

Developments of Islamic Banking Industry in Bangladesh during January-March, 2015



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Developments of Islamic Banking Industry in Bangladesh during January-March 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. 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 banking services in Bangladesh. At the end of January-March 2015 quarter, deposits and investments of Islamic banking industry grew by 1.79% and 2.22% respectively, while surplus of liquidity decreased by 6.10% 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 of Islamic Banking in Bangladesh, January-March 2015

- Total deposits in Islamic banking industry reached Tk. 146733.75 crores at the end of January-March 2015 quarter, which increased by Tk. 2584.78 crores or by 1.79% compared to previous quarter and by Tk. 20141.21 crores or by 15.91% compared to corresponding quarter of the last year.
- Total investments in Islamic banking sector stood at Tk. 126704.83 crores at the end of January-March 2015 quarter, which went up by Tk. 2754.68 crores or by 2.22% and by Tk. 19105.02 crores or by 17.76% compared to previous quarter and same quarter of the preceding year respectively.
- Investment-Deposit ratio reached at 0.86 in January-March 2015 quarter which remained same at the previous quarter and was 0.85 at the end of March 2014.
- At the end of January-March 2015 quarter, surplus liquidity of Islamic banks stood at Tk. 11872.46 crores, which was lower by Tk. 771.79 crores (6.10%) than previous quarter and higher by Tk. 928.28 crores (8.48%) compared to the corresponding quarter of the preceding year.
- Total Remittance in Islamic banking sector stood at Tk. 8667.03 crores at the end of January-March 2015 quarter, which was lower by Tk. 499.70 crores or by 5.45% and higher by Tk. 161.57 crores or by 1.90% compared to previous quarter and same quarter of the preceding year respectively.
- At the end of the quarter under review, the number of branches of Islamic banks including Islamic branches/windows of commercial banks stood at 934 which remained same during the previous quarter and 869 during the same quarter of the last year.
- Total manpower in Islamic banking sector was 27337 in number at the end of the quarter under review which was greater by 125 persons than that of the last quarter and by 1587 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities in Bangladesh, January-March 2015

	March-15#	Dec-14	March-14	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (In Crore Taka)	146733.75	144148.97	126592.54	2584.78	20141.21	1.79	15.91
a) Full-fledged Islamic Banks	138988.45	136709.89	119495.75	2278.56	19492.70	1.67	16.31
b) Conventional banks having Islamic banking branches	5296.95	5171.93	5015.68	125.02	281.27	2.42	5.61
c) Islamic banking windows	2448.34	2267.14	2081.10	181.20	367.24	7.99	17.65
Total Investments* (In Crore Taka)	126704.83	123950.15	107599.82	2754.68	19105.02	2.22	17.76
a) Full-fledged Islamic Banks	120767.36	118147.38	102283.08	2619.98	18484.29	2.22	18.07
b) Conventional banks having Islamic banking branches	4119.07	4137.59	3807.43	-18.52	311.64	-0.45	8.185
c) Islamic banking windows	1818.40	1665.18	1509.31	153.22	309.09	9.20	20.48
Investment/Deposit Ratio	0.86	0.86	0.85	0.00	0.01	0.42	1.59
a) Full-fledged Islamic Banks	0.87	0.86	0.86	0.00	0.01	0.54	1.51
b) Conventional banks having Islamic banking branches	0.78	0.80	0.76	-0.02	0.02	-2.80	2.44
c) Islamic banking windows	0.74	0.73	0.73	0.01	0.02	1.12	2.41
Liquidity Surplus(+)/Deficit(-) (In Crore Taka)	11872.46	12644.25	10944.17	-771.79	928.28	-6.10	8.48
a) Full-fledged Islamic Banks	10351.43	10711.07	9647.94	-359.64	703.49	-3.36	7.29
b) Conventional banks having Islamic banking branches	1243.33	1456.62	1105.81	-213.29	137.52	-14.64	12.44
c) Islamic banking windows	277.69	476.56	190.42	-198.87	87.27	-41.73	45.83
Total Remittance	8667.03	9166.73	8505.46	-499.70	161.57	-5.45	1.90
a) Full-fledged Islamic Banks	8629.83	9088.40	8474.06	-458.57	155.77	-5.05	1.84
b) Conventional banks having Islamic banking branches	37.10	77.81	31.36	-40.71	5.74	-52.32	18.30
c) Islamic banking windows	0.1037	0.5166	0.0399	-0.41	0.06	-79.93	159.90
Total Branches	934	934	869	0	65	0.00	7.48
a) Full-fledged Islamic Banks	890	890	825	0	65	0.00	7.88
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	27337	27212	25750	125	1587	0.46	6.16
a) Full-fledged Islamic Banks	26760	26660	25194	100	1566	0.38	6.22
b) Conventional banks having Islamic banking branches	423	414	419	9	4	2.17	0.95
c) Islamic banking windows	154	138	137	16	17	11.59	12.41

* = Excluding Inter-Bank Items

Provisional

Table 2: Islamic Banking Activities compare with All Banks in Bangladesh

Item	January-March 15 #		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	3=(2/1*100)
Total Deposits (In Crore Taka)	668767.00	146733.75	21.94
Total Credit (In Crore Taka)	728778.90	126704.83	17.39
Remittances (In Crore Taka)	29348.65	8667.03	29.53
Total Excess Liquidity (In Crore Taka)	107409.60	11872.46	11.05
Total Number of Bank Branches	9075	934	10.29
Total Agricultural Credit (In Crore Taka)	11166.19	524.88	4.70

Source: Statistics Department, DOS & BRPD

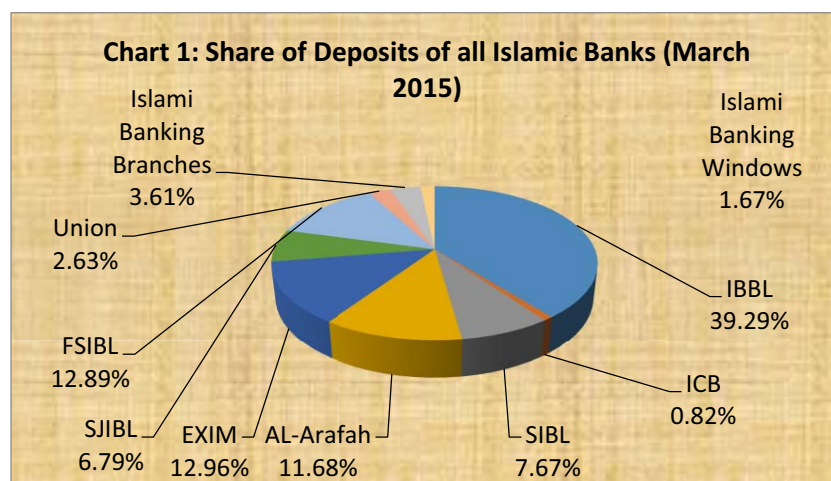
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Deposits

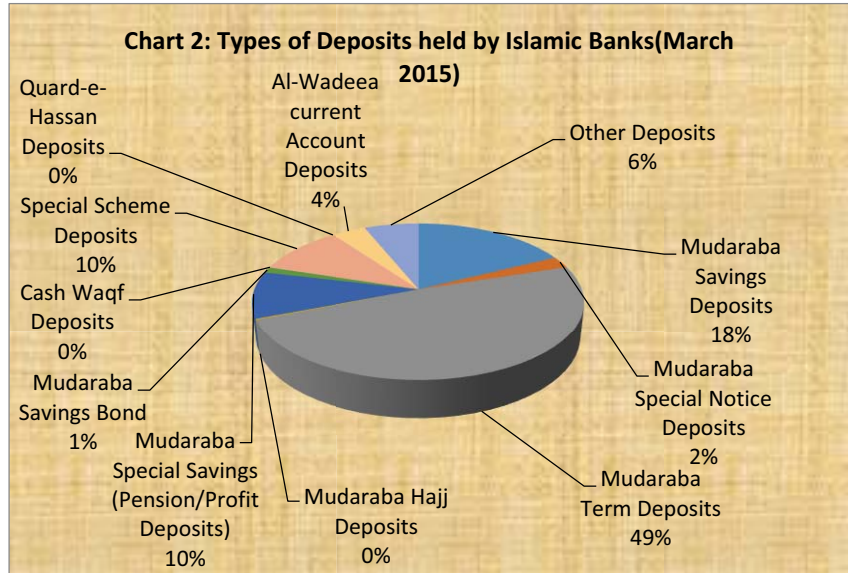
Total deposits of Islamic banking industry stood at Tk. 146733.75 crores at the end of the quarter January-March 2015, which was higher by 2584.78 crores (1.79%) and by Tk. 20141.21 crores (15.91%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 16416.76 crores and time deposit was Tk. 130316.98 crores. The share of total deposits of Islamic banks accounted for 21.94% among all banks during the period under review.

Total deposits of the eight full-fledged Islamic banks accounted for 94.72% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 138988.45 crores as on end March 2015.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (39.29%) [chart-1], followed by Exim Bank Ltd. (12.96%), First Security Islami Bank Ltd.(12.89%), Al-Arafah Islami Bank Ltd. (11.68%), Social Islami Bank Ltd. (7.67%), Shahjalal Islami Bank Ltd. (6.79%), Islami banking branches (3.61%), Union Bank Limited (2.63%), Islami banking windows (1.67%) and ICB Islamic Bank Limited (0.82%).

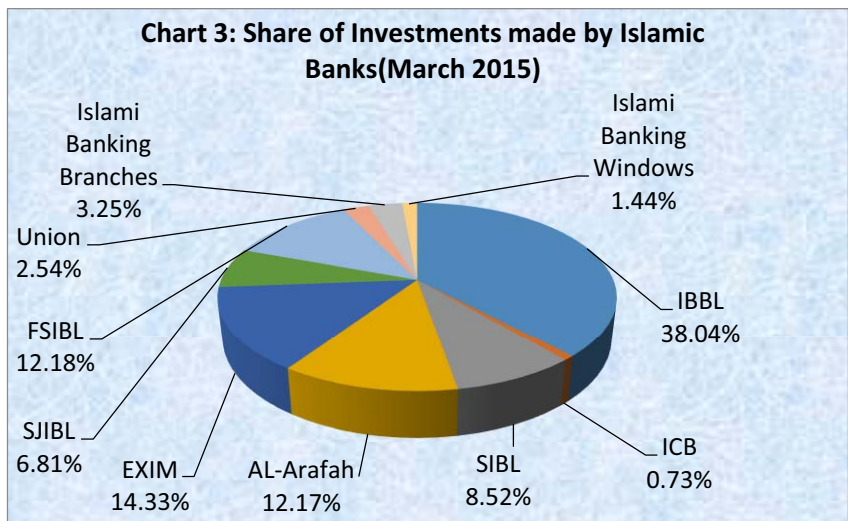


Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (49%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18%), Mudaraba Special Savings pension/profit) Deposits (10%), Special Scheme Deposit (10%), Other deposits(6%), Current Account Deposits (4%), Mudaraba Special Notice Deposits(2%), Mudaraba Savings Bond (1%) etc.

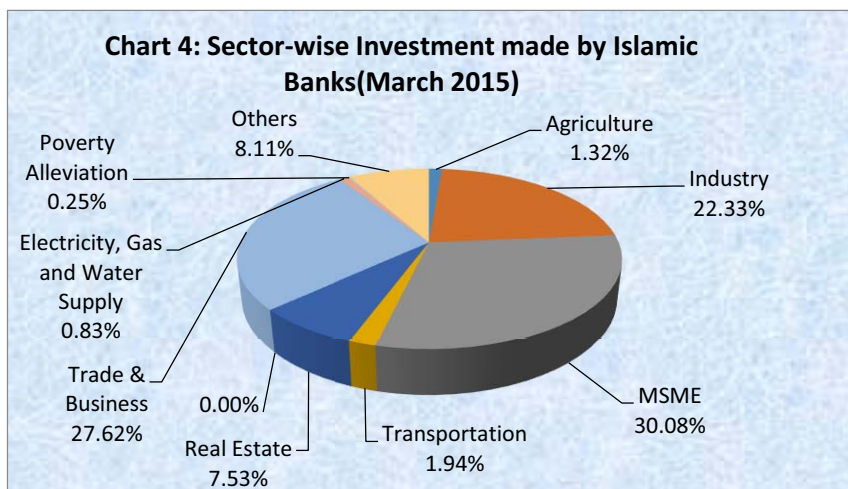


Investments

Total amount of investments in Islamic Banking industry reached at Tk. 126704.83 crores at the end of the quarter January-March 2015. During the quarter under review, investments increased by 2.22% and 17.76% 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 17.39% among all banks.



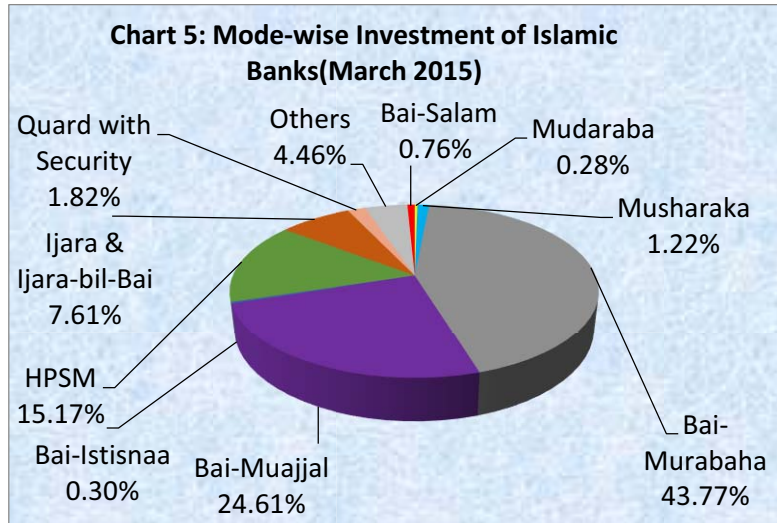
Among total investments of Islami banks, 95.31% were made by 8 full-fledged Islamic banks, 3.25% by the scheduled banks' Islamic banking branches and the rest 1.44% by the scheduled banks' Islamic banking windows. As in the case of deposits, Islami Bank Bangladesh Ltd. attained the highest share in investments



which was 38.04% at the end of the quarter January-March 2015, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (14.33%), First Security

Islami Bank Ltd (12.18%), Al Arafah Islami Bank Ltd. (12.17%), Social Islami Bank Ltd (8.52%), Shahjalal Islami Bank (6.81%), Islami banking branches (3.25%), Union Bank (2.54%), Islami banking windows (1.44%) and ICB Islami Bank Ltd (0.73%).

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 30.08%



(chart-4) at the end of the quarter January-March 2015. The next position was occupied by Business & Trade sector (27.62%) followed by Industrial sector (22.33%), others (8.11%), Real Estate (7.53%), , Transportation (1.94%), Agriculture (1.32%), Electricity, Gas and Water supply (0.83%) and Poverty Alleviation (0.25%).

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (43.77%) at the end of the quarter January-March 2015, [chart-5] followed by Bai-Muajjal (24.61%), HPSM (15.17%), Ijara & Ijara-bil-Bai (7.61%), others (4.46%), Quard with Security (1.82%), Musharaka (1.22%), Bai-Salam(0.76%), Bai-Istisna (0.30%) and Mudaraba (0.28%).

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 January-March 2015 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 524.88 crores which was higher by Tk. 170.81 crores and lower by Tk. 215.07 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% among all banks. Summary of Investments in agricultural sector under the Islamic banking framework is provided in table-3:

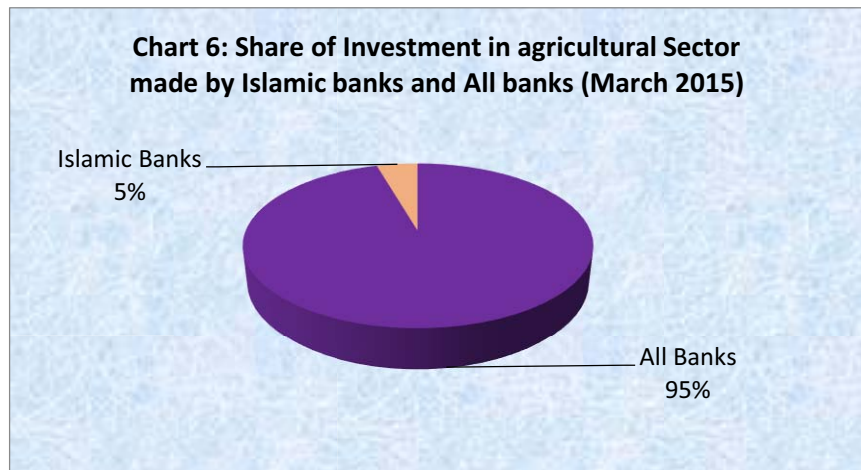


Table-3: Summary of Investments in agricultural sector

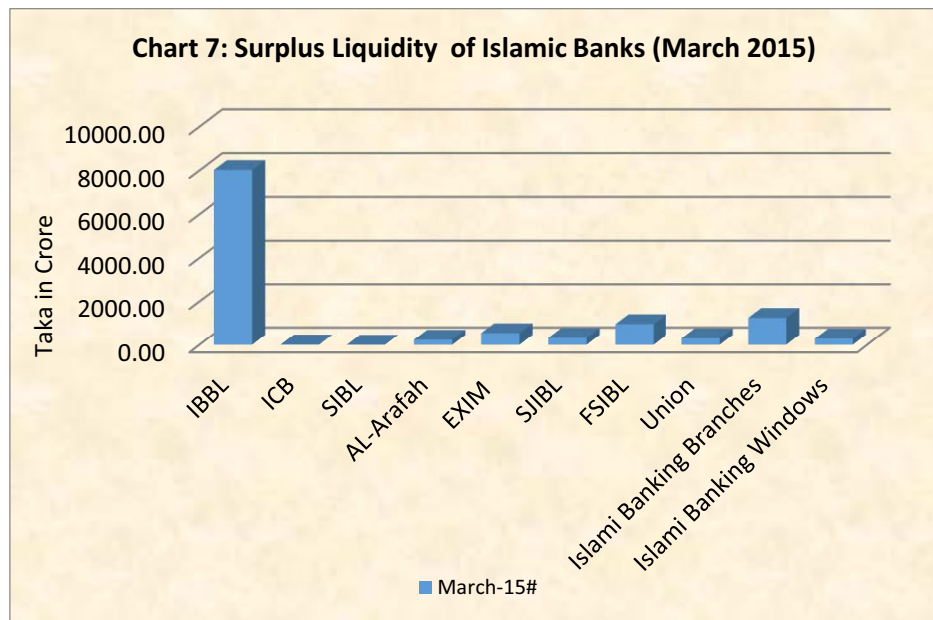
(Taka in crore)

Details	Total Investment		Agricultural Sector						
	Target	Actual Investment	Investment Target	Actual Investment/Di sbursement	Recovery	Investm ent/Outs tanding	Overdue Investment	Classified Investment	
1	2	3	4	5	6	7	8	9	
March-15#	23864.44	37299.63	423.73	524.88	532.71	1736.80	539.71	767.13	
Dec-14	34049.31	49834.49	446.39	354.08	323.86	1657.63	510.98	711.00	
March-14	23741.29	32430.36	511.98	739.95	685.54	2042.45	366.90	447.43	
Changes	Quarterly	-10184.87	-12534.86	-22.66	170.81	208.85	79.17	28.73	56.13
	Annual	123.15	4869.27	-88.25	-215.07	-152.84	-305.65	172.81	319.70

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Liquidity Situation

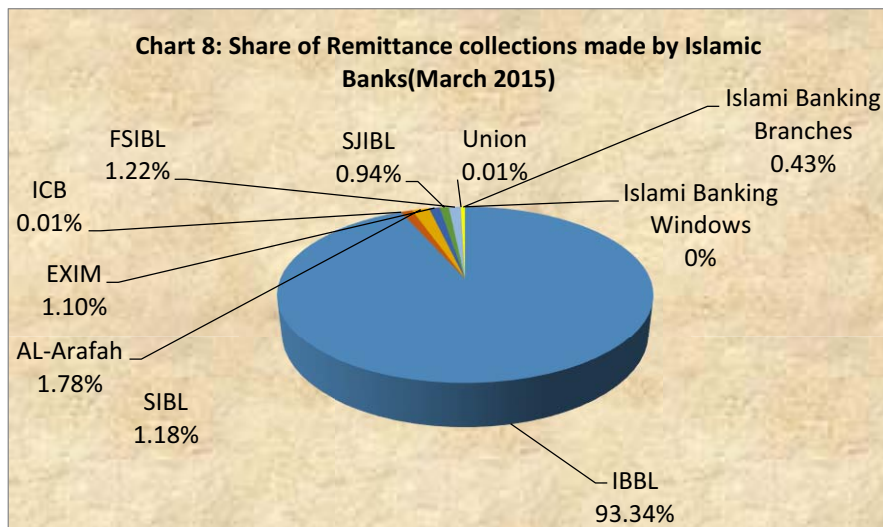
At the end of the quarter January-March 2015, surplus liquidity in the Islamic banking sector stood at Tk.11872.46 crores which was lower by Tk.771.79 crores or by 6.10% and higher by Tk. 928.28 crores or by 8.48% than the last quarter and the same quarter of the previous year respectively. Among all banks the share of total excess



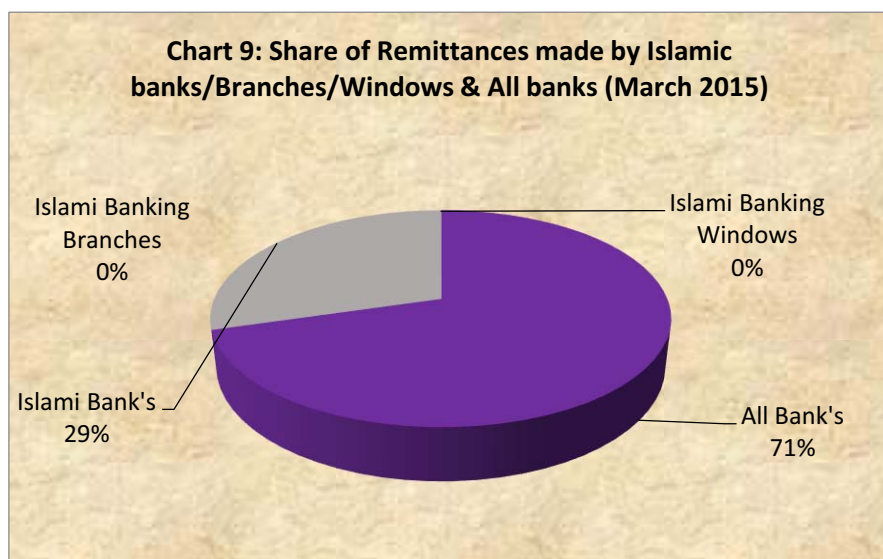
liquidity of Islami banks accounted for 11.05%. The surplus liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 10351.43 crores, Tk. 1243.33 crores and Tk. 277.69 crores respectively. Summary of liquidity situation in the Islamic Banking sector is shown in chart 7.

Remittances

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the whole country. During January-March 2015 amount of remittances reached at Tk.8667.03 crores which was lower by Tk. 499.70 crores or by 5.45% and higher by Tk. 161.57 crores or by 1.90% 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 (93.34%) in respect of remittance collection at the end of March 2015 (Chart-8).



The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (1.78%), First Security Islami Bank Ltd (1.22%) Social Islami Bank Ltd (1.18%), EXIM Bank Ltd. (1.10%), ,Shahjalal Islami Bank (0.94%), Islamic banking branches(0.43%) and both ICB Islami Bank Ltd and Union Bank Ltd(0.01%). The Islamic Banking Industry



accounted for 29% 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.

Branches

At the end of the quarter under review the number of Islamic Banking branches (including Islamic branches of conventional banks and windows) was 934 which was same at the end of the previous quarter and was 869 at the end of the preceding quarter of March 2014. At the end of January-March 2015 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks

had 890 branches, 9 conventional commercial banks had 19 and 8 regular banks had 25 windows. The share of total bank branches of Islamic banks among all schedule banks accounted for 10.29% at the end of January-March 2015 quarter. Information on branches of Islamic banks is shown in Table-4.

Table-4: Number of Bank Branches of Islamic Banks (January-March 2015)

Name of the Bank		Urban	Rural*	Total
A)	Full-fledged Islamic Banks	559	331	890
1	Islami Bank Bangladesh Limited*	212	82	294
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	54	46	100
4	Al-Arafah Islami Bank Limited	71	48	119
5	EXIM Bank Limited	50	37	87
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	71	66	137
8	Union Bank Limited	14	13	27
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	602	332	934

* 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

Shariah-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 people, who, because of 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 poverty. Expenditure on CSR activities increased by 10.06% in this quarter from the previous quarter. At the end of January-March 2015 quarter, total expenditure on CSR activities of Islamic Banking Industry was Tk. 31.11 crores which was Tk. 28.27crores during the previous quarter.

Conclusion

Islamic Banking Industry in Bangladesh holds enormous opportunities to contribute to economic growth and generate employment in the country. This industry with more than 20% market share and 27337 employees are now playing very important roles in mobilizing deposits and financing industry, services and other key sectors of the economy and collecting foreign remittances in Bangladesh. Despite the growing activities of Islamic banking in Bangladesh, the number 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. Besides, since SME financing is explored as a potential sector of investment in banking industry, most of the full-fledged Islamic banks has no branches and their activities is not prominent in this regard. As investment made by Islamic banks has been concentrated in trade and related sectors, they 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 in light with the supply-driven investment policies to lessen the poverty of the country by attaining the core objectives of maqasid-al-sharia'h.

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