

Developments of Islamic Banking in Bangladesh¹

April-June, 2018



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Developments of Islamic Banking Industry in Bangladesh during April-June 2018

Islamic banking has become reasonably important in global financial market, especially in Asia. At the end of 2017, the assets of Islamic financial industry in Asia stood at USD 528.7 billion which was 26% of the world's Shariah compliant financial assets. In Asia, the value of Islamic financial assets has been estimated to exceed USD 1 trillion by 2023. According to the International Monetary Fund, regional output is predicted to grow to 5.6% and 5.5% in 2017 and 2018 respectively, supported by robust consumption and investment.² The aggregated data for total assets of Islamic financial sector (19 countries) and the total funding/liabilities (18 countries) were calculated USD 1662 billion and USD 1,522 billion in 2017Q3 respectively.³

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 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 in Bangladesh during the April-June 2018 quarter. As at the end of June 2018, 8 full-fledged Islamic banks are operating with 1134 branches out of total 10114 branches of the banking industry; in addition, 19 Islamic banking branches of 9 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the April-June 2018 quarter, deposits and investments, of Islamic banking industry grew by 4.27%, 3.67% respectively and remittance increased by 26.79 % while excess liquidity went up by 27.33% 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.

The excess liquidity increased compared to previous quarter, 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. However, introducing Sukuk or Islamic bond could be an alternative in upcoming years. During this quarter, remittances increased significantly through Islamic banks of Bangladesh.

² MIFC. (2018). Islamic Finance in Asia: Reaching New Heights. (<http://www.mifc.com/index.php?ch=28&pg=72&ac=188&bb=uploadpdf>)

³ IFSB. (2018). Prudential and Structural Islamic Financial Indicators (PSIFIs).(https://www.ifsb.org/psifi_05.php)

Highlights on Islamic Banking Sector in Bangladesh, April-June 2018

Total Deposits

Total Deposits in Islamic banking industry reached at Tk. 224757.80 crores at the end of April-June 2018 quarter, which increased by Tk. 9199.87 crores or by 4.27% compared to previous quarter and by Tk. 25332.90 crores or by 12.7% compared to corresponding quarter of the last year.

Total Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 216827.43 crores at the end of April-June 2018 quarter, which went up by Tk. 7679.52 crores or by 3.67% and by Tk. 31582.50 crores or by 17.05% 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 0.96 in April-June 2018 quarter which was 0.97 at the previous quarter of this year and 0.93 at the end of June 2017.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at Tk. 6465.92 crores at the end of April-June 2018 quarter, which was higher by Tk. 1387.94 crores (27.33%) and lower by Tk. 1420.08 crores (18.01%) 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. 11461.90 crores at the end of April-June 2018 quarter, which was higher by Tk. 2421.94 crores or by 26.79% compared to the previous quarter as well as higher by Tk. 2595.08 crores or by 29.27% 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 1178 at the end of the quarter under review which was 1169 during the previous quarter and 1112 during the same quarter of the last year.

Manpower

Total Manpower in Islamic banking sector was 32579 in number at the end of the quarter under review which was greater by 270 persons than that of the last quarter and by 2243 persons compared to the same quarter of the last year.

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

(In Crore Taka)

Items	April-June 2018 [@]			January-March 2018 [@]
	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	968304.4	224757.80	23.21	23.30
Total Credit	905937.3	216827.43	23.93	24.05
Remittances	35160	11461.90	32.59	28.48
Total Excess Liquidity	97472.90	6465.92	6.63	6.60
Total Number of Bank Branches	10114	1178	11.64	11.72
Total Agricultural Credit	40601.11	872.80	2.15	2.35

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

[@] Provisional

Table 2: Islamic Banking Activities in Bangladesh, April-June 2018

(Taka in Crore)

	June-18 [#]	March-18 [#]	June-17 [#]	Changes		% Changes	
	Quarter	Quarter	Quarter	Quarterly	Annual	Quarterly	Annual
Total Deposits*	224757.80	215557.93	199424.90	9199.87	25332.90	4.27	12.70
a) Full-fledged Islamic Banks	212859.12	204526.34	189767.37	8332.78	23091.75	4.07	12.17
b) Conventional banks having Islamic banking branches	6539.94	6116.58	5377.59	423.36	1162.35	6.92	21.61
c) Islamic banking windows	5358.74	4915.01	4279.95	443.73	1078.79	9.03	25.21
Total Investments*	216827.43	209147.92	185244.93	7679.52	31582.50	3.67	17.05
a) Full-fledged Islamic Banks	206393.27	199047.29	176564.35	7345.98	29828.92	3.69	16.89
b) Conventional banks having Islamic banking branches	5807.35	5670.12	5031.37	137.23	775.99	2.42	15.423
c) Islamic banking windows	4626.81	4430.51	3649.21	196.30	977.60	4.43	26.79
Investment/Deposit Ratio	0.96	0.97	0.93	-0.01	0.04	-0.57	3.86
a) Full-fledged Islamic Banks	0.97	0.97	0.93	0.00	0.04	-0.37	4.21
b) Conventional banks having Islamic banking branches	0.89	0.93	0.94	-0.04	-0.05	-4.21	-5.09
c) Islamic banking windows	0.86	0.90	0.85	-0.04	0.01	-4.22	1.26
Liquidity Excess(+)/Shortfall(-)	6465.92	5077.98	7886.01	1387.94	-1420.08	27.33	-18.01
a) Full-fledged Islamic Banks	5677.72	4187.96	6693.52	1489.76	-1015.80	35.57	-15.18
b) Conventional banks having Islamic banking branches	114.54	431.00	689.34	-316.46	-574.81	-73.43	-83.38
c) Islamic banking windows	673.67	459.02	503.14	214.64	170.52	46.76	33.89
Total Remittances	11461.90	9039.97	8866.82	2421.94	2595.08	26.79	29.27
a) Full-fledged Islamic Banks	11398.61	8986.51	8791.42	2412.10	2607.19	26.84	29.66
b) Conventional banks having Islamic banking branches	53.82	44.15	66.40	9.67	-12.58	21.91	-18.95
c) Islamic banking windows	9.47	9.31	9.01	0.16	0.47	1.77	5.21
Total Number of Branches	1178	1169	1112	9	66	0.77	5.94
a) Full-fledged Islamic Banks	1134	1125	1068	9	66	0.80	6.18
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 Number of Manpower	32579	32309	30336	270	2243	0.84	7.39
a) Full-fledged Islamic Banks	32007	31728	29763	279	2244	0.88	7.54
b) Conventional banks having Islamic banking branches	392	400	394	-8	-2	-2.00	-0.51
c) Islamic banking windows	180	181	179	-1	1	-0.55	0.56

* = Excluding Inter-Bank Items

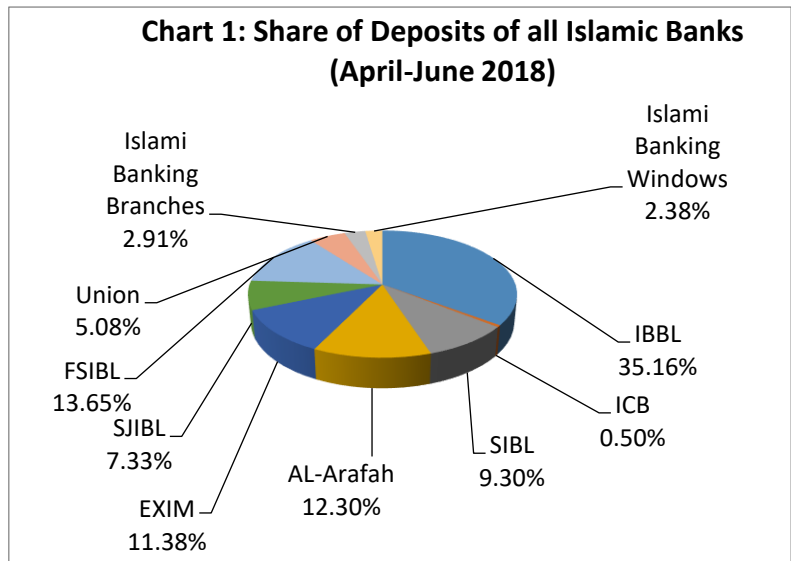
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Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 224757.80 crores at the end of April-June 2018 quarter, which increased by Tk. 9199.87 crores or by 4.27% compared to previous quarter and by Tk. 25332.90 crores or by 12.7% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 26606.11 crores and time deposit was Tk. 198151.69 crores. The share of total deposits of Islami banks accounted for 23.21% among all banks during the period under review.

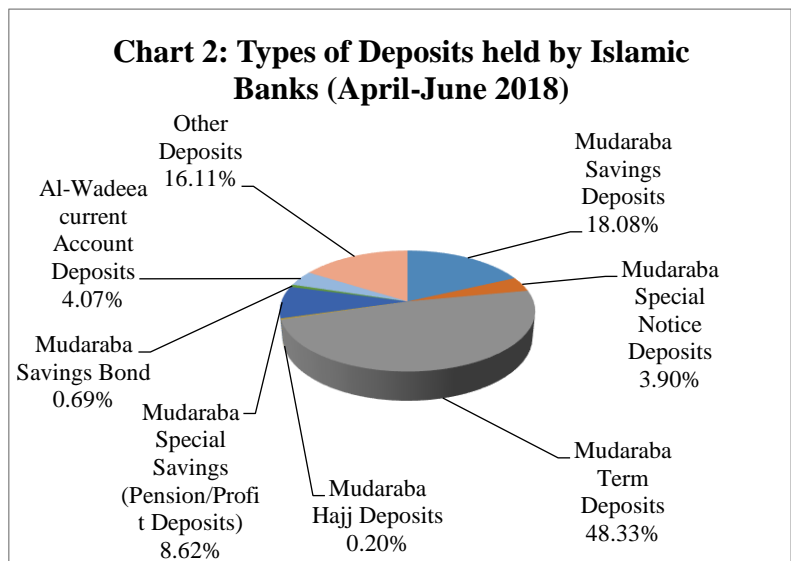
Total deposits of the eight full-fledged Islamic banks accounted for 94.71% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 212859.12 crores at the end of June 2018.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.16%) [chart-1], followed by First Security Islami Bank Ltd. (13.65%), Al-Arafah Islami Bank Ltd. (12.30%), Exim Bank Ltd. (11.38%), Social Islami Bank Ltd. (9.30%), Shahjalal Islami Bank Ltd. (7.33%), Union Bank Limited (5.08%), Islami banking branches (2.91%), Islami banking windows (2.38%) and ICB Islamic Bank Limited (0.50%).



Types of Deposits

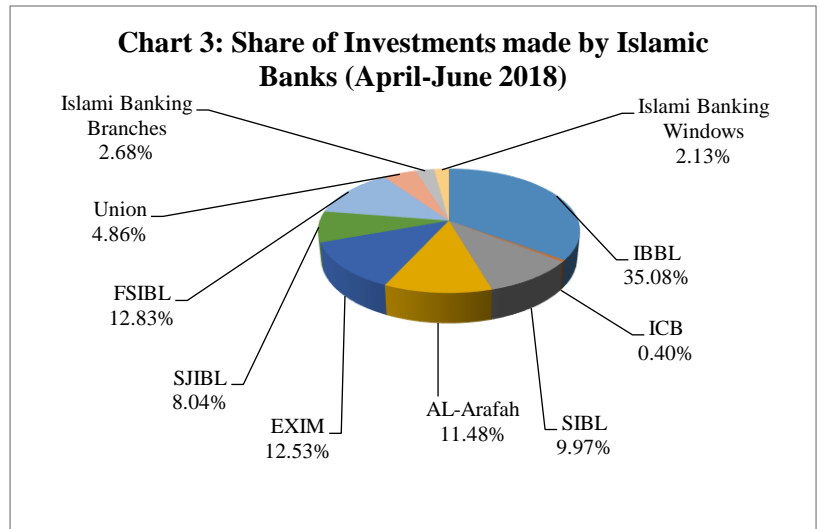
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (48.33%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.08%), Other deposits (16.11%), Mudaraba Special Savings (pension/profit) Deposits (8.62%), Al-Wadeeah Current Account Deposits (4.07%), Mudaraba Special Notice Deposits (3.90%), Mudaraba Savings Bond (0.69%) and Mudaraba Hajj Deposits (0.20%) etc.



Investments

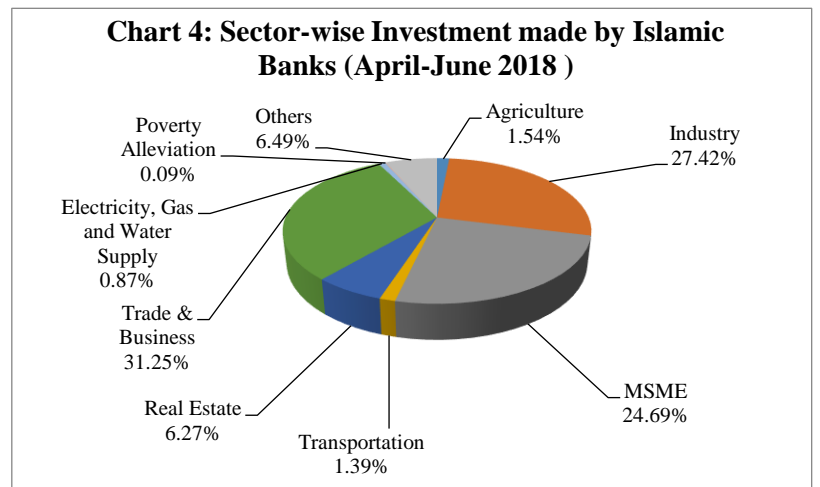
Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 216827.43 crores at the end of April-June 2018 quarter, which went up by Tk. 7679.52 crores or by 3.67% and by Tk. 31582.50 crores or by 17.05% compared to previous quarter and same quarter of the preceding year respectively. The share of total Investment of Islamic banks accounted for 23.93% among all banks.

Among total investments of Islami banks, 95.19% were made by 8 full-fledged Islamic banks, 2.68% by the scheduled banks' Islamic banking branches and the rest 2.13% 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 35.08% at the end of the quarter April-June 2018, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (12.83%), EXIM Bank Ltd. (12.53%), Al Arafah Islami Bank Ltd. (11.48%), Social Islami Bank Ltd (9.97%), Shahjalal Islami Bank (8.04%), Union Bank (4.86%), Islami banking branches (2.68%), Islami banking windows (2.13%) and ICB Islami Bank Ltd (0.40%).



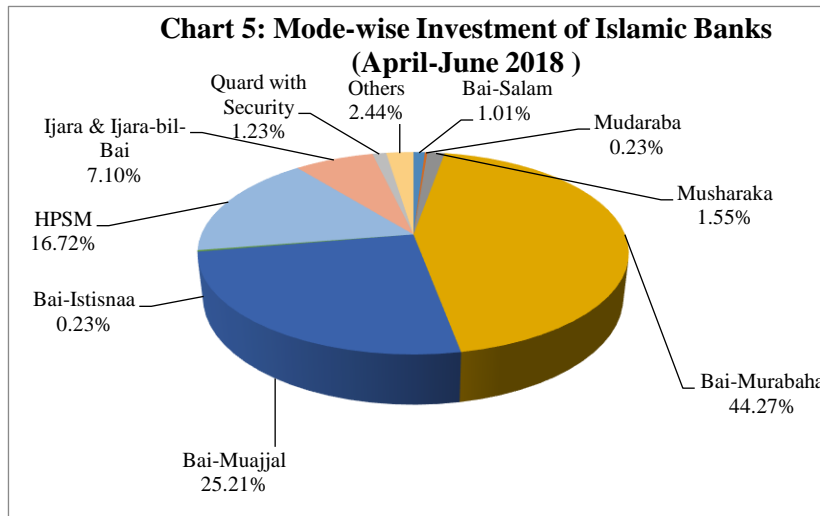
Sector-wise Investments

After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector (31.25%) sector was the highest among all sectors (chart-4) at the end of the quarter April-June 2018. The next position was occupied by Industrial sector which stood at 27.42% followed by MSME (Micro, Small and Medium Enterprises) (24.69%), Others (6.49%), Real Estate (6.27%), Agriculture (1.54%), Transportation (1.39%), Electricity, Gas and Water supply (0.87%) and Poverty Alleviation (0.09%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.27%) at the end of the quarter April-June 2018, [chart-5] followed by Bai-Muajjal (25.21%), HPSM (16.72%), Ijara & Ijara-bil-Bai (7.10%), others (2.44%), Musharaka (1.55%), Quard with Security (1.23%), Bai-Salam (1.01%), Mudaraba (0.23%) and Bai-Istisna (0.23%).



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 2018 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 872.80 crores which is lower by Tk. 75.59 crores and higher by Tk. 39.21 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 2.15% among all banks during the quarter under review. Summary of Investments in Agricultural Sector under the Islamic banking framework is provided in table-3:

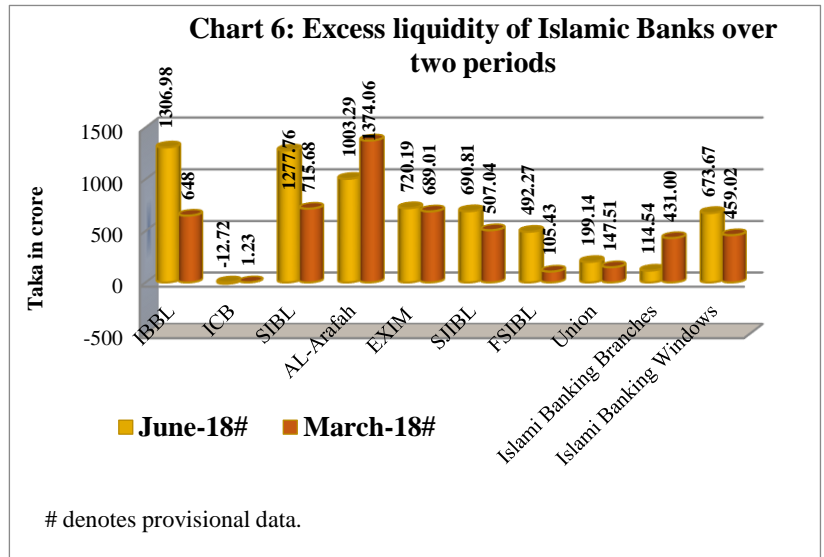
Table-3: Summary of Investments in Agricultural Sector

Details	Total Investment		Agricultural Sector (Tk. In Crore)						
	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-18 [#]	33444.36	54724.69	647.64	872.80	134.77	1115.46	3258.47	763.99	1455.23
March-18 [#]	33441.69	55498.29	648.06	948.38	146.34	954.94	3953.93	494.43	1203.58
June-17 [#]	31010.69	54175.06	511.54	833.59	162.96	606.16	3270.58	454.26	1121.27
Quarterly Changes	2.72	-773.61	-0.42	-75.59	969.12	2303.54	-3189.94	960.80	251.65
Annual Changes	2433.67	549.62	136.10	39.21	952.51	2652.31	-2506.59	1000.96	333.96

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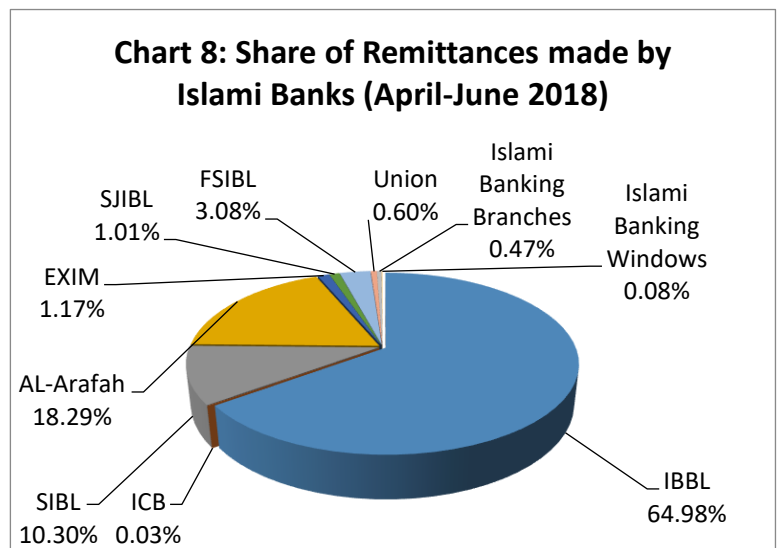
Liquidity Situation

Excess Liquidity of Islamic banking industry stood at Tk. 6465.92 crores at the end of April-June 2018 quarter, which was increased by Tk. 1387.94 crores (27.33%) and lowered by Tk. 1420.08 crores (18.01%) compared to the previous quarter and corresponding quarter of the preceding year respectively. The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 5677.72 crores, Tk. 114.54 crores, and Tk. 673.67 crores respectively. It is observed that at the end of the quarter April-June 2018, excess liquidity increased significantly compared to previous quarter however, it has declined compared to the corresponding quarter of the previous year. The share of total excess liquidity of Islamic banks accounted for 6.63% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.



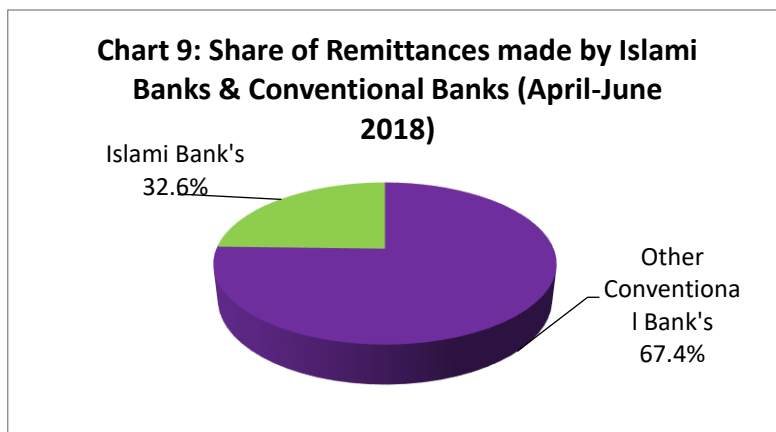
Remittances Mobilized by the Islamic Banking Sector

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 April-June 2018, Total Remittances mobilized by the Islamic banking sector stood at Tk. 11461.90 crores, which was higher by Tk. 2421.94 crores or by 26.79% compared to the previous quarter as well as higher by Tk. 2595.08 crores or by 29.27% compared to the same quarter of the preceding year. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (64.98%) in respect of remittance collection at the end of April-June 2018. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (18.29%), Social Islami Bank Ltd (10.30%), First Security Islami Bank Ltd (3.08%), EXIM Bank



Ltd. (1.17%), Shahjalal Islami Bank (1.01%), Union Bank Ltd (0.60%), Islamic banking branches (0.47%), and Islamic banking windows (0.08%).

The Islamic Banking Industry accounted for 32.59% 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 increased by 94.35 % to Tk.238.53 crores at the end of Q218, which were Tk. 122.73 crores and Tk. 60.08 crores during the previous quarter and same quarter of the preceding year respectively. This substantial increase was due mainly to huge expenditure incurred by Islami Bank Bangladesh Ltd. on education sector.

Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1178 at the end of the quarter under review which was 1169 at the end of the previous quarter and was 1112 at the end of the preceding quarter of June 2017. At the end of April-June 2018 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1134 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 11.64% at the end of the quarter under review. Information on branches of Islamic banks is shown in Annexure-9.

Table 4: Number of Bank Branches of Islamic Banks (April-June 2018)

	Name of the Bank	Urban	Rural *	Total
	1	2	3	4=(2+3)
A)	Full-fledged Islamic Banks	686	448	1134
1	Islami Bank Bangladesh Limited *	233	101	334
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	75	67	142
4	Al-Arafah Islami Bank Limited	83	71	154
5	EXIM Bank Limited	74	44	118
6	Shahjalal Islami Bank Limited	70	43	113
7	First Security Islami Bank Limited	87	82	169
8	Union Bank Limited	36	35	71
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**			
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	729	449	1178

* Including SME branch for IBBL (30) & SIBL (12), **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 247 branches and 15 meetings held during the quarter. Total numbers of publications published by the Islamic banks are 12, of which the number of publication was Islami Bank Bangladesh Ltd. 09, ICB Islamic Bank Ltd. 01, First Security Islami Bank Ltd. 01 and Exim Bank Ltd. 01 during the quarter under review. Besides, Islamic banks have organized 43 seminar/workshop/conference and 63 training course in home and the participants of foreign training course is 22 in number for boost up the Sharia'h based knowledge of its employees during April-June 2018 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 mainly in the sectors 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 1.78% 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; introducing Sukuk or Islamic bond could be an alternative in upcoming years. 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 through their banking model.

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