding Inter-Bank Items

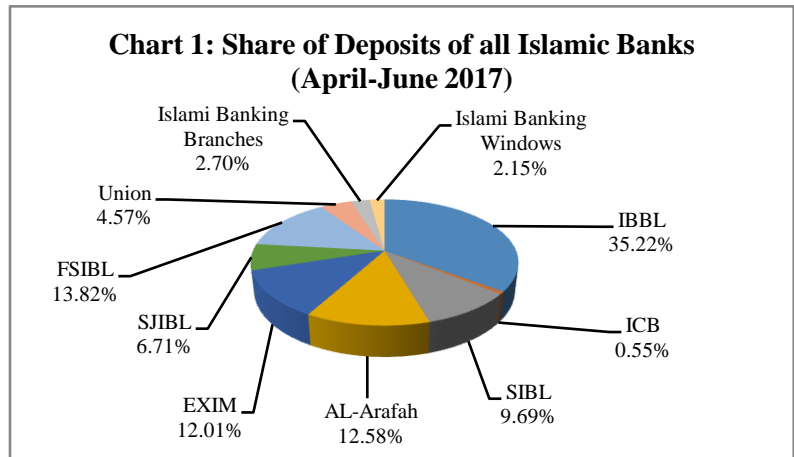
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Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 199424.90 crores at the end of the quarter April-June 2017, which was higher by 9167.21 crores (4.82%) and by Tk. 23889.48 crores (13.61%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 25223.16 crores and time deposit was Tk. 174201.74 crores. The share of total deposits of Islami banks accounted for 22.72% among all banks during the period under review.

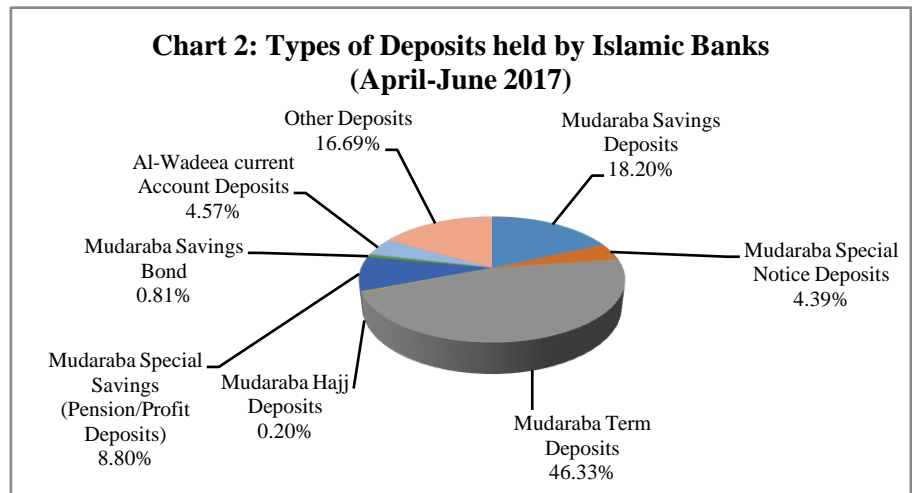
Total deposits of the eight full-fledged Islamic banks accounted for 95.16% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 189767.37 crores as on end June 2017.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.22%) [chart-1], followed by First Security Islami Bank Ltd.(13.82%), Al-Arafah Islami Bank Ltd. (12.58%), Exim Bank Ltd. (12.01%), Social Islami Bank Ltd. (9.69%), Shahjalal Islami Bank Ltd. (6.71%), Union Bank Limited (4.57%), Islami banking branches (2.70%), Islami banking windows (2.15%) and ICB Islamic Bank Limited (0.55%).



Types of Deposits

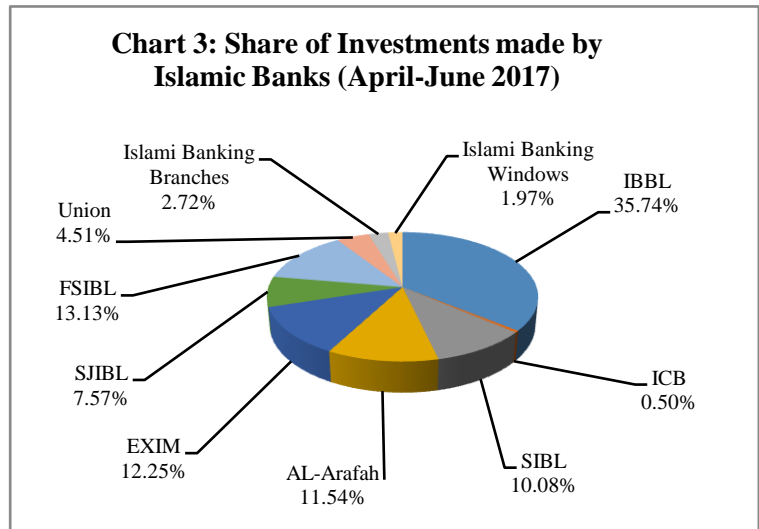
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (46.33%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.20%), Other deposits (16.69%), Mudaraba Special Savings pension/profit) Deposits (8.80%), Al-Wadeeah Current Account Deposits (4.57%), Mudaraba Special Notice Deposits (4.39%), Mudaraba Savings Bond (0.81%) and Mudaraba Hajj Deposits (0.20%) etc.



Investments

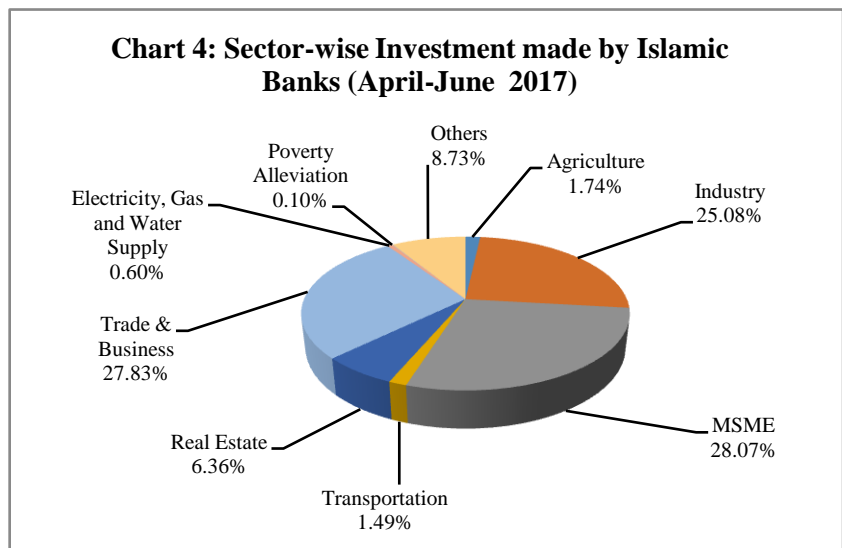
Total amount of investments in Islamic Banking industry reached at Tk. 185244.93 crores at the end of the quarter April-June 2017. During the quarter under review, investments increased by 4.60% and 18.28% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 23.98% among all banks.

Among total investments of Islami banks, 95.31% were made by 8 full-fledged Islamic banks, 2.72% by the scheduled banks' Islamic banking branches and the rest 1.97% 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 35.74% at the end of the quarter April-June 2017, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.13%), EXIM Bank Ltd. (12.25%), Al Arafah Islami Bank Ltd. (11.54%), Social Islami Bank Ltd (10.08%), Shahjalal Islami Bank (7.57%), Union Bank (4.51%), Islami banking branches (2.72%), Islami banking windows (1.97%) and ICB Islami Bank Ltd (0.50%).



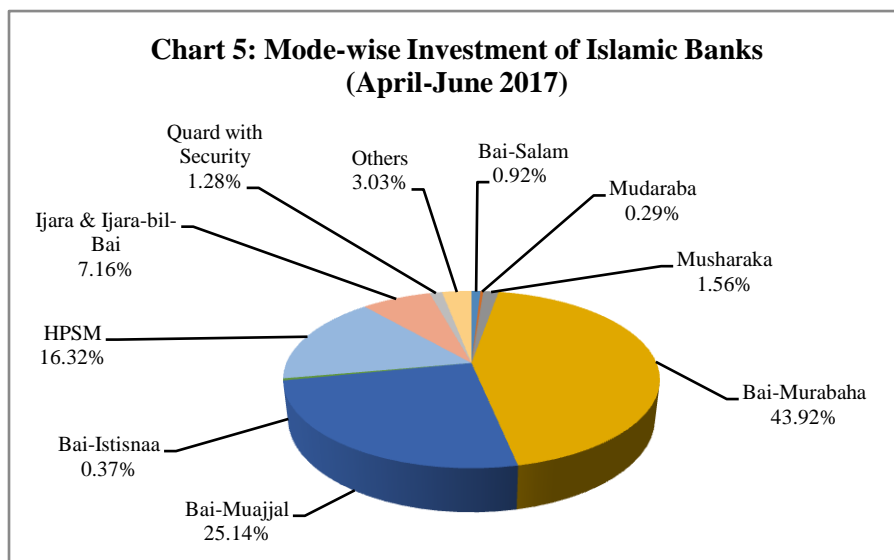
Sector-wise Investments

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 28.07% (chart-4) at the end of the quarter April-June 2017. The next position was occupied by Trade & Business sector (27.83%) followed by Industrial sector (25.08%), Others (8.73%), Real Estate (6.36%), Agriculture (1.74%), Transportation (1.49%), Electricity, Gas and Water supply (0.60%) 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 (43.92%) at the end of the quarter April-June 2017, [chart-5] followed by Bai-Muajjal (25.14%), HPSM (16.32%), Ijara & Ijara-bil-Bai (7.16%), others (3.03%), Musharaka (1.56%), Quard with Security (1.28%), Bai-Salam (0.92%), Mudaraba (0.29%) and Bai-Istisna (0.37%).



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 April-June 2017quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 833.59 crores which is lower by Tk. 124.57 crores and higher by Tk. 165.87 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 3.97% 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

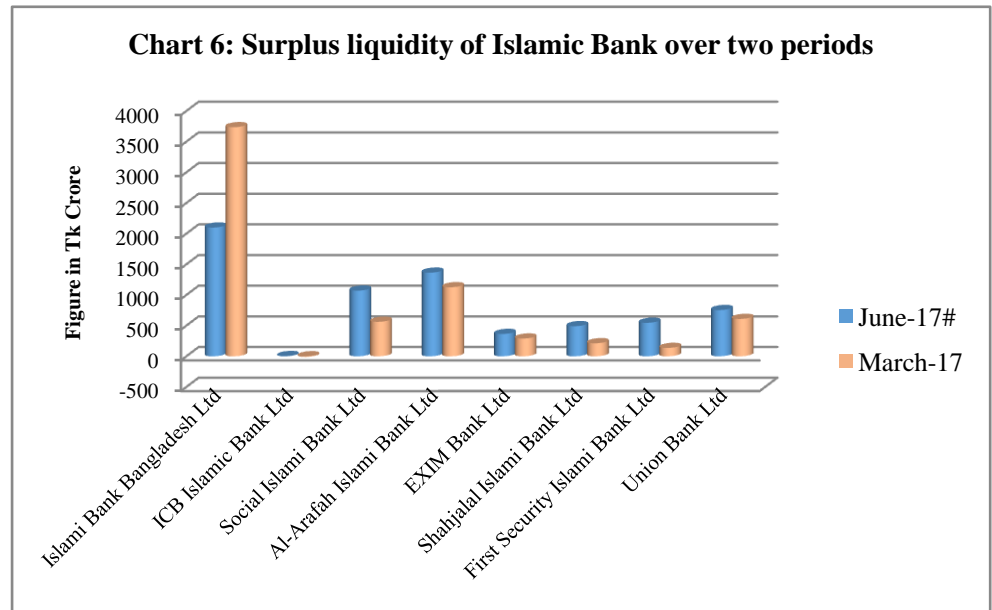
(Taka in crore)

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
June-17#	31010.69	54175.07	511.54	833.59	162.96 %	606.16	3270.58	454.26	1121.27
March-17	30260.10	50450.10	516.34	958.16	185.57 %	699.72	3039.16	291.87	1052.96
June-16	28109.07	51517.77	441.92	667.73	151.10 %	687.62	2280.27	280.36	1093.84
Quarterly Changes	750.60	3724.97	-4.79	-124.57	-22.61	-93.56	231.42	162.39	68.31
Annual Changes	2901.63	2657.30	69.62	165.87	11.86	-81.46	990.31	173.90	27.43

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Liquidity Situation

At the end of the quarter April-June 2017, surplus liquidity in the Islamic banking sector stood at Tk.7886.01 crores which was lower by Tk. 145.61 crores or by 1.81% and by Tk. 3051.13 crores or by 27.90% 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

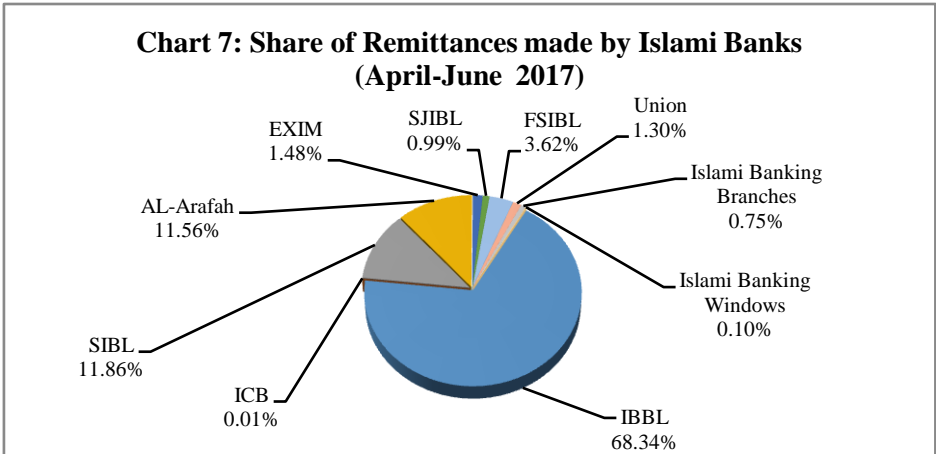


Islamic windows of conventional banks stood at Tk. 6693.52 crores, Tk. 689.34 crores and Tk. 503.14 crores respectively. Though surplus liquidity declined compared to previous quarter as well as corresponding quarter of the previous year, actually Islamic banks in Bangladesh have been facing excess liquidity problem since long as they cannot invest in Government Treasury Bills and Bonds because of the very interest bearing nature of those monetary instruments. For this, the amount of surplus liquidity of most of the Islamic banks is increasing day by day which have been affecting their net profit and increasing the cost of fund. The share of total excess liquidity of Islamic banks accounted for 7.12% 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

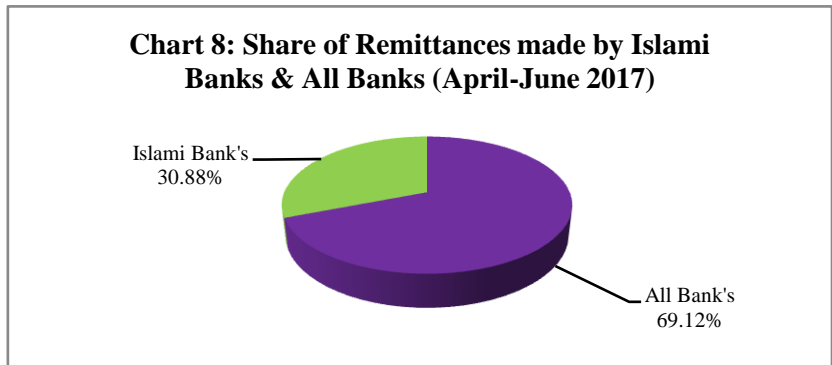
Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During April-June 2017 amount of remittances reached at Tk. 8866.82 crores which was higher by Tk. 2206.66 crores or by 33.13% and lower by Tk. 825.88 crores or by 8.52% 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 (68.34%) in respect of remittance collection at the end of April-June 2017. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (11.86%), Al Arafah Islami Bank Ltd. (11.56%), First Security Islami Bank Ltd (3.62%), EXIM Bank Ltd. (1.48%), Union Bank Ltd (1.30%), Shahjalal Islami Bank (0.99%)



and Islamic banking branches (0.75%).

The Islamic Banking Industry accounted for 30.88% 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-8.



Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1112 at the end of the quarter under review which was 1092 at the end of the previous quarter and was 1042 at the end of the preceding quarter of June 2016. At the end of April-June 2017 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1068 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 11.44% 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 (April-June, 2017)

Name of the Bank		Urban	Rural	Total
A)	Full-fledged Islamic Banks	641	427	1068
1	Islami Bank Bangladesh Limited *	224	94	318
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	65	38	103
7	First Security Islami Bank Limited	84	76	160
8	Union Bank Limited	30	30	60
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	25	0	25
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
D)	Total=A+B+C	684	428	1112

* Including SME

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

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 4.92% in this quarter compared to the previous quarter. At the end of April-June 2017 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.60.08 crores which was Tk. 65.00 crores and Tk. 48.59 crores during the previous quarter and preceding quarter of June 2016 respectively.

Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 246 branches and 18 meetings held during the quarter April-June 2017. Total numbers of publications published by the Islamic banks are 9 including Islami Bank Bangladesh Ltd. 03, First Security Islami Bank Ltd. 04 and EXIM bank 01 during the quarter under review. Besides, Islamic banks have organized 61 seminar/workshop/conference and 85 training course in home and the participants of foreign training course is 11 in number for boost up the Sharia'h based knowledge of its employees during April-June 2017 quarter.

Concluding Remarks and Recommendations

By mobilizing deposits and investing it to real and service sectors Islamic Banking Industry in Bangladesh has been highly contributing to encourage economic growth and generate employment in the country to fulfill the vision of the government to achieve the state of higher middle income level country by the year 2021. Islamic banking industry with more than 20% market share and 30336 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 30.88% of total foreign remittances in Bangladesh. 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 1.85% 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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