

Developments of Islamic Banking in Bangladesh

January- March, 2017

Quarterly Report Preparation Committee¹

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Developments of Islamic Banking Industry in Bangladesh during January-March 2017

In last three decades, Islamic banks have grown in number as well as in size worldwide and are being practiced on even more intensive scale. The introduction of interest-free and equity-based Islamic banking system, proved its significance in the country's money market 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 January-March 2017 quarter. As at the end of March 2017, 8 full-fledged Islamic banks are operating with 1048 branches out of total 9680 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 January-March 2017 quarter, deposits, investments and the investment deposit ratio of Islamic banking industry grew by 1.37%, 4.82% and 3.40% respectively while surplus liquidity and remittances collection declined by 26.08% and 27.37% 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, January-March 2017

- ✓ **Total Deposits** in Islamic banking industry reached at Tk. 190257.70 crores at the end of January-March 2017 quarter, which increased by Tk. 2562.80 crores or by 1.37% compared to previous quarter and by Tk. 2438.55 crores or by 14.60% compared to corresponding quarter of the last year.
- ✓ **Total Investments** (Loans in conventional sense) in Islamic banking sector stood at Tk. 177093.67 crores at the end of January-March 2017 quarter, which went up by Tk. 8136.19 crores or by 4.82% and by Tk. 27707.80 crores or by 18.55% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **Investment-Deposit Ratio** (Credit-Deposit Ratio in conventional sense) reached at 0.93 in January-March 2017 quarter which was 0.90 at the previous quarter of this year and 0.90 at the end of March 2016.
- ✓ **Surplus Liquidity** of Islamic banking industry stood at Tk. 8031.62 crores at the end of January-March 2017 quarter, which was lower by Tk. 2833.75 crores (26.08%) and Tk. 1669.80 crores (17.21%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
- ✓ **Total Remittances** mobilized by the Islamic banking sector stood at Tk. 6660.16 crores at the end of January-March 2017 quarter, which was lower by Tk. 2509.47 crores or by 27.37% and Tk. 1842.39 crores or by 21.67% 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 1092 at the end of the quarter under review which was 1090 during the previous quarter and 1012 during the same quarter of the last year.
- ✓ **Total Manpower** in Islamic banking sector was 30047 in number at the end of the quarter under review which was greater by 871 persons than that of the last quarter and by 1506 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities in Bangladesh, January-March 2017

	March-17# Quarter	December-16 Quarter	March-16 Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Taka in Crore)	190257.70	187694.90	166019.15	2562.80	24238.55	1.37	14.60
a) Full-fledged Islamic Banks	181207.99	178861.93	157931.28	2346.06	23276.71	1.31	14.74
b) Conventional banks having Islamic banking branches	5289.28	5284.57	5167.25	4.71	122.03	0.09	2.36
c) Islamic banking windows	3760.42	3548.40	2920.62	212.02	839.81	5.98	28.75
Total Investments* (Taka in Crore)	177093.67	168957.48	149385.86	8136.19	27707.80	4.82	18.55
a) Full-fledged Islamic Banks	169071.21	160831.13	141504.30	8240.08	27566.91	5.12	19.48
b) Conventional banks having Islamic banking branches	4805.41	5185.84	5542.94	-380.44	-737.53	-7.34	-13.306
c) Islamic banking windows	3217.05	2940.50	2338.62	276.55	878.42	9.40	37.56
Investment/Deposit Ratio	0.93	0.90	0.90	0.03	0.03	3.40	3.44
a) Full-fledged Islamic Banks	0.93	0.90	0.90	0.03	0.04	3.76	4.13
b) Conventional banks having Islamic banking branches	0.91	0.98	1.07	-0.07	-0.16	-7.42	-15.31
c) Islamic banking windows	0.86	0.83	0.80	0.03	0.05	3.24	6.84
Liquidity Surplus(+)/Deficit(-) (Taka in Crore)	8031.62	10865.36	9701.42	-2833.75	-1669.80	-26.08	-17.21
a) Full-fledged Islamic Banks	6662.74	9510.71	8396.03	-2847.97	-1733.29	-29.94	-20.64
b) Conventional banks having Islamic banking branches	855.98	922.43	933.07	-66.45	-77.09	-7.20	-8.26
c) Islamic banking windows	512.89	432.22	372.31	80.66	140.58	18.66	37.76
Total Remittances (Taka in Crore)	6660.16	9169.64	8502.56	-2509.47	-1842.39	-27.37	-21.67
a) Full-fledged Islamic Banks	6609.92	9074.99	8458.77	-2465.07	-1848.84	-27.16	-21.86
b) Conventional banks having Islamic banking branches	43.81	85.80	43.68	-41.99	0.14	-48.93	0.31
c) Islamic banking windows	6.43	8.85	0.11	-2.42	6.32	-27.34	5598.85
Total Branches	1092	1090	1012	2	80	0.18	7.91
a) Full-fledged Islamic Banks	1048	1047	966	1	82	0.10	8.49
b) Conventional banks having Islamic banking branches	19	18	21	1	-2	5.56	-9.52
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	30047	29176	28541	871	1506	2.99	5.28
a) Full-fledged Islamic Banks	29478	28594	27988	884	1490	3.09	5.32
b) Conventional banks having Islamic banking branches	393	409	398	-16	-5	-3.91	-1.26
c) Islamic banking windows	176	173	155	3	21	1.73	13.55

* = Excluding Inter-Bank Items

Provisional

Table 2: Islamic Banking Activities compared with all banks in Bangladesh

Items	January-March 2017#		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	3=(2/1*100)
Total Deposits (In Crore Taka)	850073.20	190257.70	22.38
Total Credit (In Crore Taka)	734968.70	177093.67	24.10
Remittances (In Crore Taka)	23984.41	6660.16	27.77
Total Excess Liquidity (In Crore Taka)	111912.67	8031.62	7.18
Total Number of Bank Branches	9680	1092	11.28
Total Agricultural Credit (In Crore Taka)	15810.42	958.16	6.06

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

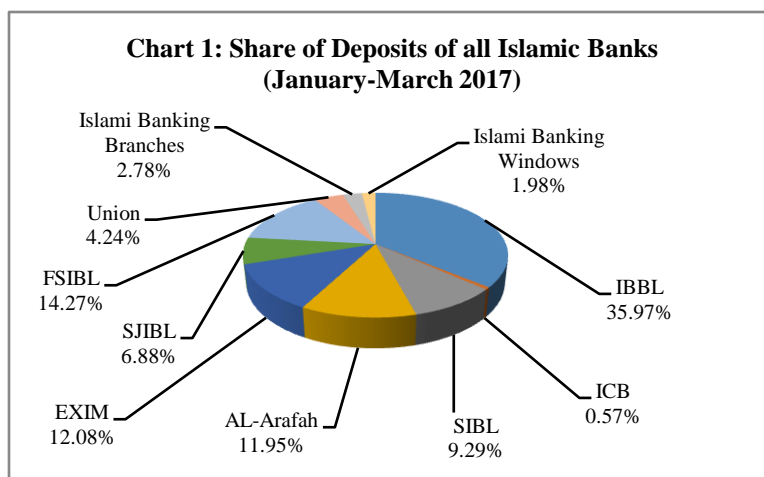
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Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 190257.70 crores at the end of the quarter January-March 2017, which was higher by 2562.80 crores (1.37%) and by Tk. 24238.55 crores or by 14.60% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 21680.90 crores and time deposit was Tk. 168576.80 crores. The share of total deposits of Islami banks accounted for 22.38% among all banks during the period under review.

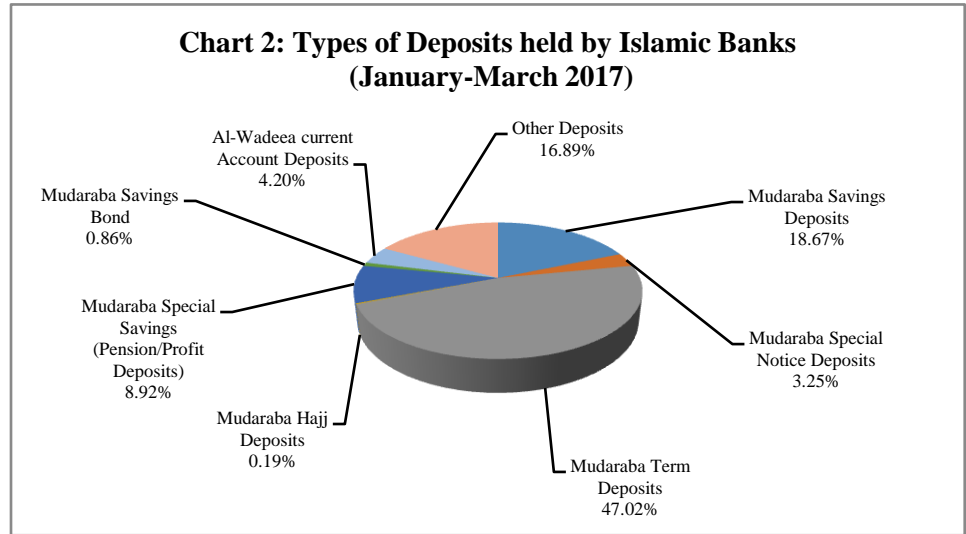
Total deposits of the eight full-fledged Islamic banks accounted for 95.24% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 181207.99 crores as on end March 2017.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.97%) [chart-1], followed by First Security Islami Bank Ltd.(14.27%), Exim Bank Ltd. (12.08%), Al-Arafah Islami Bank Ltd. (11.95%), Social Islami Bank Ltd. (9.29%), Shahjalal Islami Bank Ltd. (6.88%), Union Bank Limited (4.24%), Islami banking branches (2.78%), Islami banking windows (1.98%) and ICB Islamic Bank Limited (0.57%).



Types of Deposits

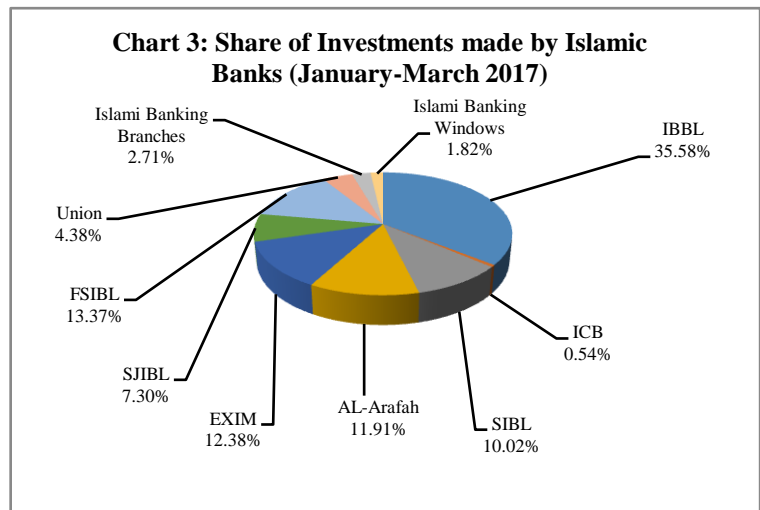
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (47.02%) [chart-2] followed by Mudaraba Savings Deposits (18.67%), Other deposits (16.89%), Mudaraba Special Savings pension/profit) Deposits (8.92%), Al-Wadeeah Current Account Deposits (4.20%), Mudaraba Special Notice Deposits (3.25%), Mudaraba Savings Bond (0.86%) and Mudaraba Hajj Deposits (0.19%) etc.



Investments

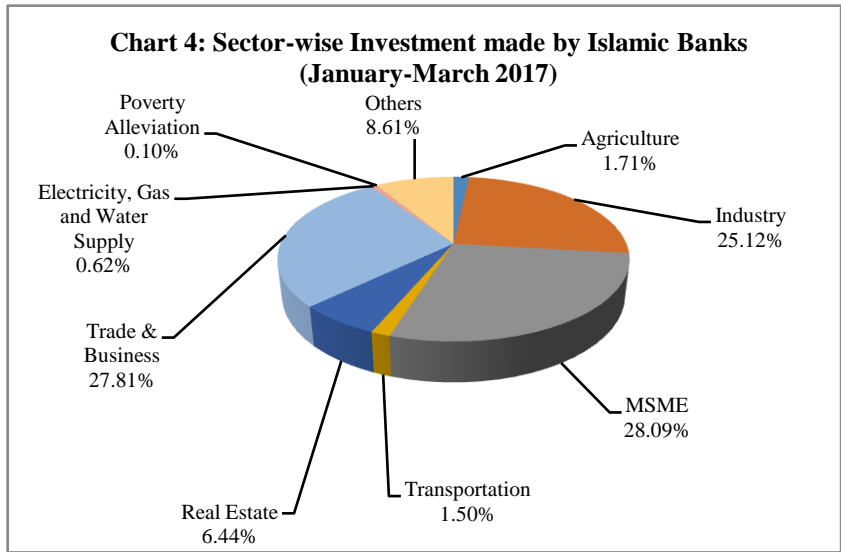
Total amount of investments in Islamic Banking industry reached at Tk. 177093.67 crores at the end of the quarter January-March 2017. During the quarter under review, investments increased by 4.82% and 18.55% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 24.10% among all banks.

Among total investments of Islami banks, 95.47% were made by 8 full-fledged Islamic banks, 2.71% by the scheduled banks' Islamic banking branches and the rest 1.82% 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 35.58% at the end of the quarter January-March 2017, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.37%), EXIM Bank Ltd. (12.38%), Al Arafah Islami Bank Ltd. (11.91%), Social Islami Bank Ltd (10.02%), Shahjalal Islami Bank (7.30%), Union Bank (4.38%), Islami banking branches (2.71%), Islami banking windows (1.82%) and ICB Islami Bank Ltd (0.54%).



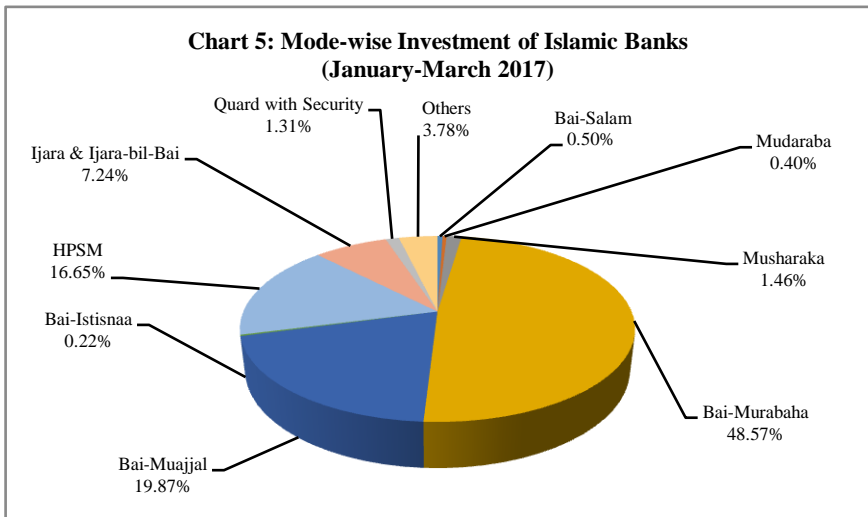
Sector-wise Investments

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 28.09% (chart-4) at the end of the quarter January-March 2017. The next position was occupied by Trade & Business sector (27.81%) followed by Industrial sector (25.12%), Others (8.61%), Real Estate (6.44%), Agriculture (1.71%), Transportation (1.50%), Electricity, Gas and Water supply (0.62%) 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 (48.57%) at the end of the quarter January-March 2017, [chart-5] followed by Bai-Muajjal (19.87%), HPSM (16.65%), Ijara & Ijara-bil-Bai (7.24%), others (3.78%), Musharaka (1.46%), Quard with Security (1.31%), Bai-Salam (0.50%), Mudaraba (0.40%) and Bai-Istisna (0.22%).



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 January-March 2017quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 958.16 crores which was higher by Tk. 79.27 crores and by Tk. 319.51 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 6.06% 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

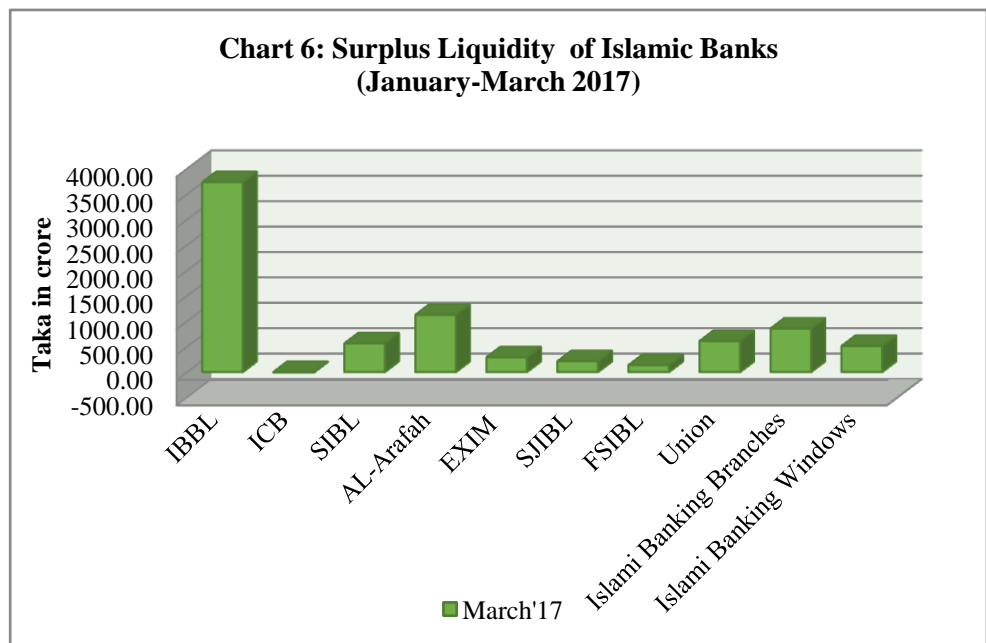
(Taka in crore)

Details		Total Investment		Agricultural Sector					
		Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Recovery	Investment/ Outstanding	Overdue Investment	Classified Investment
1		2	3	4	5	6	7	8	9
March-17#		30260.10	50450.10	516.34	958.16	699.72	3039.16	291.87	1052.96
December-16		28125.18	50666.87	497.79	878.88	652.61	2740.57	265.99	913.53
March-16		28037.65	43310.76	441.43	638.65	608.79	2343.61	319.86	851.91
Changes	Quarterly	2134.92	-216.77	18.55	79.27	47.11	298.59	25.88	139.43
	Annual	2222.45	7139.33	74.91	319.51	90.93	695.56	-27.99	201.05

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Liquidity Situation

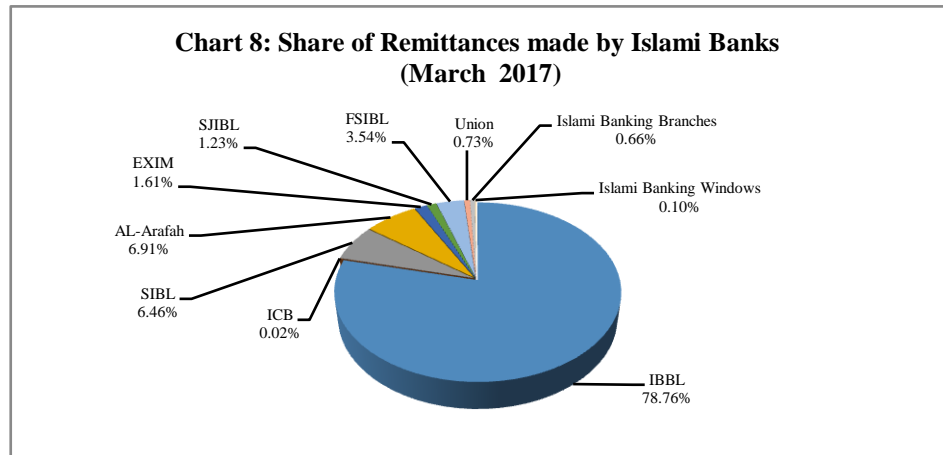
At the end of the quarter January-March 2017, surplus liquidity in the Islamic banking sector stood at Tk.8031.62 crores which was lower by Tk. 2833.75 crores or by 26.08% and by Tk. 1669.80 crores or by 17.21% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of



conventional banks and Islamic windows of conventional banks stood at Tk. 6662.74 crores, Tk. 855.98 crores and Tk. 512.89 crores respectively. Though surplus liquidity is 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 could not 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 7.18% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

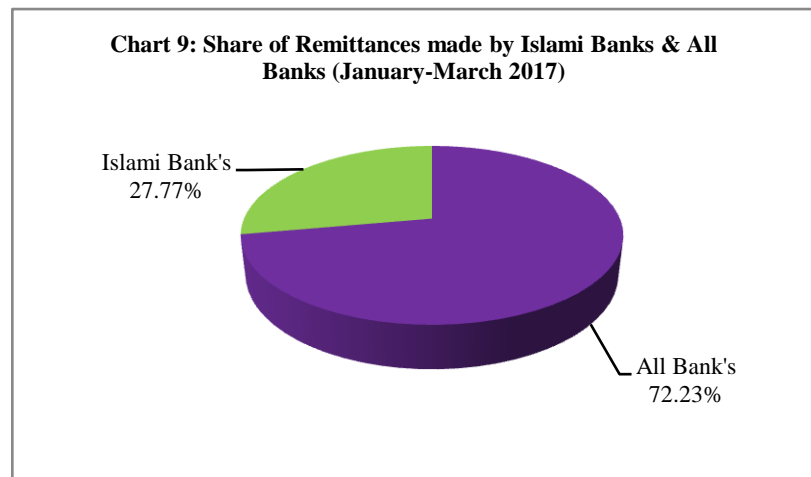
Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During January-March 2017 amount of remittances reached at Tk. 6660.16 crores which was lower by Tk. 2509.47 crores or by 27.37% and Tk. 1842.39 crores or by 21.67% 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 (78.76%) in respect of remittance collection at the end of March 2017. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (6.91%), Social Islami Bank Ltd (6.46%), First Security Islami Bank Ltd (3.54%), EXIM Bank Ltd. (1.61%), Shahjalal Islami Bank (1.23%), Union Bank Ltd (0.73%) and Islamic banking branches (0.66%).

The Islamic Banking Industry accounted for 27.77% 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.



Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1092 at the end of the quarter under review which was 1090 at the end of the previous quarter and was 1012 at the end of the preceding quarter of March 2016. At the end of January-March 2017 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1048 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 11.28% at the end of the quarter under review.

Table-4: Number of Bank Branches of Islamic Banks (January-March, 2017)

Name of the Bank		Urban	Rural	Total
A)	Full-fledged Islamic Banks	629	419	1048
1	Islami Bank Bangladesh Limited *	224	94	318
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	67	58	125
4	Al-Arafah Islami Bank Limited	71	69	140
5	EXIM Bank Limited	63	50	113
6	Shahjalal Islami Bank Limited	65	38	103
7	First Security Islami Bank Limited	82	76	158
8	Union Bank Limited	29	29	58
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
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	672	420	1092

* 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 increased by 48.00% in this quarter compared to the previous quarter. At the end of January-March 2017 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.65.00 crores which was Tk. 43.92 crores and Tk. 33.52 crores during the previous quarter and preceding quarter of March 2017 respectively.

Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 184 branches and 12 meetings held during the quarter January-March 2017. Total numbers of publications published by the Islamic banks are 8 including Islami Bank Bangladesh Ltd. 02, First Security Islami Bank Ltd. 04, ICB Islamic Bank 01 and EXIM bank 01 during the quarter under review. Besides, Islamic banks have organized 14 seminar/workshop/conference and 120 training course in home and the participants of foreign training course is 18 in number for boost up the Sharia'h based knowledge of its employees during January-March 2017 quarter.

Concluding Remarks and Recommendations

Any successful organ of an economy creates a bandwagon effect in that economy. It may be argued that the performance of the Islamic banking industry in Bangladesh are similar but 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 reach the country at a Middle Income Level by the year 2021. Islamic banking industry with more than 20% market share and 30047 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 27.77% 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 1.86% 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 intended for ensuring human welfare.

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