

Developments of Islamic Banking in Bangladesh*

January-March 2019



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Developments of Islamic Banking in Bangladesh

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Bangladesh's Islamic banking industry has been experiencing an impressive growth due to strong public demand and supports from central bank. Globally, Islamic finance has also emerged as a growing segment of world financial landscape. It serves as an alternative source of financing in both Muslim majority and minority countries across the world as it has the potentials to promote inclusive growth along with financial stability and build long-term resilience through innovative ways. Global Islamic finance industry owns a total size of assets worth USD 2.44 trillion in 2017 and its assets are forecast to reach USD 3.81 trillion by 2023¹. Moreover, statistics of the IFSB shows that, the total assets of the Islamic banking industry in 21 countries grew by 1.7% from USD 1,625 billion in 2017Q2 to USD 1,652 billion in 2018Q2. Financing by Islamic banks in 19 countries which grew by 1.9% reached USD 1,013 billion in 2018Q2 from USD 994 billion in 2017Q2. The number of full-fledged Islamic banks and Islamic windows of conventional banks in 21 countries stood at 189 and 82 in 2018Q2 as compared to 184 and 84 in 2017Q2 respectively².

At the end of March 2019, Bangladesh's 8 full-fledged Islamic banks are operating with 1198 branches out of total 10387 branches of the whole banking industry having 59 scheduled banks. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 35 Islamic banking windows of 7 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of the January-March 2019 quarter, deposits and investments grew by 2.0% and 2.76% respectively, but remittance and excess liquidity of Islamic banking industry reduced by 36.24% and 41.85% respectively compared to the previous quarter. Islamic banking industry holds almost one-fourth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review.

During the first quarter of 2019, excess liquidity decreased compared to the last few quarters of 2018. Inflow of remittances through the Islamic banks has been increasing significantly over the last few years but recently it has plummeted to a level that captured only 22.67% share of remittances collected by the entire banking industry. Share of agricultural credit of Islamic banks compared to all banks is up by more than 2 percentage point than the previous quarter.

¹State of the Global Islamic Economy Report 2018/19, Thomson Reuters

² Prudential and Structural Islamic Financial Indicators, Islamic Financial Services Board (IFSB)

Islamic Banking Sector in Bangladesh, January-March 2019 Highlights

Total Deposits

Total Deposits in Islamic banking industry reached at Tk. 242118.80 crores at the end of January-March 2019 quarter, which increased by Tk. 4751.89 crores or by 2.0% compared to previous quarter and by Tk. 26560.87 crores or by 12.32% compared to corresponding quarter of the last year.

Total Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 237279.20 crores at the end of January- March 2019 quarter, which went up by Tk. 6371.92 crores or by 2.76% and by Tk. 28130.70 crores or by 13.45% compared to previous quarter and same quarter of the preceding year respectively.

Investment-Deposit Ratio

During the current quarter Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) stood at 0.98 which was 0.97 at the end of December 2018.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at Tk. 3793.74 crores at the end of January- March 2019 quarter, which was lower by Tk. 2730.47 crores (41.85%) and Tk. 1284.24 crores (25.29%) compared to the previous quarter and corresponding quarter of the previous year respectively.

Total Remittances

Total Remittances mobilized by the Islamic banking sector stood at Tk. 8337.75 crores at the end of January- March 2019 quarter, which was lower by Tk. 4738.06 crores or by 36.24% and by Tk. 702.22 crores or by 7.77% compared to the previous quarter and the same quarter of the previous year respectively.

Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1252 at the end of the quarter under review which was 1241 during the previous quarter and 1181 during the same quarter of the last year.

Manpower

Total employment in the Islamic banking sector stood at 34128 at the end of March 2019 from 33027 at the end of December 2018.

Table 1: Islamic Banking Activities Compared To All Banks In Bangladesh

(In Crore Taka)

Items	January-March 2019 [@]			October-December 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	1023206.2	242118.80	23.66	23.50
Total Investments	981980.2	237279.20	24.16	24.04
Remittances	36764	8337.75	22.67	43
Total Excess Liquidity	63921.86*	3793.74	-	8.54
Total Number of Bank Branches	10387	1252	12.05	12.06
Total Agricultural Credit	40922.85	3706.30	9.06	7

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

*As of end February 2019

[@] Provisional

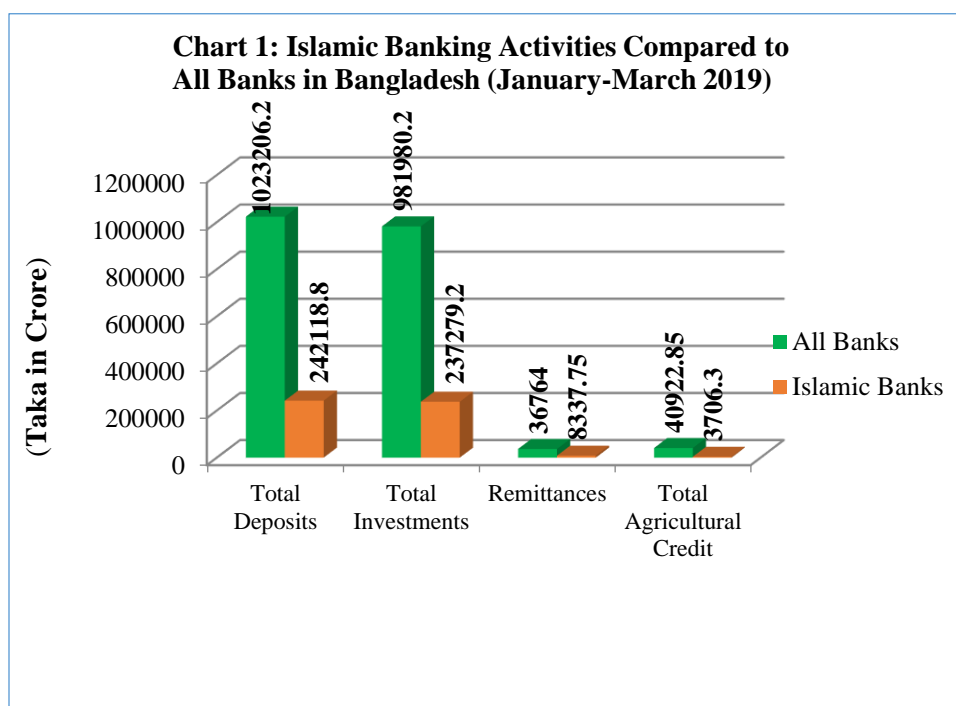


Table 2: Islamic Banking Activities in Bangladesh, January-March 2019

(Taka in Crore)

Statistics of Islamic Banking Industry	March -19# Quarter	December -18# Quarter	March -18# Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Outstanding)	242118.80	237366.91	215557.93	4751.89	26560.87	2.00	12.32
a) Full-fledged Islamic Banks	227381.85	223657.17	204526.34	3724.68	22855.50	1.67	11.17
b) Conventional banks having Islamic banking branches	8220.94	7478.93	6116.58	742.01	2104.36	9.92	34.40
c) Islamic banking windows	6516.01	6230.82	4915.01	285.20	1601.01	4.58	32.57
Total Investments* (Outstanding)	237279.20	230907.28	209148.50	6371.92	28130.70	2.76	13.45
a) Full-fledged Islamic Banks	224793.17	219796.71	199047.29	4996.46	25745.88	2.27	12.93
b) Conventional banks having Islamic banking branches	7091.43	6161.58	5670.12	929.85	1421.31	15.09	25.067
c) Islamic banking windows	5394.61	4948.99	4431.09	445.61	963.51	9.00	21.74
Investment/Deposit Ratio	0.98	0.97	0.97	0.01	0.01	0.74	1.00
a) Full-fledged Islamic Banks	0.99	0.98	0.97	0.01	0.02	0.60	1.58
b) Conventional banks having Islamic banking branches	0.86	0.82	0.93	0.04	-0.06	4.70	-6.95
c) Islamic banking windows	0.83	0.79	0.90	0.03	-0.07	4.23	-8.17
Liquidity Excess(+)/Shortfall(-)	3793.74	6524.21	5077.98	-2730.47	-1284.24	-41.85	-25.29
a) Full-fledged Islamic Banks	2637.32	4848.18	4187.96	-2210.86	-1550.64	-45.60	-37.03
b) Conventional banks having Islamic banking branches	397.35	702.23	431.00	-304.87	-33.64	-43.42	-7.81
c) Islamic banking windows	759.06	973.80	459.02	-214.74	300.04	-22.05	65.36
Total Remittances	8337.75	13075.81	9039.97	-4738.06	-702.22	-36.24	-7.77
a) Full-fledged Islamic Banks	8290.73	13001.03	8986.51	-4710.30	-695.78	-36.23	-7.74
b) Conventional banks having Islamic banking branches	37.71	64.60	44.15	-26.89	-6.44	-41.63	-14.59
c) Islamic banking windows	9.31	10.18	9.31	-0.87	0.00	-8.51	0.00
Total Number of Branches	1252	1241	1181	11	71	0.89	6.01
a) Full-fledged Islamic Banks	1198	1197	1137	1	61	0.08	5.36
b) Conventional banks having Islamic banking branches	19	19	19	0	0	0.00	0.00
c) Islamic banking windows	35	25	25	10	10	40.00	40.00
Total Number of Manpower	34128	33027	32309	1101	1819	3.33	5.63
a) Full-fledged Islamic Banks	33540	32446	31728	1094	1812	3.37	5.71
b) Conventional banks having Islamic banking branches	387	388	400	-1	-13	-0.26	-3.25
c) Islamic banking windows	201	193	181	8	20	4.15	11.05

* = Excluding Inter-Bank Items

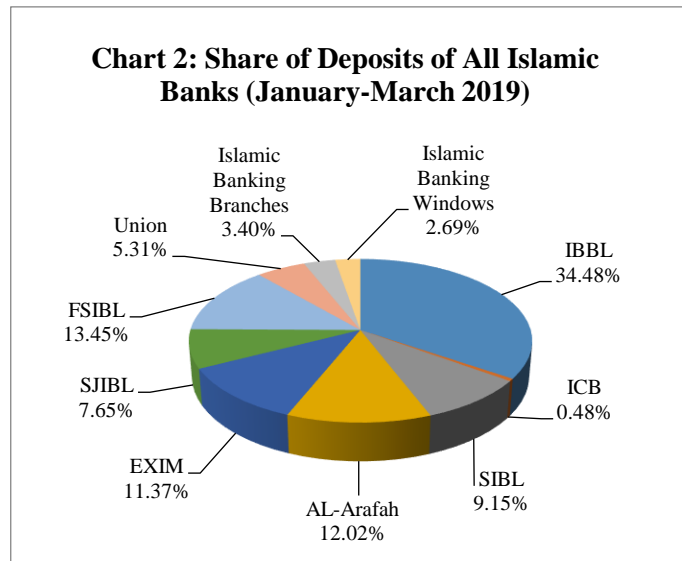
Provisional

Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 242118.80 crores at the end of January-March 2019 quarter, which increased by Tk. 4751.89 crores or by 2% compared to previous quarter and by Tk. 26560.87 crores or by 12.32% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 25718.72 crores and time deposit was Tk. 216400.08 crores. The share of total deposits of Islamic banks accounted for 23.66% among all banks during the period under review.

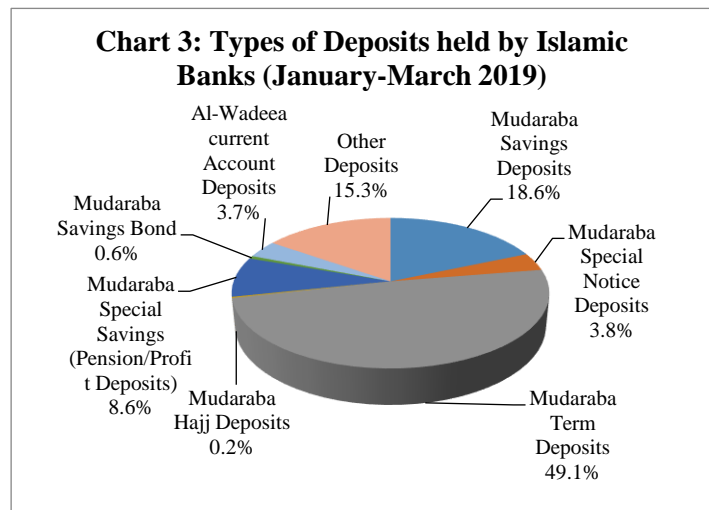
Total deposits of the eight full-fledged Islamic banks accounted for 93.91% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 227381.85 crores at the end of March 2019.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (34.48%) followed by First Security Islami Bank Ltd. (13.45%), Al-Arafah Islami Bank Ltd. (12.02%), EXIM Bank Ltd. (11.37%), Social Islami Bank Ltd. (9.15%), Shahjalal Islami Bank Ltd. (7.65%), Union Bank Limited (5.31%), Islamic banking branches (3.40%), Islamic banking windows (2.69%) and ICB Islamic Bank Limited (0.48%),[Chart-2].



Types of Deposits

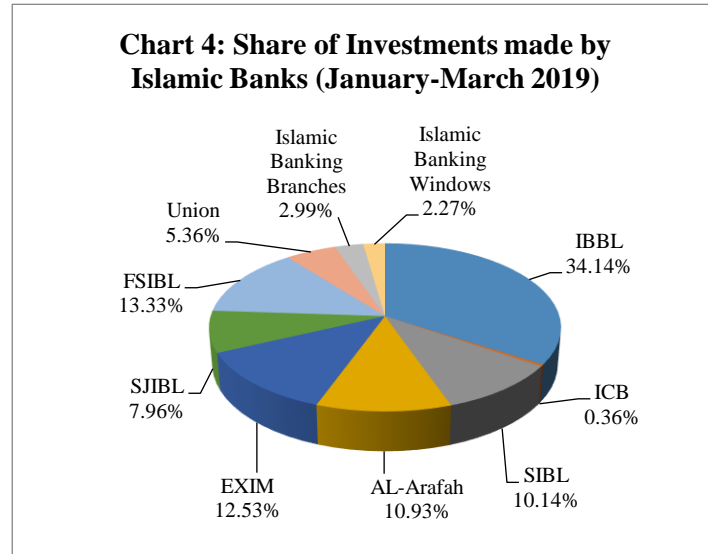
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (49.07%) followed by Mudaraba Savings Deposits (MSD) (18.57%), Other Deposits (15.34%), Mudaraba Special Savings (pension/profit) Deposits (8.63%), Al-Wadeeah Current Account Deposits (3.73%), Mudaraba Special Notice Deposits (3.85%), Mudaraba Savings Bond (0.61%) and Mudaraba Hajj Deposits (0.20%) etc., [Chart-3].



Investments

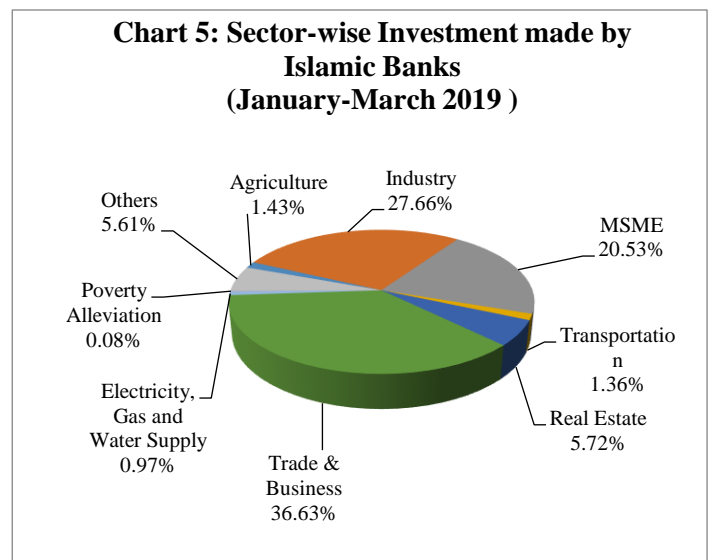
Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 237279.20 crores at the end of January-March 2019 quarter, which went up by Tk. 6371.92 crores or by 2.76% and by Tk. 28130.70 crores or by 13.45% compared to previous quarter and same quarter of the preceding year respectively. The share of total Investment of Islamic banks accounted for 24.16% among all banks.

Among total investments of Islamic banks, 94.74% were made by 8 full-fledged Islamic banks, 2.99% by the conventional banks' Islamic banking branches and the rest 2.27% by the conventional banks' Islamic banking windows. Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (34.14%) at the end of the quarter January-March 2019, (Chart-4) followed by First Security Islami Bank Ltd. (13.33%), EXIM Bank Ltd. (12.53%), Al-Arafah Islami Bank Ltd. (10.93%), Social Islami Bank Ltd. (10.14%), Shahjalal Islami Bank Ltd. (7.96%), Union Bank Ltd. (5.36%) and ICB Islamic Bank Ltd. (0.36%).



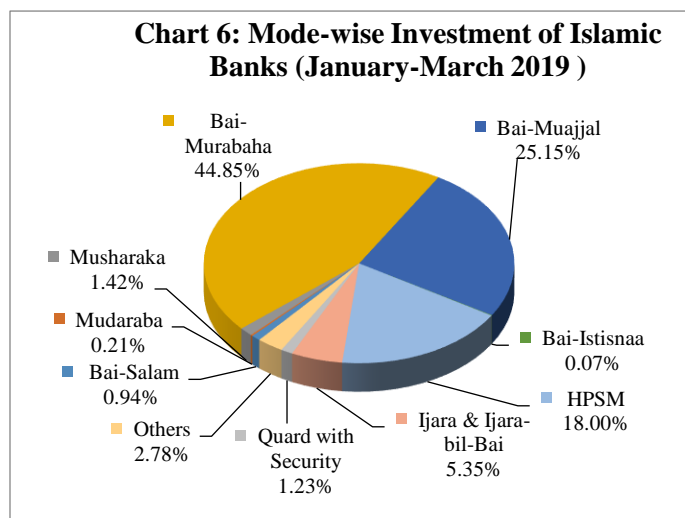
Sector-wise Investments

Analyzing the sector-wise investment, investment in the Trade and Business sector (36.63%) was found to be the highest among all sectors (Chart-5) at the end of the January-March 2019 quarter. The next position was occupied by Industry sector which stood at 27.66% followed by MSME (Micro, Small and Medium Enterprises, 20.53%), Others (5.61%), Real Estate (5.72%), Agriculture (1.53%), Transportation (1.36%), Electricity, Gas and Water Supply (0.97%) and Poverty Alleviation (0.08%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.85%) at the end of January-March 2019, [Chart-6] followed by Bai-Muajjal (25.15%), HPSM (18%), Ijara & Ijara-bil-Bai (5.35%), Others (2.78%), Musharaka (1.42%), Quard with Security (1.23%), Bai-Salam (0.94%), Mudaraba (0.21%) and Bai-Istisna (0.07%).



Investment Situation in the Agricultural Sector

Islamic banking industry has made significant contributions in different sub-sectors of agricultural and rural investment programs. During January-March 2019 quarter, investments in agricultural sector made by Islamic banking industry reached at Tk. 3706.30 crores which was higher by Tk. 894.58 crores than the previous quarter and Tk. 2757.91 crores compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 9.06% among all banks during the quarter under review (Table-1). Summary of investments in agricultural sector under the Islamic banking framework is provided in Table-3:

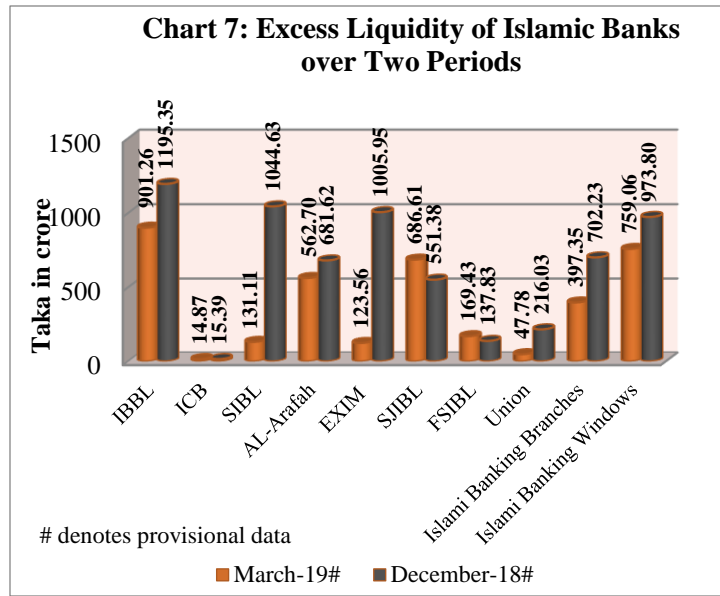
Table-3: Summary of Investments in Agricultural Sector (Tk. In Crore)

Details	Total Investment		Investment in Agricultural Sector during the quarter						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8	9	10
March-19#	37492.77	57835.84	677.69	3706.30	546.90	3565.05	3555.85	1278.15	2073.90
December-18#	33663.34	68561.38	666.67	2811.72	421.76	2526.05	3466.26	936.58	1309.76
March-18#	33441.64	55498.29	648.06	948.39	146.34	954.94	3953.93	494.43	1203.58
Quarterly Changes	3829.43	-10725.54	11.02	894.58	3143.30	1029.80	-2188.11	1137.32	764.14
Annual Changes	4051.13	2337.54	29.63	2757.91	3418.71	2600.91	-2675.78	1579.48	870.33

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Liquidity Situation

Excess Liquidity of Islamic banking industry stood at Tk. 3793.74 crores at the end of January-March 2019 quarter, which was lower by Tk. 2730.47 crores (41.85%) and Tk. 1284.24 crores (25.29%) compared to the previous quarter and corresponding quarter of the previous year respectively. The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 2637.32 crores, Tk. 397.35 crores, and Tk. 759.06 crores respectively. The share of total excess liquidity of Islamic banks accounted for 8.54% among all banks during the last quarter of 2018. Summary of liquidity situation in the Islamic Banking sector is shown in Chart 7.



During the first quarter of 2019, excess liquidity decreased compared to the last few quarters of 2018. In December 2018, amount of excess liquidity was Tk. 6524.21 crores and it was Tk. 5077.98 crores during March 2018.

Remittances Mobilized by the Islamic Banking Sector

Islamic banking industry of the country is playing a vital role in collecting foreign remittances and disbursing it among beneficiaries across the country. Total Remittances mobilized by the Islamic banking sector stood at Tk. 8337.75 crores at the end of January-March 2019 quarter, which was lower by Tk. 4738.06 crores or by 36.24% and by Tk. 702.22 crores or by 7.77% compared to the previous quarter and the same quarter of the previous year respectively. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (80.74%) in respect of remittance collection at the end of January-March 2019. The other Islamic banks and their shares of collected remittances were First Security Islami Bank Ltd (6.89%), Al-Arafah Islami Bank Ltd. (4.96%), Social Islami Bank Ltd (2.90%), Shahjalal Islami Bank (1.54%), EXIM Bank Ltd. (1.93%), Union Bank Ltd (0.47%), Islamic banking branches of conventional banks (0.45%), Islamic banking windows (0.11%) and ICB Islamic Bank (0.02%), [Chart-9].

Chart 9: Share of Remittances made by Islamic Banks (January-March 2019)

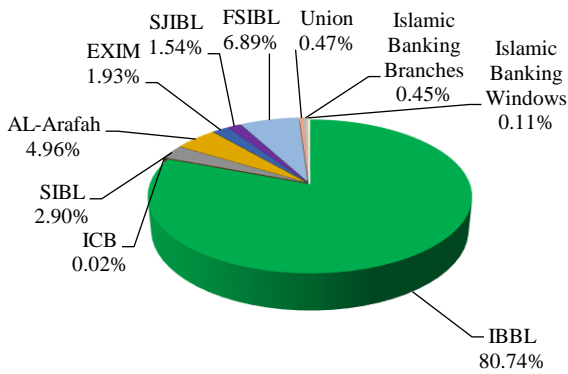
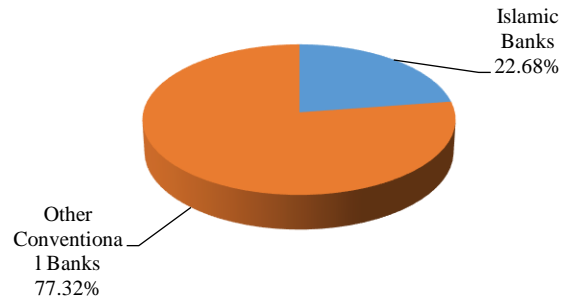


Chart 10: Share of Remittances by Conventional and Islamic Banks (January-March 2019)



The Islamic banking industry accounted for 22.68% 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 including Islamic banking branches/windows of conventional banks are provided in Chart-10. Inflow of remittances through the Islamic banks has been increasing significantly over the last few years but recently it has plummeted to a level that captured only 22.67% share of remittances collected by the entire banking industry which was 43% in December 2018 quarter.

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 during January-March 2019 quarter had been recorded Tk. 40.11 crores which was Tk. 62.68 crores in October-December quarter of 2018. During January-March 2018 CSR expenditure of the Islamic banks was Tk. 122.73 crores which was 67.32% higher than the current quarter under review. In the first quarter of 2019 the highest amount of CSR fund was spent on natural disaster by the EXIM Bank of Bangladesh Limited.

Expansion of Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1252 at the end of the quarter under review which was 1241 during the previous quarter and 1181 during the same quarter of the last year. At the end of January-March 2019 quarter, 8 full-fledged Islamic banks had 1198 branches, 9 conventional commercial banks had 19 Islamic banking branches and 7 conventional banks had 35 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 12.05% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (January-March 2019)

	Name of the Banks	Urban	Rural *	Total
	1	2	3	4=(2+3)
A)	Full-fledged Islamic Banks	694	504	1198
1	Islami Bank Bangladesh Limited *	218	124	342
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	83	72	155
4	Al-Arafah Islami Bank Limited	88	80	168
5	EXIM Bank Limited	76	47	123
6	Shahjalal Islami Bank Limited	71	52	123
7	First Security Islami Bank Limited	91	86	177
8	Union Bank Limited	39	38	77
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	35	0	35
1	Sonali Bank Limited	11	0	11
2	Janata Bank Limited**			
3	Agrani Bank Limited	5	0	5
4	Pubali Bank Limited	2	0	2
5	Trust Bank Limited	9	0	9
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	747	505	1252

* 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

The leading Islamic banks' Sharia'h Supervisory Boards had inspected 206 branches and 20 meetings were held during the quarter. Total numbers of publications by the Islamic banks as well as other conventional banks running Islamic banking branches or windows were 07, of which the Islami Bank Bangladesh Ltd. had 01, Dhaka Bank 03, EXIM Bank, City Bank and ICB Islamic Bank Ltd. had 01 publication each during the quarter under review. Bangladesh Bank, Bangladesh Bank Training Academy (BBTA), Bangladesh Institute of Bank Management (BIBM), Islamic Bank's Consultative Forum (IBCF) and some commercial banks arranged a number of training courses and workshops during the first quarter of 2019. Among various seminars, workshops and trainings 'Islamic Banking Operations', 'Shariah Issues and Compliance in Islamic Banking: Global & National Perspective', 'Shariah Compliant Transactions of Islamic Banks', Relationship Banking for Sustainable Finance: Experience of SME Foundation, 'Detection, Disposal of Forged & Mutilated Notes' -these were noteworthy. Participants from different banks were present in those sessions.

Concluding Remarks and Recommendations

Islamic Finance and Banking has become reasonably important in global financial market, especially in Asia. This financial system has the potential to contribute to the successful implementation of Sustainable Development Goals (SDGs) in innovative ways. Through impact investing, it therefore, can ensure inclusive growth along with financial stability and address the other development challenges for the region effectively. 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 share of Islamic banking sector can be reckoned close to 25% 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, Trade & Business, Industry, MSME 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 1.63% of total investments). They should pay more attention in Research and Development (R&D) to develop proper guidelines and policies to promote investments under Mudaraba and Musharaka modes.

As H.E. Fazle Kabir, the Governor of Bangladesh Bank, has taken over the Chairmanship of the IFSB for 2019, Islamic financial sectors are expected to receive more attention than before. The Islamic capital market and the Islamic insurance-the other two components of Islamic finance industry are expected to be the part of a comprehensive report which will help to summarize the overall industry of Islamic finance in Bangladesh. Moreover, Islamic banks may explore 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 legal framework may be enacted for proper streamlining and supervision of this rapidly growing sector.