

Developments of Islamic Banking in Bangladesh July-September, 2015



Research Department
Bangladesh Bank

Quarterly Report Preparation Committee¹

Chairman

Dr. Md. Akhtaruzzaman

Economic Adviser

Coordinator

Md. Abdul Awwal Sarker

General Manager

Team Members

Md. Golam Moula

Deputy General Manager

Nazmun Nahar Mily

Joint Director

¹ 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 Nazmun Nahar Mily, Joint Director, Research Department, Bangladesh Bank. E-mail: nazmun.mily@bb.org.bd

'The value driven, speculation-averse risk-sharing features of Islamic finance attribute greater inclusivity and stability supportiveness to it. Islamic banks and financial institutions fared better than conventional ones in the last global financial crisis, which may be a reason why we see niche presence of Islamic financing widening steadily in non-Muslim countries including the advanced Western economies.With its ethical, inclusivity promoting and stability enhancing attributes, Islamic finance undoubtedly bears promise of playing major beneficial role in our socioeconomic development.' --Governor, Bangladesh Bank.²

Developments of Islamic Banking Industry in Bangladesh during July-September 2015

Bangladesh has a long history in Islamic banking since its inception in 1983. Since then, Islamic Banking Industry has been playing a crucial role 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 July-September 2015 quarter. As at the end of September 2015, 8 full-fledged Islamic banks are operating with 982 branches out of total 9197 branches of the banking industry; in addition, 19 Islamic banking branches of 9 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks are also providing Islamic financial services in Bangladesh. At the end of July-September 2015 quarter, deposits, investments and surplus of liquidity of Islamic banking industry grew by 3.28%, 3.04% and 10.38% 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, July-September 2015

- ✓ **Total Deposits** in Islamic banking industry reached at Tk. 157492.15 crores at the end of July-September 2015 quarter, which increased by Tk. 5003.31 crores or by 3.28% compared to previous quarter and by Tk. 19099.12 crores or by 13.80% compared to corresponding quarter of the last year.
- ✓ **Total Investments** (Loans in conventional sense) in Islamic banking sector stood at Tk. 135061.63 crores at the end of July-September 2015 quarter, which went up by Tk. 3985.88 crores or by 3.04% and by Tk. 17988.64 crores or by 15.37% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **Investment-Deposit Ratio** (Credit-Deposit Ratio in conventional sense) reached at 0.86 in July-September 2015 quarter which remained same at the previous quarter and was 0.85 at the end of September 2014.
- ✓ **Surplus Liquidity** of Islamic banking industry stood at Tk. 13690.76 crores at the end of July-September 2015 quarter, which was higher by Tk. 1287.53crores (10.38%) and lower at Tk. 161.60 crores (1.17%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
- ✓ **Total Remittances** mobilized by the Islamic banking sector stood at Tk. 10284.53 crores at the end of July-September 2015 quarter, which was higher by Tk. 966.03 crores or by 10.37% and by Tk. 446.88 crores or by 4.54% 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 982 at the end of the quarter under review which was 960 during the previous quarter and 900 during the same quarter of the last year.
- ✓ **Total Manpower** in Islamic banking sector was 27662 in number at the end of the quarter under review which was greater by 175 persons than that of the last quarter and by 1134 persons compared to the same quarter of the last year.

² Keynote address delivered by Dr. Atiur Rahman, Governor, Bangladesh Bank at a IFSB-BB Seminar on the Prospects and Challenges in Development of Islamic Finance for Bangladesh held on 23 September 2013 at Hotel Purbani International, Dhaka.

Table 1: Islamic Banking Activities in Bangladesh, July-September 2015

	September-15#	June-15	September-14	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (In Crore Taka)	157492.15	152488.84	138393.03	5003.31	19099.12	3.28	13.80
a) Full-fledged Islamic Banks	149416.52	144737.79	131091.04	4678.73	18325.49	3.23	13.98
b) Conventional banks having Islamic banking branches	5341.05	5202.13	5130.33	138.91	210.72	2.67	4.11
c) Islamic banking windows	2734.58	2548.91	2171.66	185.67	562.91	7.28	25.92
Total Investments* (In Crore Taka)	135061.63	131075.75	117072.98	3985.88	17988.64	3.04	15.37
a) Full-fledged Islamic Banks	127887.26	124574.84	111474.81	3312.41	16412.44	2.66	14.72
b) Conventional banks having Islamic banking branches	5230.22	4615.31	3920.22	614.90	1309.99	13.32	33.41
c) Islamic banking windows	1944.15	1885.59	1677.95	58.56	266.20	3.11	15.86
Investment/Deposit Ratio	0.86	0.86	0.85	0.00	0.01	-0.23	1.37
a) Full-fledged Islamic Banks	0.86	0.86	0.85	0.00	0.01	-0.56	0.65
b) Conventional banks having Islamic banking branches	0.98	0.89	0.76	0.09	0.22	10.38	28.15
c) Islamic banking windows	0.71	0.74	0.77	-0.03	-0.06	-3.89	-7.99
Liquidity Surplus(+)/Deficit(-) (In Crore Taka)	13690.76	12403.23	13852.36	1287.53	-161.60	10.38	-1.17
a) Full-fledged Islamic Banks	12581.60	11142.69	11963.45	1438.91	618.15	12.91	5.17
b) Conventional banks having Islamic banking branches	727.81	977.24	1407.57	-249.43	-679.75	-25.52	-48.29
c) Islamic banking windows	381.35	283.30	481.35	98.05	-100.00	34.61	-20.77
Total Profits (In Crore Taka)	1294.19	1301.67	1510.68	-7.47	-216.49	-0.57	-14.33
a) Full-fledged Islamic Banks	1136.81	1193.14	1343.33	-56.33	-206.51	-4.72	-15.37
b) Conventional banks having Islamic banking branches	133.41	87.21	134.69	46.20	-1.28	52.98	-0.95
c) Islamic banking windows	23.97	21.32	32.67	2.65	-8.69	12.44	-26.62
Total Remittance	10284.53	9318.50	9837.65	966.03	446.88	10.37	4.54
a) Full-fledged Islamic Banks	10212.98	9270.93	9770.78	942.05	442.20	10.16	4.53
b) Conventional banks having Islamic banking branches	71.11	47.33	66.76	23.79	4.35	50.26	6.51
c) Islamic banking windows	0.4368	0.2411	0.1112	0.20	0.33	81.17	292.81
Total Branches	982	960	900	22	82	2.29	9.11
a) Full-fledged Islamic Banks	938	916	856	22	82	2.40	9.58
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	27662	27487	26528	175	1134	0.64	4.27
a) Full-fledged Islamic Banks	27087	26910	25988	177	1099	0.66	4.23
b) Conventional banks having Islamic banking branches	420	422	407	-2	13	-0.47	3.19
c) Islamic banking windows	155	155	133	0	22	0.00	16.54

* = Excluding Inter-Bank Items.

Provisional.

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

Items	July-September 2015 #		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	3=(2/1*100)
Total Deposits (In Crore Taka)	718719.90	157492.15	21.91
Total Credit (In Crore Taka)	770149.10	135061.63	17.54
Remittances (In Crore Taka)	30604.00	10284.53	33.61
Total Excess Liquidity (In Crore Taka)	115646.94	13690.76	11.84
Total Number of Bank Branches	9197	982	10.68
Total Agricultural Credit (In Crore Taka)	3204.24	694.22	21.67

Source: Statistics Department, DOS & BRPD

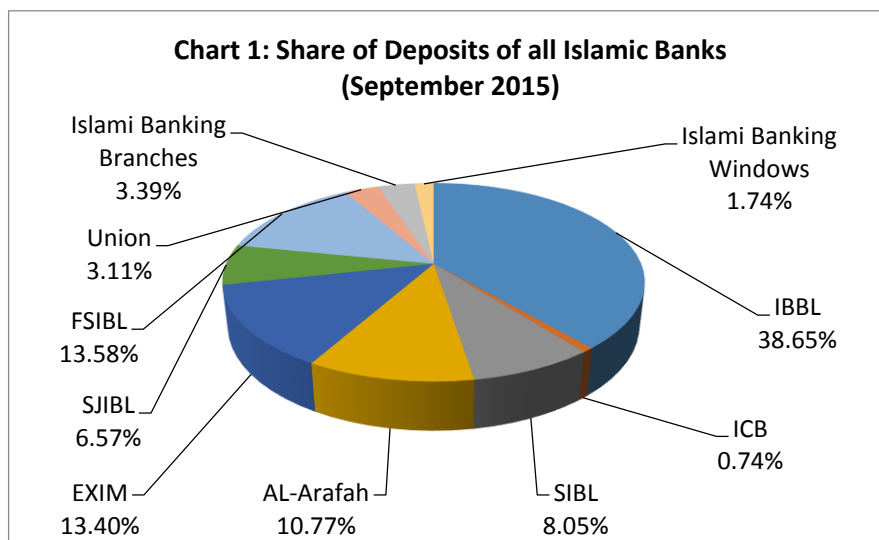
Provisional

Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 157492.15 crores at the end of the quarter July-September 2015, which was higher by 5003.31 crores (3.28%) and by Tk. 19099.12 crores (13.80%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 17849.19 crores and time deposit was Tk. 139642.96 crores. The share of total deposits of Islami banks accounted for 21.91% among all banks during the period under review.

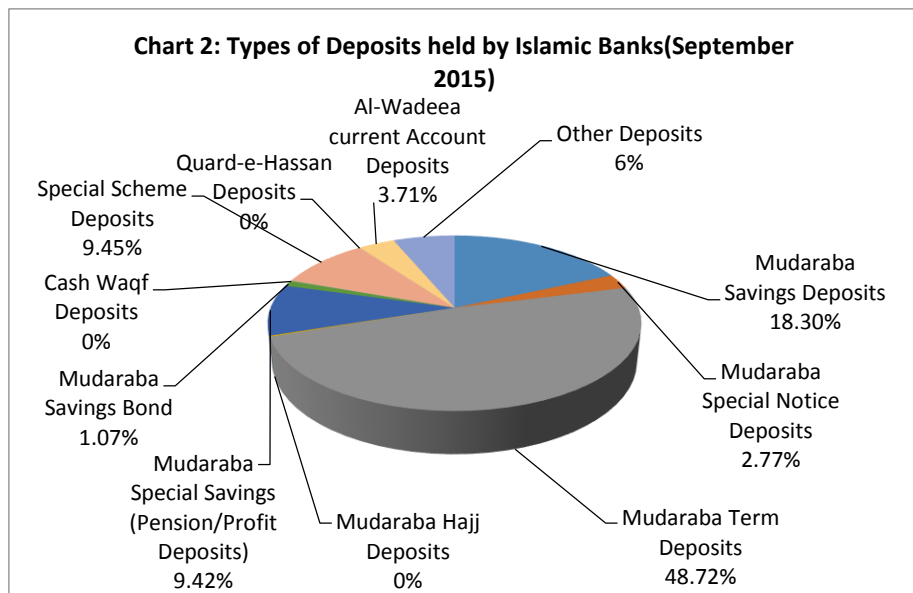
Total deposits of the eight full-fledged Islamic banks accounted for 94.87% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 149416.52 crores as on end September 2015.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (38.65%) [chart-1], followed by First Security Islami Bank Ltd.(13.58%), Exim Bank Ltd. (13.40%), , Al-Arafah Islami Bank Ltd. (10.77%), Social Islami Bank Ltd. (8.05%), Shahjalal Islami Bank Ltd. (6.57%), Islami banking branches (3.39%), Union Bank Limited (3.11%), Islami banking windows (1.74%) and ICB Islamic Bank Limited (0.74%).



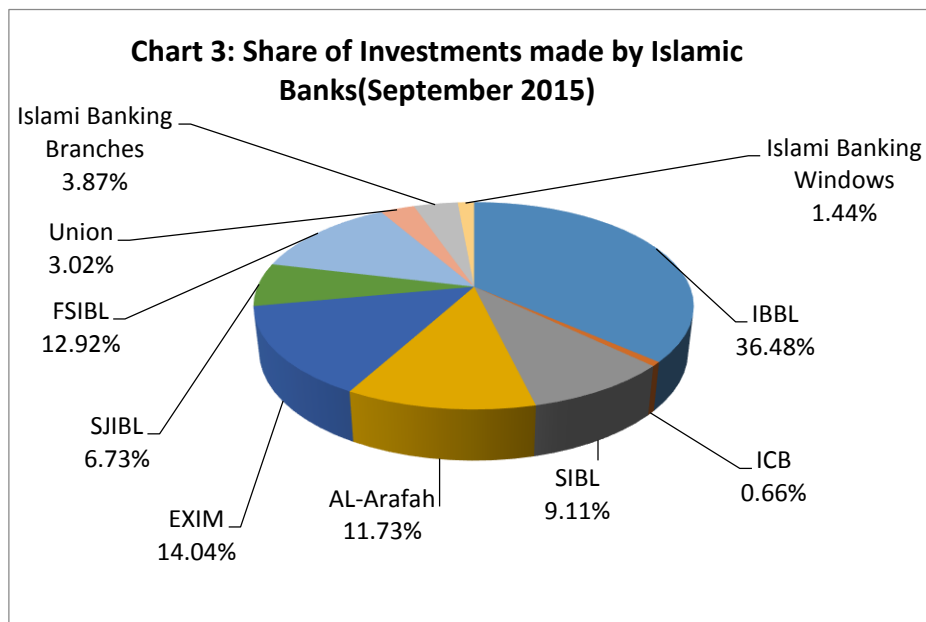
Types of Deposits

Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (48.72%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.30%), Other deposits (6.00%), Special Scheme Deposit (9.45%), Mudaraba Special Savings pension/profit Deposits (9.42%), Current Account Deposits (3.71%), Mudaraba Special Notice Deposits(2.77%), Mudaraba Savings Bond (1.07%) etc.



Investments

Total amount of investments in Islamic Banking industry reached at Tk. 135061.63 crores at the end of the quarter July-September 2015. During the quarter under review, investments increased by 3.04% and 15.37% 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 17.54% among all banks.

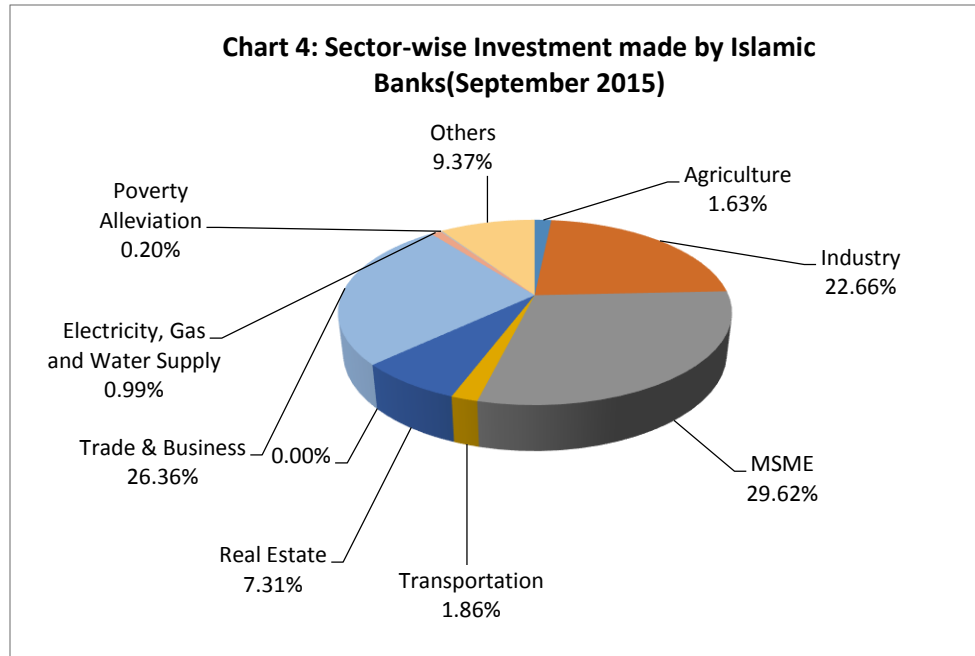


Among total investments of Islami banks, 94.69% were made by 8 full-fledged Islamic banks, 3.87% by the scheduled banks' Islamic banking branches and the rest 1.44% by the scheduled banks' Islamic banking windows. As in the case of deposits, Islami Bank Bangladesh Ltd. attained the highest share in investments which was 36.48% at the end of the quarter July-September 2015, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (14.04%), First Security Islami

Bank Ltd (12.92%), Al Arafah Islami Bank Ltd. (11.73%), Social Islami Bank Ltd (9.11%), Shahjalal Islami Bank (6.73%), Islami banking branches (3.87%), Union Bank (3.02%), Islami banking windows (1.44%) and ICB Islami Bank Ltd (0.66%).

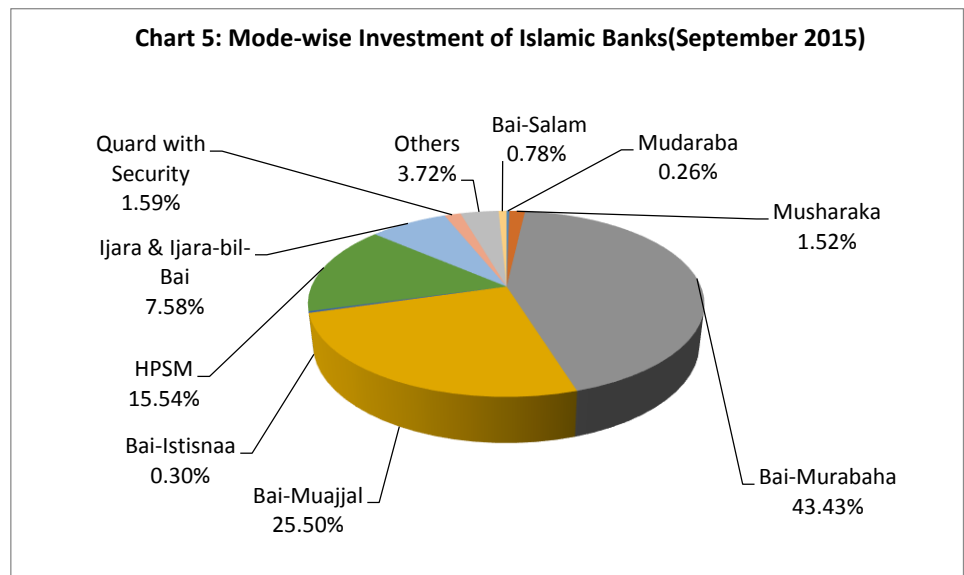
Sector-wise Investments

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 29.62% (chart-4) at the end of the quarter July-September 2015. The next position was occupied by Business & Trade sector (26.36%) followed by Industrial sector (22.66%), others (9.37%), Real Estate (7.31%), , Transportation (1.86%), Agriculture (1.63%), Electricity, Gas and Water supply (0.99%) and Poverty Alleviation (0.20%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (43.43%) at the end of the quarter July-September 2015, [chart-5] followed by Bai-Muajjal (25.50%), HPSM (15.54%), Ijara & Ijara-bil-Bai (7.58%), others (3.72%), Quard with Security (1.59%), Musharaka (1.52%), Bai-Salam(0.78%), Bai-Istisna (0.30%) and Mudaraba (0.26%).



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 July-September 2015 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 694.22 crores which was lower by Tk. 147.37 crores

and higher by Tk. 591.22 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 21.67% 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

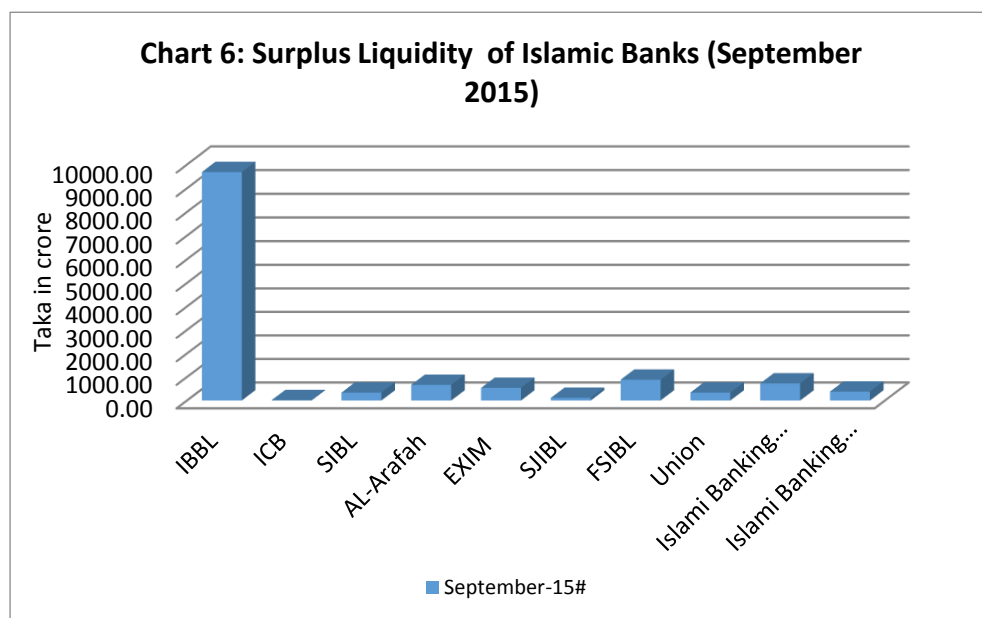
(Taka in crore)

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	
September-15#	26033.69	38385.44	439.67	694.22	386.95	2355.41	624.95	877.65	
June -15	25985.50	42039.66	423.73	841.58	510.39	2159.08	512.27	750.85	
September-14	12500.00	11844.00	200.00	103.00	354.00	287.00	2.63	0.89	
Changes	Quarterly	48.20	-3654.22	15.94	-147.37	-123.44	196.33	112.68	126.80
	Annual	13533.69	26541.44	239.67	591.22	32.95	2068.41	622.32	876.76

Provisional

Liquidity Situation

At the end of the quarter July-September 2015, surplus liquidity in the Islamic banking sector stood at Tk.13690.76 crores which was higher by Tk.1287.53 crores or by 10.38% and lower by Tk. 161.60 crores or by 1.17% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking

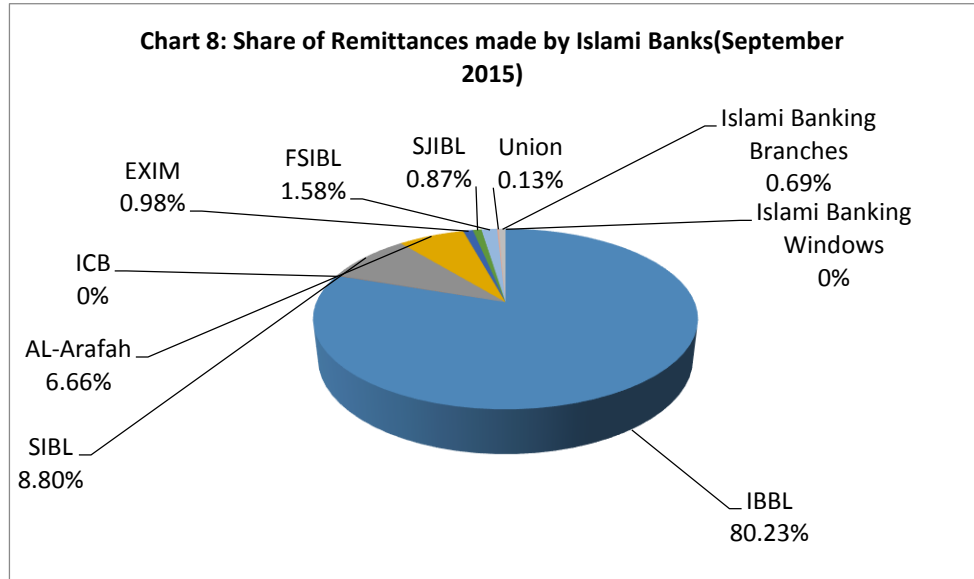


branches of conventional banks and Islamic windows of 7 conventional banks stood at Tk. 12581.60 crores, Tk. 727.81 crores and Tk. 381.35 crores respectively. Actually Islamic banks in Bangladesh have been facing excess liquidity problem since long as they could not invest in Government Treasury Bills 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 11.84% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

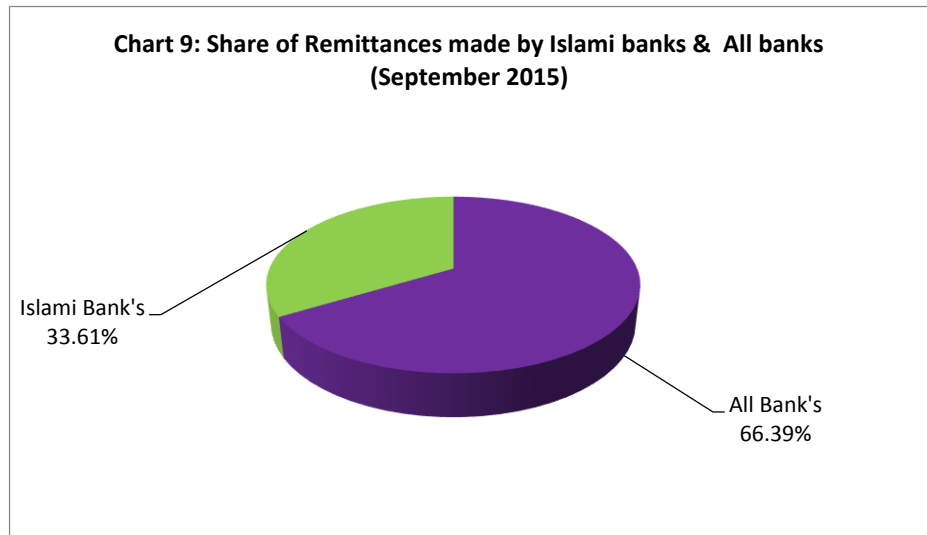
Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During July-September 2015 amount of remittances reached at Tk.10284.53 crores which was higher by Tk. 966.03 crores or by 10.37% and by Tk. 446.88 crores or by 4.54% 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 (80.23%) in respect of remittance collection at the end of September 2015. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (8.80%), Al Arafah Islami Bank Ltd. (6.66%), First Security Islami Bank Ltd (1.58%), EXIM Bank Ltd. (0.98%), Shahjalal Islami Bank (0.87%), Islamic banking branches(0.69%) and



Union Bank Ltd (0.13%). The Islamic Banking Industry accounted for 33.61% share of remittances collected by the entire banking industry at the end of the quarter under review and Remittance collections of all scheduled banks, all Islamic banks and Islamic banking branches/windows of conventional banks are provided in chart-8 and chart-9 respectively.

Union Bank Ltd (0.13%). The Islamic Banking Industry accounted for 33.61% share of remittances collected by the entire banking industry at the end of the quarter under review and Remittance collections of all scheduled banks, all Islamic banks and Islamic banking branches/windows of conventional banks are provided in chart-8 and chart-9 respectively.



Expansion of Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) stood at 982 at the end of the quarter under review which was 960 at the end of the previous quarter and was 900 at the end of the preceding quarter of September 2014. At the end of July-September 2015 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 938 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 10.68% at the end of July-September 2015 quarter. Information on branches of Islamic banks is shown in Table-4.

Table-4: Number of Bank Branches of Islamic Banks (July-September, 2015)

Name of the Bank		Urban	Rural*	Total
A)	Full-fledged Islamic Banks	582	356	938
1	Islami Bank Bangladesh Limited*	215	86	301
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	58	50	108
4	Al-Arafah Islami Bank Limited	75	51	126
5	EXIM Bank Limited	54	42	96
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	74	70	144
8	Union Bank Limited	19	18	37
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
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	625	357	982

* 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 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 declined by 1.57% in this quarter compared to the previous quarter. At the end of July-September 2015 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.37.04 crores which was Tk. 37.62 crores during the previous quarter.

Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 212 branches and 12 meetings held during the quarter July-september 2015. Total number of publications published by the Islamic banks are 10 including Islami Bank Bangladesh Ltd. 4 (Books: Islamic banking in the light of Sharia'h, In house magazine: Polli Unnaayon Barta:August 2015, Brochure: Krishi Biniog Nitimala and Other publications: Islami bank byabosther Shresthotwo o Safolyo) followed by First Security Islami Bank Ltd. 4, EXIM Bank Ltd. 1 (Journal: EXIM Parikroma) and ICB Islami Bank Ltd. 1 brochure during the quarter under review. Besides, Islamic banks have organized 43 seminar/workshop/conference and 64 training course in home and the participants of foreign training course is 16 in number for gear up the Sharia'h based knowledge of its employees during July-September 2015 quarter.

Concluding Remarks and Recommendations

Islamic banking industry in Bangladesh has shown tremendous potentiality during the last three decades. The Islamic banking sector of Bangladesh, due to popular support and market demand continued to grow at a rapid pace which is reflected by the increasing branch network of Islamic Banking Institutions. Islamic Banking Industry in Bangladesh has been highly contributing to spur 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. Thereby, this banking industry with more than 20% market share and 27662 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 about a one-third portion of total foreign remittances in Bangladesh.

Despite the continuous growth of Islamic banking in the country, a large portion of the population remains unbanked, thus the full potential of the budding industry has not only to be unlocked yet but

also the numbers 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 to the reach of the rural people. Besides, since SME financing is given highest importance as an important engine of economic growth and as a potential sector of investment in banking industry, most of the full-fledged Islamic banks have not yet fully utilized the refinance facilities extended by the Bangladesh Bank. Their branch activities should be redesigned as per Bangladesh Bank guidelines on sustainable green finance.

Role of the Islamic Banking industry, as a whole, in respect of Islamic Microfinance is not prominent. Since the core objectives of Islamic banking industry is to fulfill the Maqasid-al-Sharia'h i.e. to help expedite the financial inclusion drives with Islamic financial literacy programs to associate the poor and disadvantaged people of the country in small types of income generating activities so that they can get a space to live as a honorable human being. As the bulk of the investments made by Islamic banks has been concentrated in trade and rent-related sectors (about 92% of their total investments, see chart-5), they should invest more in socially desirable and sustainable real sectors especially in micro, share-cropping, non-traditional agriculture and small enterprises.

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. Islamic banking sector of the country may conduct some empirical research and surveys to redesign their investment polices because the investments made by these banks in true modes like Mudaraba and Musharaka are at a minimal level (only 1.9% of total investments). They should pay more attention in R & D to devising the proper guidelines and policies to promoting investments under Mudaraba and Musharaka modes. Furthermore, to strengthening the knowledge-base of manpower they should also introduce cutting-edge leadership development training programs combining with Sharia'h, finance and economics as well as on emerging country economic and financial issues in their training institutes. They may also consider to have cross-border experiences of Islamic banking to enrich their knowledge and experiences through arranging seminar and conferences on regular basis. Lastly, from the stability point of view, Islamic banks are less vulnerable in terms of risks than conventional banks as they are quite able to adjust the negative financial shocks originated due to the beauty of rules of the Islamic financial contracts.

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