

Developments of Islamic Banking in Bangladesh¹

January-March, 2018



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Developments of Islamic Banking Industry in Bangladesh during January-March 2018

Islamic banking has expanded three times of its size from 2007, with Compound Annual Growth Rate (CAGR) of 11.6% and takaful sector has grown 5 times with a CAGR of 19.34% during this period. Islamic banking sector has already become systemically important in over 12 countries with more than 15% market share globally.² The total assets of the Islamic banking industry of IFSB member countries grew from USD 1,391 billion in 2016Q1 to USD 1,480 billion in 2017Q1 (calculated from country-wise aggregated data converted into USD terms using end-period exchange rates). Total funding/liabilities increased from USD 1,283 billion in 2016Q1 to USD 1,362 billion in 2017Q1. Gross nonperforming financing ratio (gross nonperforming financing to total financing) showed an improvement with a decrease from 5.9% in 2016Q1 to 5.2% in 2017Q1. On the liquidity indicators, the liquid assets ratio (liquid assets to total assets) decreased over the period from 35.7% in 2016Q1 to 34.5% in 2017Q1, while liquid assets to short-term liabilities ratio increased from 13.9% in 2016Q1 to 14.6% in 2017Q1.³

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 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 2018 quarter. As at the end of March 2018, 8 full-fledged Islamic banks are operating with 1137 branches out of total 9973 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 2018 quarter, deposits and investments, of Islamic banking industry grew by 0.61%, 4.00% respectively and remittance lowered by 18.34 % while surplus liquidity declined by 41.77% 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. During this quarter, remittances decreased significantly through Islamic banks of Bangladesh.

² 23 October 2017, Press Release, IFSB, Speech by the Acting Secretary General of the IFSB at the IFSB Summit, 2017

³ The IFSB Bulletin Volume 5 Issue 2 | Dec 2017, page-4.

Highlights on Islamic Banking Sector in Bangladesh, January-March 2018

**Total
Deposits**

Total Deposits in Islamic banking industry reached at Tk. 215557.93 crores at the end of January-March 2018 quarter, which increased by Tk. 1298.51 crores or by 0.61% compared to previous quarter and by Tk. 25300.23 crores or by 13.30% compared to corresponding quarter of the last year.

**Total
Investments**

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 209147.92 crores at the end of January-March 2018 quarter, which went up by Tk. 8045.92 crores or by 4.00% and by Tk. 32054.25 crores or by 18.10% 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 0.97 in January-March 2018 quarter which was 0.94 at the previous quarter of this year and 0.93 at the end of March 2017.

**Surplus
Liquidity**

Surplus Liquidity of Islamic banking industry stood at Tk. 5077.98 crores at the end of January-March 2018 quarter, which was decreased by Tk. 3641.93 crores (41.77%) and lowered by Tk. 2953.64 crores (36.78%) 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. 9039.97 crores at the end of January-March 2018 quarter, which was lower by Tk. 2030.89 crores or by 18.34% compared to the previous quarter and higher by Tk. 2379.80 crores or by 35.73% 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 1181 at the end of the quarter under review which was 1168 during the previous quarter and 1052 during the same quarter of the last year.

Manpower

Total Manpower in Islamic banking sector was 32309 in number at the end of the quarter under review which was greater by 1318 persons than that of the last quarter and by 2262 persons compared to the same quarter of the last year.

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

Items	January-March 2018@			October-December 2017@
	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 (In Crore Taka)	925279.7	215557.93	23.30	23.13
Total Credit (In Crore Taka)	869562.30	209147.92	24.05	23.81
Remittances (In Crore Taka)	31743.47	9039.97	28.48	38.30
Total Excess Liquidity (In Crore Taka)	76888.16	5077.98	6.60	8.98
Total Number of Bank Branches	9973	1139	11.42	11.73
Total Agricultural Credit (In Crore Taka)	40420.62	948.39	2.35	8.26

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

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Table 2: Islamic Banking Activities in Bangladesh, January-March 2018

	March-18#	December-17#	March-17#	Changes		% Changes	
	Quarter	Quarter	Quarter	Quarterly	Annual	Quarterly	Annual
Total Deposits* (Taka in Crore)	215557.93	214259.42	190257.70	1298.51	25300.23	0.61	13.30
a) Full-fledged Islamic Banks	204526.34	203698.12	181207.99	828.22	23318.35	0.41	12.87
b) Conventional banks having Islamic banking branches	6116.58	5866.19	5289.28	250.39	827.30	4.27	15.64
c) Islamic banking windows	4915.01	4695.11	3760.42	219.90	1154.58	4.68	30.70
Total Investments* (Taka in Crore)	209147.92	201101.99	177093.67	8045.92	32054.25	4.00	18.10
a) Full-fledged Islamic Banks	199047.29	191279.35	169071.21	7767.94	29976.07	4.06	17.73
b) Conventional banks having Islamic banking branches	5670.12	5583.04	4805.41	87.08	864.71	1.56	17.995
c) Islamic banking windows	4430.51	4237.20	3217.05	193.30	1213.46	4.56	37.72
Investment/Deposit Ratio	0.97	0.94	0.93	0.03	0.04	3.37	4.24
a) Full-fledged Islamic Banks	0.97	0.94	0.93	0.03	0.04	3.64	4.31
b) Conventional banks having Islamic banking branches	0.93	0.95	0.91	-0.02	0.02	-2.60	2.04
c) Islamic banking windows	0.90	0.90	0.86	0.00	0.05	-0.12	5.37
Liquidity Surplus(+)/Deficit(-) (Taka in Crore)	5077.98	8719.91	8031.62	-3641.93	-2953.64	-41.77	-36.78
a) Full-fledged Islamic Banks	4187.96	7791.84	6662.74	-3603.88	-2474.78	-46.25	-37.14
b) Conventional banks having Islamic banking branches	431	190.12	855.98	240.87	-424.98	126.69	-49.65
c) Islamic banking windows	459.02	737.95	512.89	-278.93	-53.87	-37.80	-10.50
Total Remittances (Taka in Crore)	9039.97	11070.85	6660.16	-2030.89	2379.80	-18.34	35.73
a) Full-fledged Islamic Banks	8986.51	10980.14	6609.92	-1993.63	2376.59	-18.16	35.95
b) Conventional banks having Islamic banking branches	44.15	57.45	43.81	-13.31	0.33	-23.16	0.75
c) Islamic banking windows	9.31	33.26	6.43	-23.95	2.88	-72.01	44.82
Total Branches	1181	1168	1052	-29	87	-2.48	8.27
a) Full-fledged Islamic Banks	1137	1124	1008	-29	87	-2.58	8.63
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	32309	30991	30047	1318	2262	4.25	7.53
a) Full-fledged Islamic Banks	31728	30408	29478	1320	2250	4.34	7.63
b) Conventional banks having Islamic banking branches	400	405	393	-5	7	-1.23	1.78
c) Islamic banking windows	181	178	176	3	5	1.69	2.84

* = Excluding Inter-Bank Items

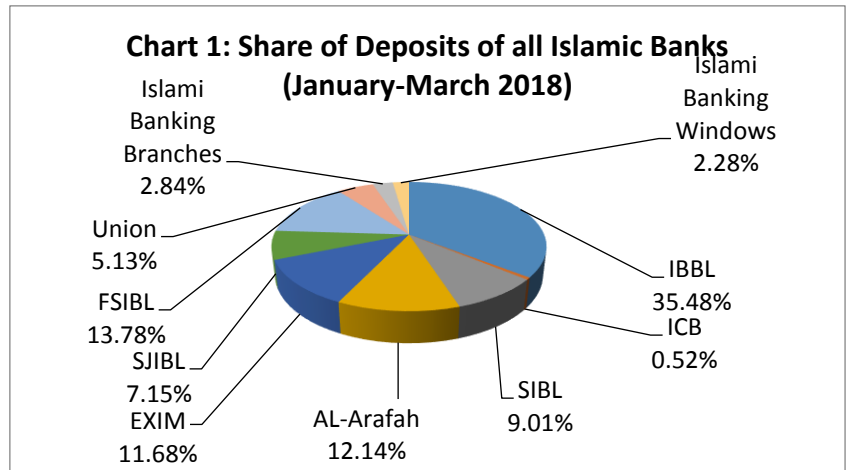
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Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 215557.93 crores at the end of January-March 2018 quarter, which increased by Tk. 1298.51 crores or by 0.61% compared to previous quarter and by Tk. 25300.23 crores or by 13.30% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 24189.44 crores and time deposit was Tk. 191368.49 crores. The share of total deposits of Islami banks accounted for 23.30% among all banks during the period under review.

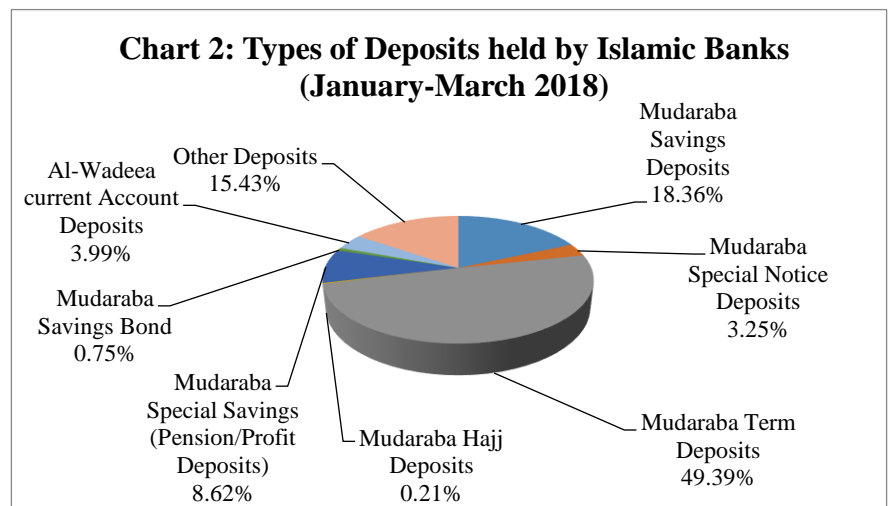
Total deposits of the eight full-fledged Islamic banks accounted for 94.88% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 204526.34 crores as on end March 2018.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (35.48%) [chart-1], followed by First Security Islami Bank Ltd.(13.78%), Al-Arafah Islami Bank Ltd. (12.14%), Exim Bank Ltd. (11.68%), Social Islami Bank Ltd. (9.01%), Shahjalal Islami Bank Ltd. (7.15%), Union Bank Limited (5.13%), Islami banking branches (2.84%), Islami banking windows (2.28%) and ICB Islamic Bank Limited (0.52%).



Types of Deposits

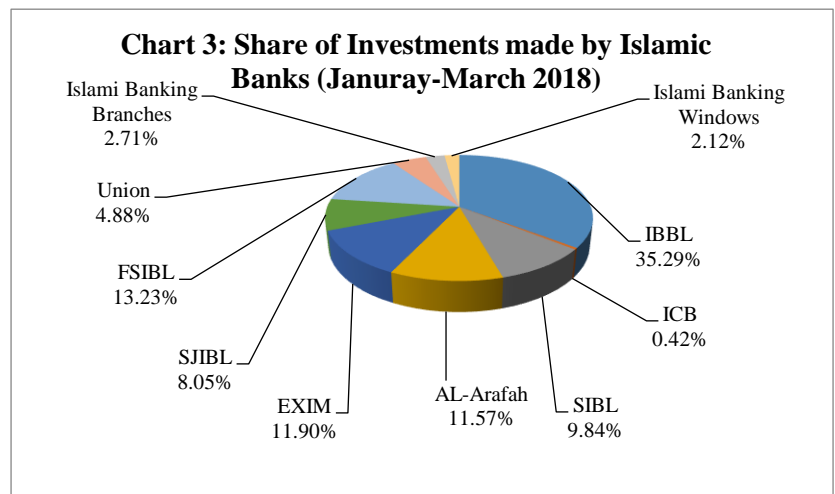
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (49.39%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.36%), Other deposits (15.43%), Mudaraba Special Savings pension/profit) Deposits (8.62%), Al-Wadeeah Current Account Deposits (3.99%), Mudaraba Special Notice Deposits (3.25%), Mudaraba Savings Bond (0.75%) and Mudaraba Hajj Deposits (0.21%) etc.



Investments

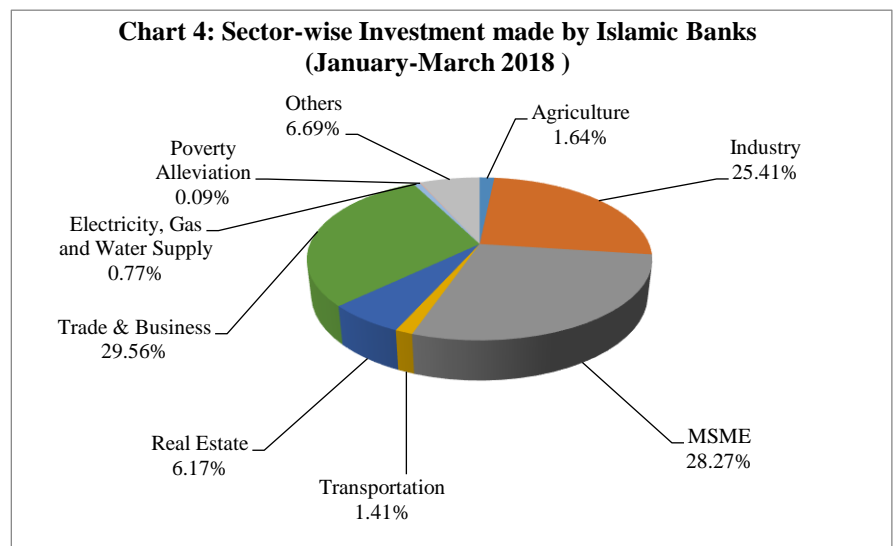
Total amount of investments in Islamic Banking industry reached at Tk. 209147.92 crores at the end of the quarter January-March 2018. During the quarter under review, investments increased by 4.00 % and 18.10% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 24.05% among all banks.

Among total investments of Islami banks, 95.17% were made by 8 full-fledged Islamic banks, 2.71% by the scheduled banks' Islamic banking branches and the rest 2.12% 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 35.29% at the end of the quarter January-March 2018, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.23%), EXIM Bank Ltd. (11.90%), Al Arafah Islami Bank Ltd. (11.57%), Social Islami Bank Ltd (9.84%), Shahjalal Islami Bank (8.05%), Union Bank (4.88%), Islami banking branches (2.71%), Islami banking windows (2.12%) and ICB Islami Bank Ltd (0.42%).



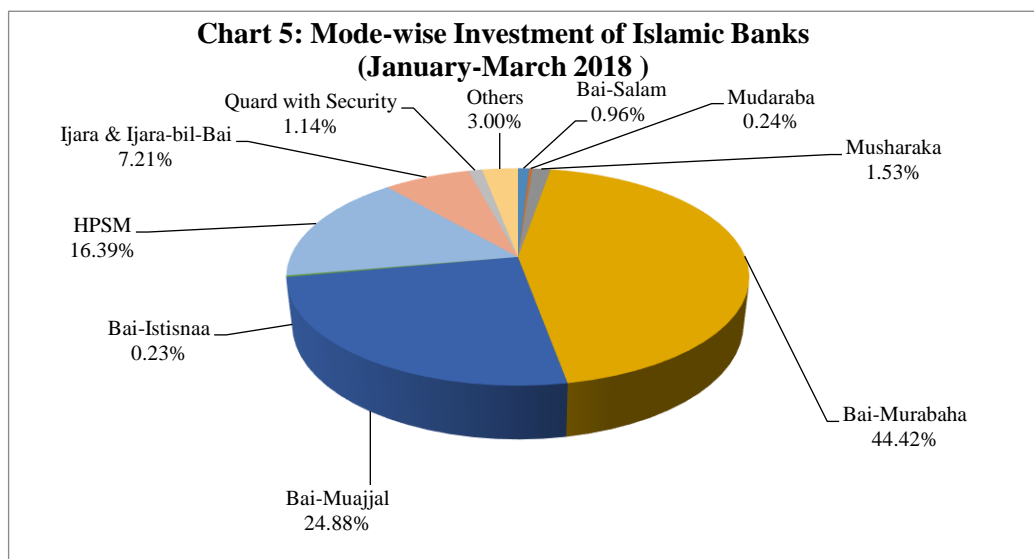
Sector-wise Investments

After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector (29.56%) sector was the highest among all sectors (chart-4) at the end of the quarter January-March 2018. The next position was occupied by MSME (Micro, Small and Medium Enterprises) which stood at 28.27% followed by Industrial sector (25.41%), Others (6.69%), Real Estate (6.17%), Agriculture (1.64%), Transportation (1.41%), Electricity, Gas and Water supply (0.77%) 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 (44.42%) at the end of the quarter January-March 2018, [chart-5] followed by Bai-Muajjal (24.88%), HPSM (16.39%), Ijara & Ijara-bil-Bai (7.21%), others (3.00%), Musharaka (1.53%), Quard with Security (1.14%), Bai-Salam (0.96%), Mudaraba (0.24%) 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 January-March 2018 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 948.39 crores which is higher by Tk. 185 crores and lower by Tk. 9.77 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 2.35% among all banks during the quarter under review. Summary of Investments in Agricultural Sector under the Islamic banking framework is provided in table-3:

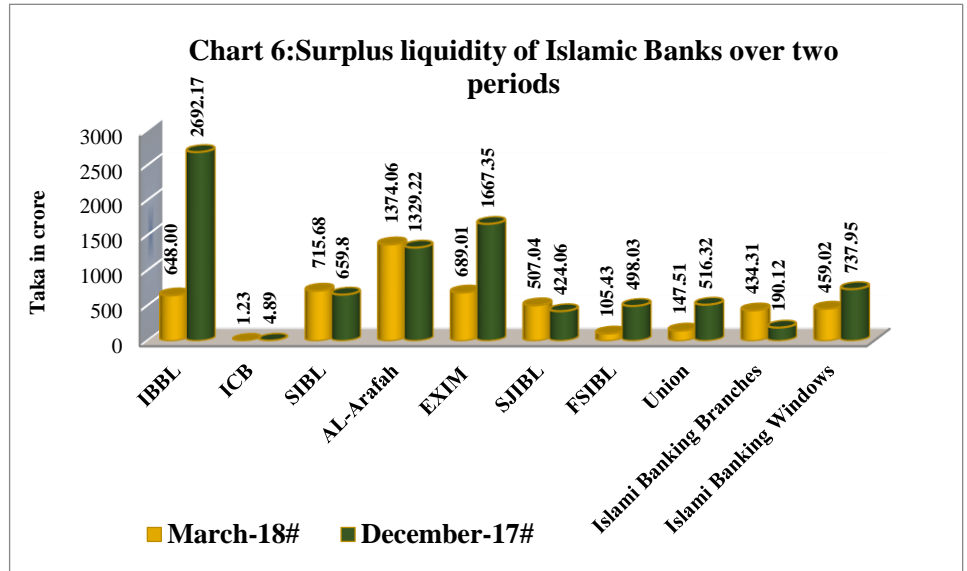
Table-3: Summary of Investments in Agricultural Sector

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
March-18#	33441.64	55498.29	648.06	948.39	146.34	954.94	3953.93	494.43	1203.58
December-17#	31190.69	58478.39	606.27	763.39	125.92	949.84	3317.05	647.02	1047.21
March-17#	28125.18	50666.87	516.34	958.16	185.57	699.72	3039.16	291.87	1052.96
Quarterly Changes	2250.95	-2980.10	41.80	185.00	829.02	3004.09	-2822.62	556.56	156.37
Annual Changes	5316.46	4831.43	131.72	-9.77	769.37	3254.21	-2544.74	911.71	150.62

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Liquidity Situation

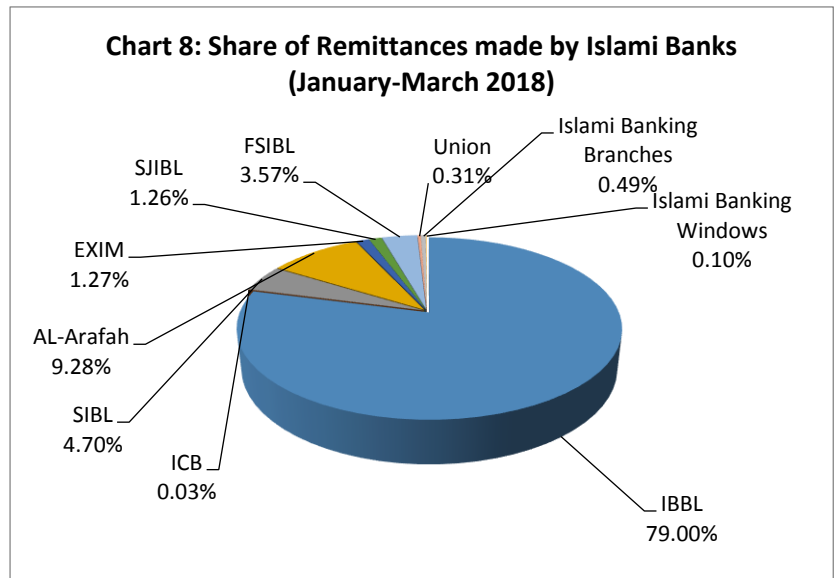
At the end of the quarter January-March 2018, surplus liquidity in the Islamic banking sector stood at Tk. 5077.98 crores which was decreased by Tk. 3641.93 crores or by 41.77% and lowered by Tk. 2953.64 crores or by 36.78% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 4187.96 crores, Tk. 431 crores, and Tk. 459.02 crores respectively. It is observed that at the end of the quarter January-March 2018, surplus liquidity declined significantly compared to previous quarter as well as corresponding quarter of the previous year. The share of total excess liquidity of Islamic banks accounted for 6.6% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.



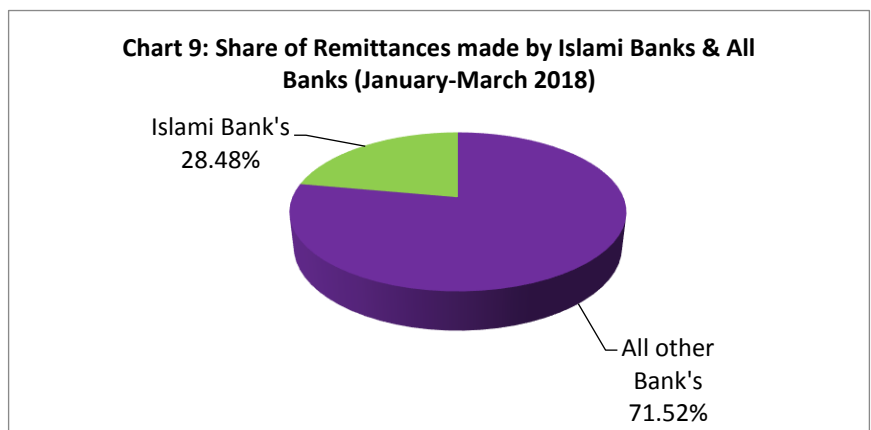
It is observed that at the end of the quarter January-March 2018, surplus liquidity declined significantly compared to previous quarter as well as corresponding quarter of the previous year. The share of total excess liquidity of Islamic banks accounted for 6.6% among all banks during the period under 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 January-March 2018, amount of remittances reached at Tk. 9039.97 crores which was lower by Tk. 2030.89 crores or by 18.34% and higher by Tk. 2379.80 crores or by 35.73% 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 (79%) in respect of remittance collection at the end of January-March 2018. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (9.28%), Social Islami Bank Ltd (4.70%), First Security Islami Bank Ltd (3.57%), EXIM Bank Ltd. (1.27%), Shahjalal Islami Bank (1.26%), Union Bank Ltd (0.31%), Islamic banking branches (0.49%), and Islamic banking windows (0.10%).



The Islamic Banking Industry accounted for 28.48% 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 decreased by 7.39 % in this quarter compared to the previous quarter. At the end of January-March 2018 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.122.73 crores which was Tk. 132.53 crores and Tk. 24.42 crores during the previous quarter and preceding quarter of March 2017 respectively.

Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 1181 at the end of the quarter under review which was 1168 at the end of the previous quarter and was 1052 at the end of the preceding quarter of March 2017. At the end of January-March 2018 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1137 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 11.42% 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 (January-March 2018)

	Name of the Bank	Urban	Rural	Total
A)	Full-fledged Islamic Banks	681	456	1137
1	Islami Bank Bangladesh Limited*	231	101	332
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	74	77	151
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	81	168
8	Union Bank Limited	34	34	68
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**			
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	724	457	1181

* Including SME **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 262 branches and 09 meetings held during the quarter January-March 2018. Total numbers of publications published by the Islamic banks are 10, of which the number of publication was Islami Bank Bangladesh Ltd. 08 and ICB Islamic Bank Ltd. 01 and Exim Bank Ltd. 01 during the quarter under review. Besides, Islamic banks have organized 62 seminar/workshop/conference and 102 training course in home and the participants of foreign training course is 51 in number for boost up the Sharia'h based knowledge of its employees during January-March 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 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 1.77% 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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