

# **Developments of Islamic Banking in Bangladesh July-September, 2014**



Research Department

**Bangladesh Bank**

## **Developments of Islamic Banking in Bangladesh during July-September 2014\***

Islamic Banking Industry plays crucial roles 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 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks is providing Islamic banking services in Bangladesh. At the end of July-September 2014 quarter, deposits, investments and surplus liquidity of Islamic banking industry grew by 3.58%, 2.90% and 26.24% respectively, while investment-deposit ratio decreased by 0.66% 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, July-September 2014**

- Total deposits in Islamic banking industry reached Tk. 138372.67 crores, which increased by Tk. 4782.44 crores or by 3.58% at the end of July-September 2014 quarter compared to previous quarter and by Tk. 23040.73 crores or by 19.98% compared to corresponding quarter of the last year.
- Total investments in Islamic banking sector stood at Tk. 117100.84 crores at the end of July-September 2014 quarter, which went up by Tk. 3300.28 crores or by 2.90% and by Tk. 17940.06 crores or by 18.09% compared to previous quarter and same quarter of the preceding year respectively.
- Investment-Deposit ratio remained unchanged at 0.85 in July-September 2014 as in the previous quarter, which was 0.86 at the end of September 2013.
- At the end of July-September 2014 quarter, surplus liquidity of Islamic banks stood at Tk. 13580.30 crores, which was higher by Tk. 2822.60 crores (26.24%) than previous quarter and by Tk. 6199.79 crores (84.00%) compared to the corresponding quarter of the preceding year.
- At the end of the quarter under review, the number of branches of Islamic banks including Islamic branches/windows of commercial banks stood at 900 which was 887 during the previous quarter and 822 during the same quarter of the last year.
- Total manpower in Islamic banking sector was 26526 in number at the end of the quarter under review which was greater by 179 persons than that of the last quarter and by 2296 persons compared to the same quarter of the last year.

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\* The Report has been prepared by Internal and Islamic Economics Division, Research Department, Bangladesh Bank, Central Bank of Bangladesh. Feedbacks are welcome. Feedbacks may be sent to Mr. Md. Golzare Nabi, Deputy General Manager, Research Department, Bangladesh Bank. E-mail: [golzare.nabi@bb.org.bd](mailto:golzare.nabi@bb.org.bd)

**Table 1: Islamic Banking Activities in Bangladesh, July-September 2014**

	Sept-14#	Jun-14#	Sep-13	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
<b>Total Deposits* (In Crore Taka)</b>	<b>138372.67</b>	<b>133590.22</b>	<b>115331.94</b>	<b>4782.44</b>	<b>23040.73</b>	<b>3.58</b>	<b>19.98</b>
a) Full-fledged Islamic Banks	131091.04	126671.44	108170.95	4419.59	22920.09	3.49	21.19
b) Conventional banks having Islamic banking branches	5109.97	4838.24	5355.39	271.73	-245.42	5.62	-4.58
c) Islamic banking windows	2171.66	2080.54	1805.60	91.12	366.07	4.38	20.27
<b>Total Investments* (In Crore Taka)</b>	<b>117100.84</b>	<b>113800.57</b>	<b>99160.78</b>	<b>3300.28</b>	<b>17940.06</b>	<b>2.90</b>	<b>18.09</b>
a) Full-fledged Islamic Banks	111474.81	108469.04	93998.30	3005.78	17476.51	2.77	18.59
b) Conventional banks having Islamic banking branches	3948.08	3764.00	3939.39	184.08	8.70	4.89	0.221
c) Islamic banking windows	1677.95	1567.53	1223.09	110.42	454.85	7.04	37.19
<b>Investment/Deposit Ratio</b>	<b>0.85</b>	<b>0.85</b>	<b>0.86</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.66</b>	<b>-1.57</b>
a) Full-fledged Islamic Banks	0.85	0.86	0.87	-0.01	-0.02	-0.69	-2.14
b) Conventional banks having Islamic banking branches	0.77	0.78	0.74	-0.01	0.04	-0.69	5.03
c) Islamic banking windows	0.77	0.75	0.68	0.02	0.10	2.55	14.06
<b>Liquidity Surplus(+)/Deficit(-) (In Crore Taka)</b>	<b>13580.30</b>	<b>10757.71</b>	<b>7380.52</b>	<b>2822.60</b>	<b>6199.79</b>	<b>26.24</b>	<b>84.00</b>
a) Full-fledged Islamic Banks	11963.45	9336.42	5760.70	2627.03	6202.75	28.14	107.67
b) Conventional banks having Islamic banking branches	1404.48	1193.56	1252.03	210.92	152.45	17.67	12.18
c) Islamic banking windows	212.38	227.73	367.79	-15.35	-155.41	-6.74	-42.26
<b>Total Branches</b>	<b>900</b>	<b>887</b>	<b>822</b>	<b>13</b>	<b>78</b>	<b>1.47</b>	<b>9.49</b>
a) Full-fledged Islamic Banks	856	843	778	13	78	1.54	10.03
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
<b>Total Manpower</b>	<b>26526</b>	<b>26347</b>	<b>24230</b>	<b>179</b>	<b>2296</b>	<b>0.68</b>	<b>9.48</b>
a) Full-fledged Islamic Banks	25991	25793	23675	198	2316	0.77	9.78
b) Conventional banks having Islamic banking branches	401	420	425	-19	-24	-4.52	-5.65
c) Islamic banking windows	134	134	130	0	4	0.00	3.08

\* = Excluding Inter-Bank Items

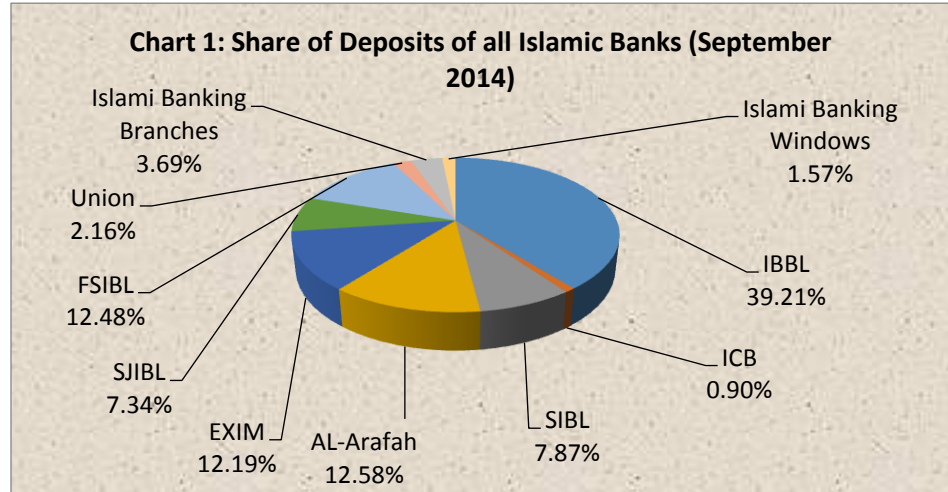
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## Deposits

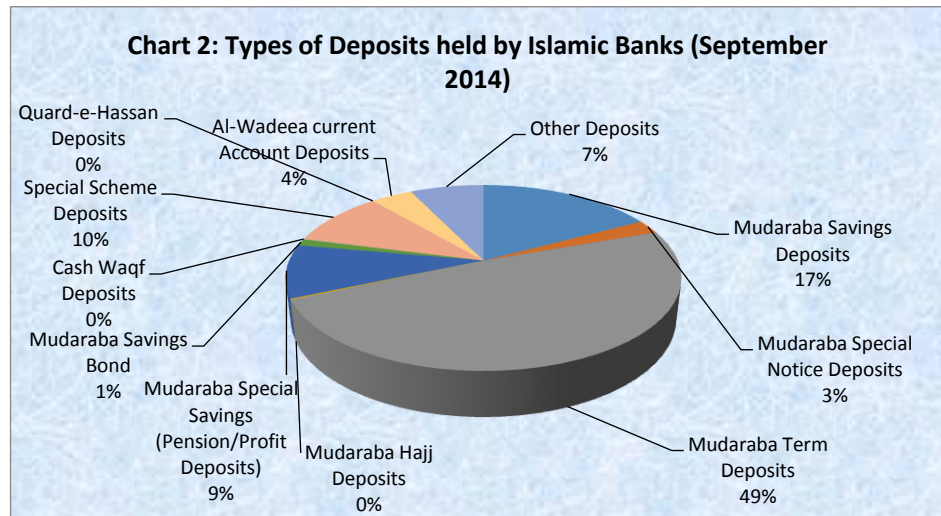
Total deposits of Islamic banking industry stood at Tk. 138372.67 crores at the end of the quarter July-September 2014, which was higher by 4782.44 crores (3.58%) and by Tk. 23040.73 (19.98%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 16233.36 crores and time deposit was Tk. 122139.30 crores.

Total deposits of the eight full-fledged Islamic banks accounted for 94.74% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 131091.04 crores as on end September 2014.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (39.21%) [chart-1], followed by Al-Arafah Islami Bank Ltd. (12.58%), First Security Islami Bank Ltd.(12.48%), Exim Bank Ltd. (12.19%), Social Islami Bank Ltd. (7.87%), Shahjalal Islami Bank Ltd. (7.34%), Islami banking branches (3.69%), Union Bank Limited (2.16%), Islami banking windows (1.57%) and ICB Islamic Bank Limited (0.90%).



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) (17%), Mudaraba Special Savings (pension/profit) Deposits (9%), Special Scheme Deposit (10%), Current Account Deposits (4%) etc.

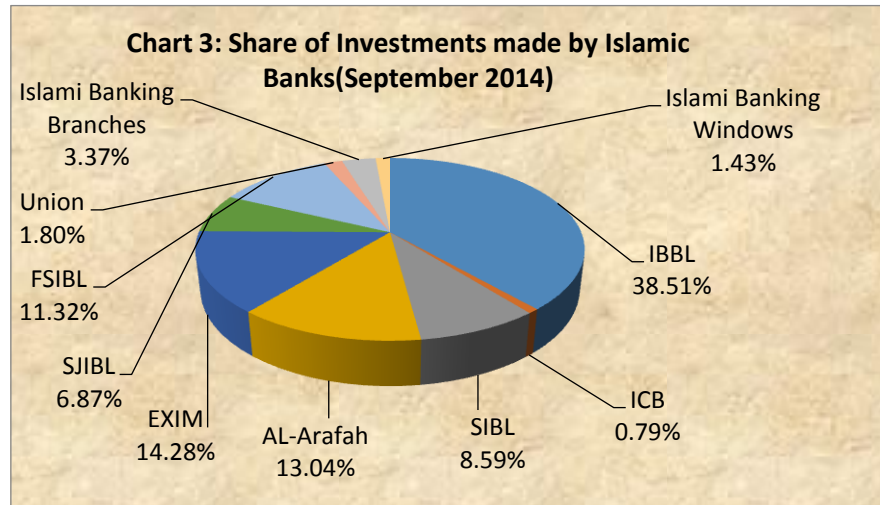


## Investments

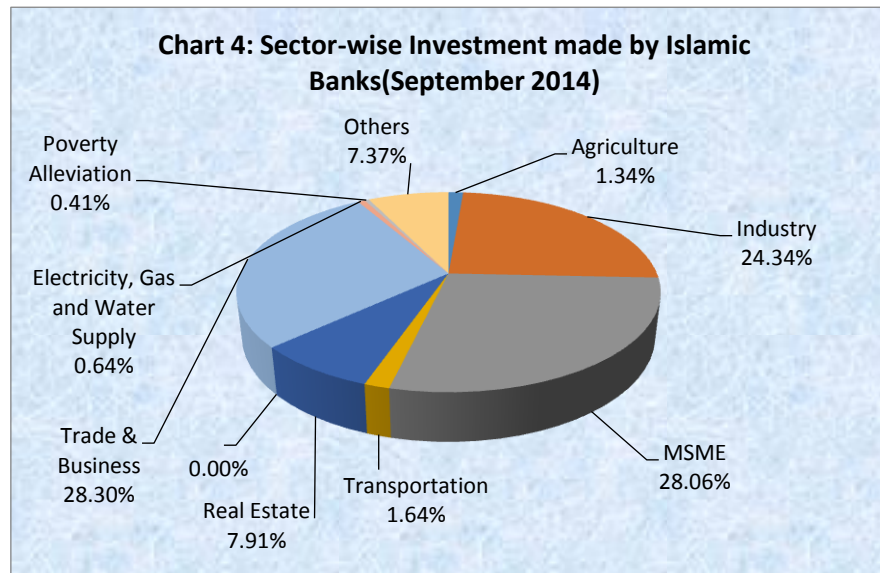
Total amount of investments in Islamic Banking industry reached at Tk. 117100.84 crores at the end of the quarter July-September 2014. During the quarter under review, investments increased by 2.90% and 18.09% respectively as compared to the previous quarter and the corresponding quarter of the preceding year.

Among total investments, 95.20% were made by 8 full-fledged Islamic banks, 3.37% by the scheduled banks' Islamic banking branches and the rest 1.43% by the scheduled banks' Islamic banking windows.

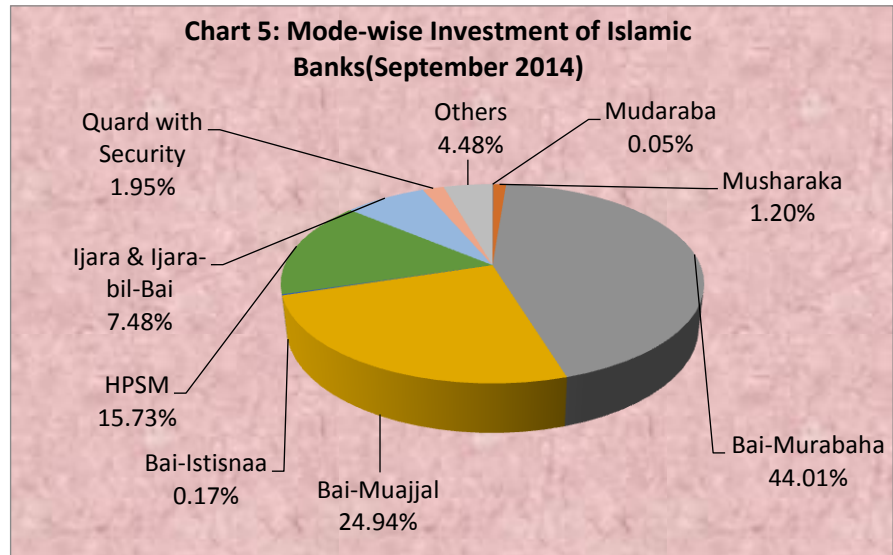
As in the case of deposits, Islami Bank Bangladesh Ltd. attained the highest share in investments which was 38.51% at the end of the quarter July-September 2014, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (14.28%), Al Arafah Islami Bank Ltd. (13.04%), First Security Islami Bank Ltd (11.32%), Social Islami Bank Ltd (8.59%), Shahjalal Islami Bank (6.87%), Union Bank (1.80%) and ICB Islami Bank Ltd (0.79%).



After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector was the highest among all sectors which stood at 28.30% (chart-4) at the end of the quarter July-September 2014. The next position was occupied by MSME (Micro, Small and Medium Enterprises) sector (28.06%) followed by Industrial sector (24.34%), Real Estate (7.91%), others (7.37%), Transportation (1.64%), Agriculture (1.34%), Electricity, Gas and Water supply (0.64%) and Poverty Reduction (0.41%).



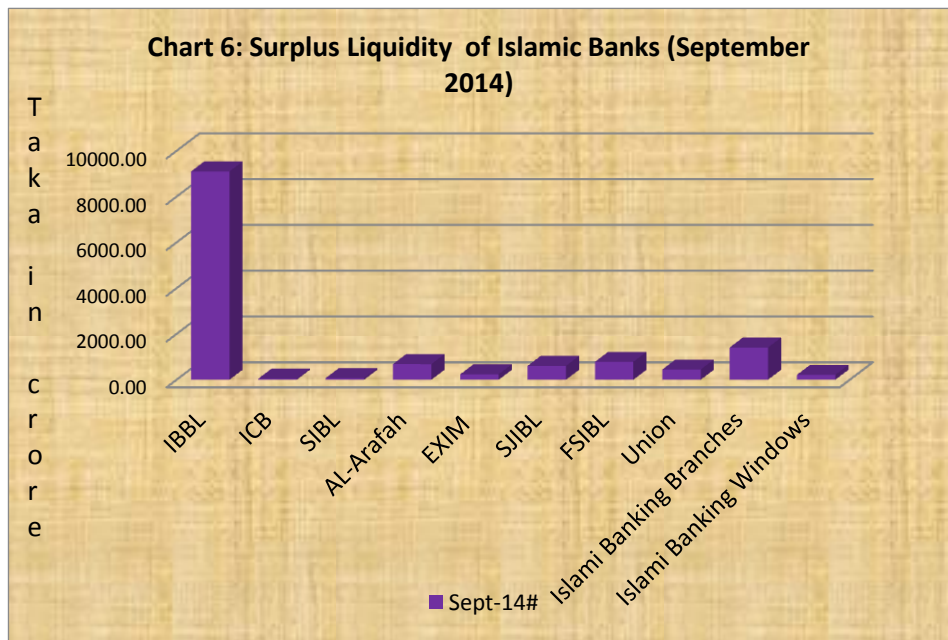
The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.01%) at the end of the quarter July-September 2014, [chart-5] followed by Bai-Muajjal (24.94%), HPSM (15.73%), Ijara & Ijara-bil-Bai (7.48%), others (4.48%), Quard with Security (1.95%), Musharaka (1.20%), Mudaraba (0.05%) and Bai-Istisnaa (0.17%).



### Liquidity Situation

At the end of the quarter July-September 2014, surplus liquidity in the Islamic banking sector stood at Tk 13580.30 crores which was higher by Tk.2822.60 crores or by 26.24% and by Tk. 6199.79 crores or by 84.00% 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. 11963.45 crores, Tk. 1404.48 crores and Tk. 212.38 crores respectively.



Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

## Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) was 900 at the end of the quarter July-September, 2014 which was 887 at the end of the preceding quarter and 822 at the end of September 2013. At the end of the quarter under review, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 856 branches, 8 conventional commercial banks had 19 and 7 regular banks had 25 windows. Information on branches of Islamic banks at the end of the July-September 2014 quarter is shown in Table-2.

**Table-2: Number of Branches of Islamic Banks**

Name of the Bank		Urban	Rural*	Total
<b>A)</b>	<b>Full-fledged Islamic Banks</b>	<b>541</b>	<b>275</b>	<b>856</b>
1	Islami Bank Bangladesh Limited*	208	48	286
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	51	34	95
4	Al-Arafah Islami Bank Limited	71	47	118
5	EXIM Bank Limited	48	36	84
6	Shahjalal Islami Bank Limited	59	33	92
7	First Security Islami Bank Limited	66	62	128
8	Union Bank Limited	10	10	20
<b>B)</b>	<b>Islamic banking branches of Conventional banks</b>	<b>18</b>	<b>1</b>	<b>19</b>
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	0	5
7	Jamuna Bank Limited	2	0	2
8	Bank Alfalah Limited	1	0	1
9	HSBC Limited	0	0	0
<b>C)</b>	<b>Islamic banking windows of Conventional banks</b>	<b>25</b>	<b>0</b>	<b>25</b>
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
<b>D)</b>	<b>Total=A+B+C</b>	<b>584</b>	<b>276</b>	<b>900</b>

\* Including SME \*\* Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet.

## Investment situation in the Agricultural sector

During July-September 2014 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 329.94 crores which was lower by Tk. 460.22 crores and by Tk. 226.95 crores than the previous quarter and the same quarter of the preceding year respectively. 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	
Sept-14#	25195.34	36486.97	455.33	329.94	600.96	1511.56	260.31	653.51	
Jun-14	27711.15	38347.04	510.21	790.17	522.99	2472.71	289.82	512.08	
Sept-13	16452.28	29444.96	491.91	556.90	718.48	1832.69	243.23	360.70	
Changes	Quarterly	-2515.81	-1860.07	-54.88	-460.22	77.97	-961.07	-29.49	141.43
	Annual	8743.06	7042.01	-36.58	-226.95	-117.52	-321.12	17.08	292.81

# Provisional

## 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. Expenditure on CSR activities increased by 36.34% in this quarter from the previous quarter. At the end of July-September 2014 quarter, total expenditure on CSR activities of Islamic Banking Industry was Tk. 23.90 crores which was Tk. 17.53 crores and Tk. 37.84 crores during the previous quarter and January-March 2014 quarter respectively.

## Conclusion

Islamic banks are now playing very important roles in mobilizing deposits and financing industry, services and other key sectors of the economy in Bangladesh. Despite the activities of full fledged Islamic banks are increasing day by day but the activities of Islamic banking branches/windows are not being expanded countrywide yet. Since, investment in agricultural sector made by Islamic banks at the end of the quarter under review declined than the previous quarter, Islamic banks 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. Furthermore, Islamic banks should invest a portion of surplus liquidity in micro and small enterprises in rural areas to help low income people. It is also imperative to introduce more money market and capital market instruments for Islamic banks to manage surplus liquidity prudently.