

Developments of Islamic Banking in Bangladesh

July- September, 2016

Quarterly Report Preparation Committee¹

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Developments of Islamic Banking Industry in Bangladesh during July-September 2016

The innovation of interest-free Islamic banking systems, proved its worth 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 July-September 2016 quarter. As at the end of September 2016, 8 full-fledged Islamic banks are operating with 1006 branches out of total 9515 branches of the banking industry; in addition, 20 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 2016 quarter, deposits, investments and the surplus liquidity of Islamic banking industry grew by 1.47%, 1.42% and 7.57% respectively while investment deposit ratio and remittances collection declined by 0.03% and 3.21% 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 2016

- ✓ **Total Deposits** in Islamic banking industry reached at Tk. 178137.17 crores at the end of July-September 2016 quarter, which increased by Tk. 2573.90 crores or by 1.47% compared to previous quarter and by Tk. 20645.03 crores or by 13.11% compared to corresponding quarter of the last year.
- ✓ **Total Investments** (Loans in conventional sense) in Islamic banking sector stood at Tk. 158849.69 crores at the end of July-September 2016 quarter, which went up by Tk. 2225.75 crores or by 1.42% and by Tk. 23788.06 crores or by 17.61% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **Investment-Deposit Ratio** (Credit-Deposit Ratio in conventional sense) reached at 0.89 in July-September 2016 quarter which remained same at the previous quarter and 0.86 at the end of September 2015.
- ✓ **Surplus Liquidity** of Islamic banking industry stood at Tk. 11401.30 crores at the end of July-September 2016 quarter, which was higher by Tk. 802.04 crores (7.57%) and lower by Tk. 2292.78 crores (16.74%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
- ✓ **Total Remittances** mobilized by the Islamic banking sector stood at Tk. 9378.59 crores at the end of July-September 2016 quarter, which was lower by Tk. 311.30 crores or by 3.21% and Tk. 905.92 crores or by 8.81% 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 1051 at the end of the quarter under review which was 1042 during the previous quarter and 983 during the same quarter of the last year.
- ✓ **Total Manpower** in Islamic banking sector was 28889 in number at the end of the quarter under review which was greater by 45 persons than that of the last quarter and by 1220 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities in Bangladesh, July-September 2016

	September-16# Quarter	June-16 Quarter	September-15 Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Taka in Crore)	178137.17	175563.27	157492.14	2573.90	20645.03	1.47	13.11
a) Full-fledged Islamic Banks	169608.57	167260.60	149416.52	2347.97	20192.05	1.40	13.51
b) Conventional banks having Islamic banking branches	5163.39	5320.90	5341.04	-157.51	-177.65	-2.96	-3.33
c) Islamic banking windows	3365.20	2981.77	2734.58	383.43	630.63	12.86	23.06
Total Investments* (Taka in Crore)	158849.69	156623.94	135061.63	2225.75	23788.06	1.42	17.61
a) Full-fledged Islamic Banks	151698.47	149363.21	127887.26	2335.26	23811.21	1.56	18.62
b) Conventional banks having Islamic banking branches	4385.14	4504.49	5230.22	-119.35	-845.08	-2.65	-
c) Islamic banking windows	2766.08	2756.24	1944.15	9.84	821.93	0.36	42.28
Investment/Deposit Ratio	0.89	0.89	0.86	0.00	0.03	-0.04	3.98
a) Full-fledged Islamic Banks	0.89	0.89	0.86	0.00	0.04	0.16	4.50
b) Conventional banks having Islamic banking branches	0.85	0.85	0.98	0.00	-0.13	0.32	-13.27
c) Islamic banking windows	0.82	0.92	0.71	-0.10	0.11	-11.08	15.61
Liquidity Surplus(+)/Deficit(-) (Taka in Crore)	11401.30	10599.26	13694.08	802.04	-2292.78	7.57	-16.74
a) Full-fledged Islamic Banks	10015.06	9267.14	12581.60	747.92	-2566.54	8.07	-20.40
b) Conventional banks having Islamic banking branches	699.40	1066.29	731.13	-366.89	-31.73	-34.41	-4.34
c) Islamic banking windows	686.84	265.83	381.35	421.01	305.50	158.37	80.11
Total Profits (Taka in Crore)	1664.27	1467.51	1294.72	196.77	369.55	13.41	28.54
a) Full-fledged Islamic Banks	1466.19	1327.74	1136.81	138.45	329.38	10.43	28.97
b) Conventional banks having Islamic banking branches	153.14	99.77	133.94	53.37	19.20	53.49	14.33
c) Islamic banking windows	44.95	39.99	23.97	4.95	20.98	12.38	87.51
Total Remittances (Taka in Crore)	9378.59	9689.89	10284.51	-311.30	-905.92	-3.21	-8.81
a) Full-fledged Islamic Banks	9301.68	9638.12	10212.98	-336.44	-911.30	-3.49	-8.92
b) Conventional banks having Islamic banking branches	73.50	49.99	71.10	23.51	2.41	47.02	3.38
c) Islamic banking windows	3.41	1.78	0.44	1.63	2.97	91.97	680.55
Total Branches	1051	1042	983	9	68	0.86	6.92
a) Full-fledged Islamic Banks	1006	998	938	8	68	0.80	7.25
b) Conventional banks having Islamic banking branches	20	19	20	1	0	5.26	0.00
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	28889	28844	27669	45	1220	0.16	4.41
a) Full-fledged Islamic Banks	28323	28278	27087	45	1236	0.16	4.56
b) Conventional banks having Islamic banking branches	395	399	421	-4	-26	-1.00	-6.18
c) Islamic banking windows	171	167	161	4	10	2.40	6.21

* = Excluding Inter-Bank Items.

Provisional

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

Items	July-September 2016 #		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	$3=(2/1*100)$
Total Deposits (In Crore Taka)	812755.10	178137.17	21.92
Total Credit (In Crore Taka)	675139.60	158849.69	23.53
Remittances (In Crore Taka)	25444.75	9378.59	36.86
Total Excess Liquidity (In Crore Taka)	126324.02	11401.30	9.03
Total Number of Bank Branches	9515	1051	11.05
Total Agricultural Credit (In Crore Taka)	3443.85	750.03	21.78

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

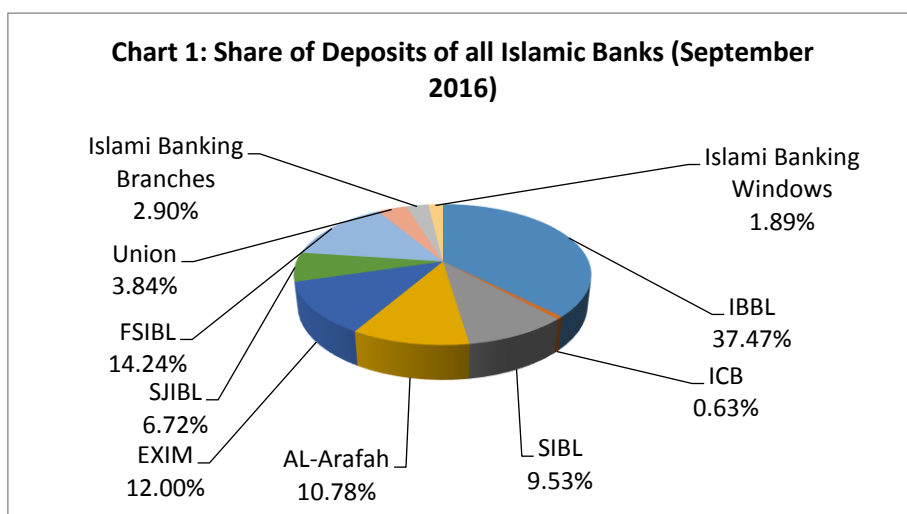
Provisional

Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 178137.17 crores at the end of the quarter July-September 2016, which was higher by 2573.90 crores (1.47%) and by Tk. 20645.03 crores or by 13.11% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 19838.83 crores and time deposit was Tk. 158298.41 crores. The share of total deposits of Islami banks accounted for 21.92% among all banks during the period under review.

Total deposits of the eight full-fledged Islamic banks accounted for 95.21% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 169608.57 crores as on end September 2016.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (37.47%) [chart-1], followed by First

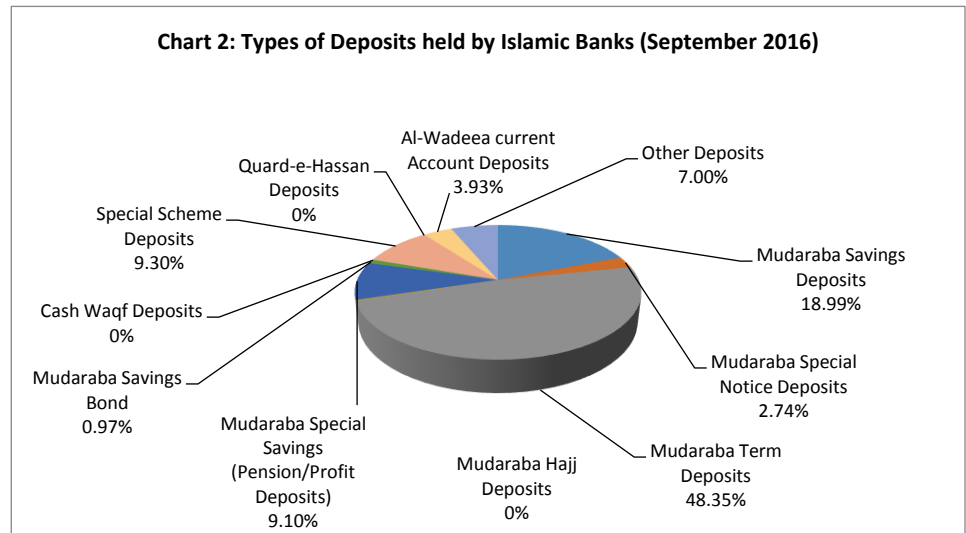


Security Islami Bank Ltd.(14.24%), Exim Bank Ltd. (12.00%), , Al-Arafah Islami Bank Ltd. (10.78%), Social Islami Bank Ltd. (9.53%), Shahjalal Islami Bank Ltd. (6.72%), Union Bank Limited (3.84%),

Islami banking branches (2.90%), Islami banking windows (1.89%) and ICB Islamic Bank Limited (0.63%).

Types of Deposits

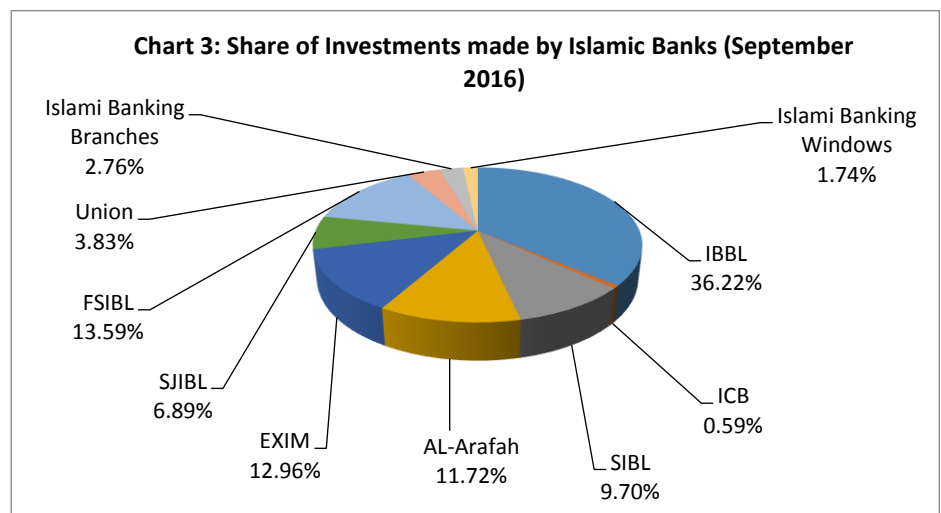
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (48.35%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.99%), Special Scheme Deposit (9.30%), Mudaraba Special Savings pension/profit) Deposits (9.10%), Other deposits (7.00%), Current Account Deposits (3.93%), Mudaraba Special Notice Deposits (2.74%), Mudaraba Savings Bond (0.97%) etc.



Investments

Total amount of investments in Islamic Banking industry reached at Tk. 158849.69 crores at the end of the quarter July-September 2016. During the quarter under review, investments increased by 1.48% and 17.61% 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 23.53% among all banks.

Among total investments of Islami banks, 95.50% were made by 8 full-fledged Islamic banks, 2.76% by the scheduled banks' Islamic banking branches and the rest 1.74% by the scheduled banks' Islamic banking windows. As in the case of deposits, Islami Bank Bangladesh Ltd. attained the highest share in investments

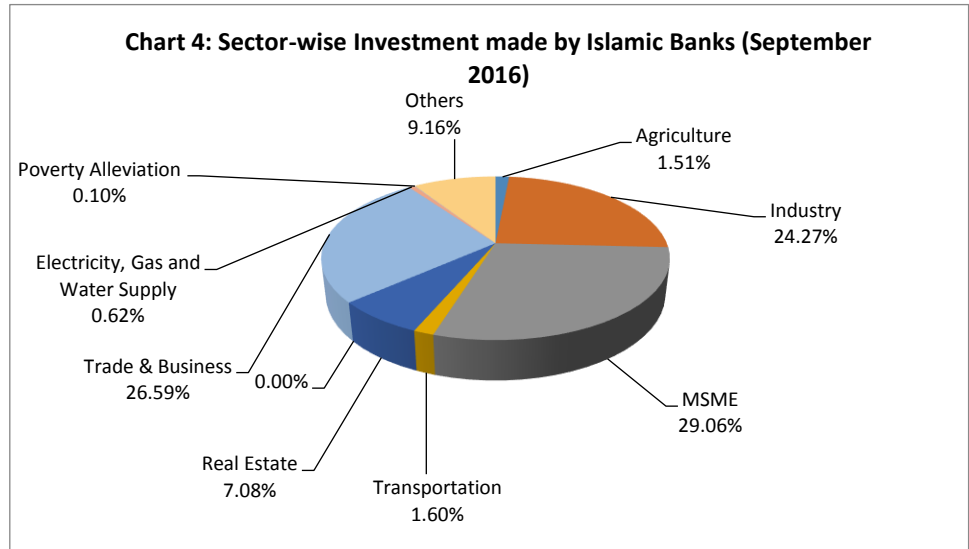


which was 36.22% at the end of the quarter July-September 2016, (chart-3). The share of investments made by other Islamic banks included First Security Islami Bank Ltd (13.59%), EXIM Bank Ltd. (12.96%), Al Arafah Islami Bank Ltd. (11.72%), Social Islami Bank Ltd (9.70%), Shahjalal Islami Bank

(6.89%), Union Bank (3.83%), Islami banking branches (2.76%), Islami banking windows (1.74%) and ICB Islami Bank Ltd (0.59%).

Sector-wise Investments

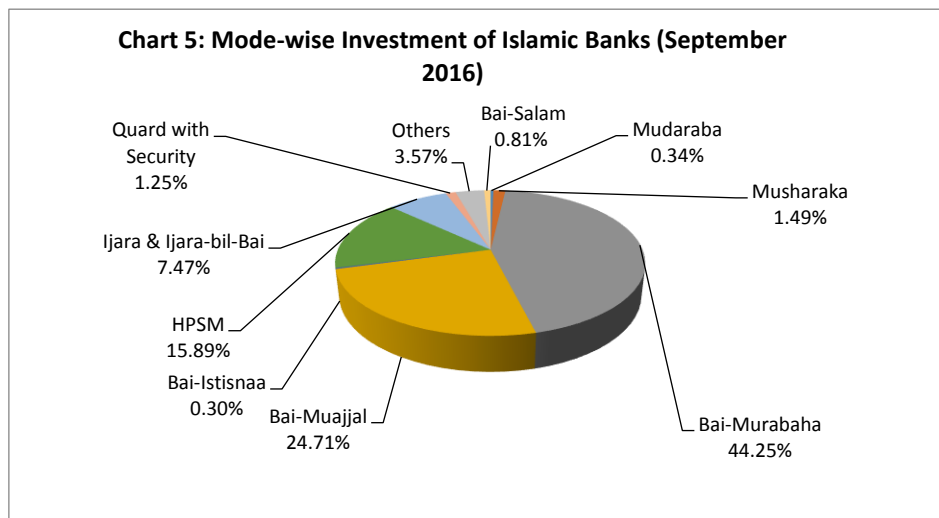
After analyzing the sector-wise investment, it can be observed that investment in the MSME (Micro, Small and Medium Enterprises) sector was the highest among all sectors which stood at 29.06% (chart-4) at the end of the quarter July-September 2016. The next position was occupied by Business & Trade sector (26.59%) followed by Industrial sector (24.27%), others (9.16%), Real Estate (7.08%), Transportation (1.60%), Agriculture (1.51%), Electricity, Gas and Water supply (0.62%) and Poverty Alleviation (0.10%).



MSME (29.06%), Industry (24.27%), Trade & Business (26.59%), Real Estate (7.08%), Transportation (1.60%), Agriculture (1.51%), 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 (44.25%) at the end of the quarter July-September 2016, [chart-5] followed by Bai-Muajjal (24.71%), HPSM (15.89%), Ijara & Ijara-bil-Bai (7.47%), others (3.57%), Musharaka (1.49%), Quard with Security (1.25%), Bai-Salam (0.81%), Mudaraba (0.34%) and Bai-Istisnaa (0.30%).



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 July-September 2016 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk.750.03 crores which was higher by Tk. 82.31 crores and by Tk. 55.82 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 21.78% 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

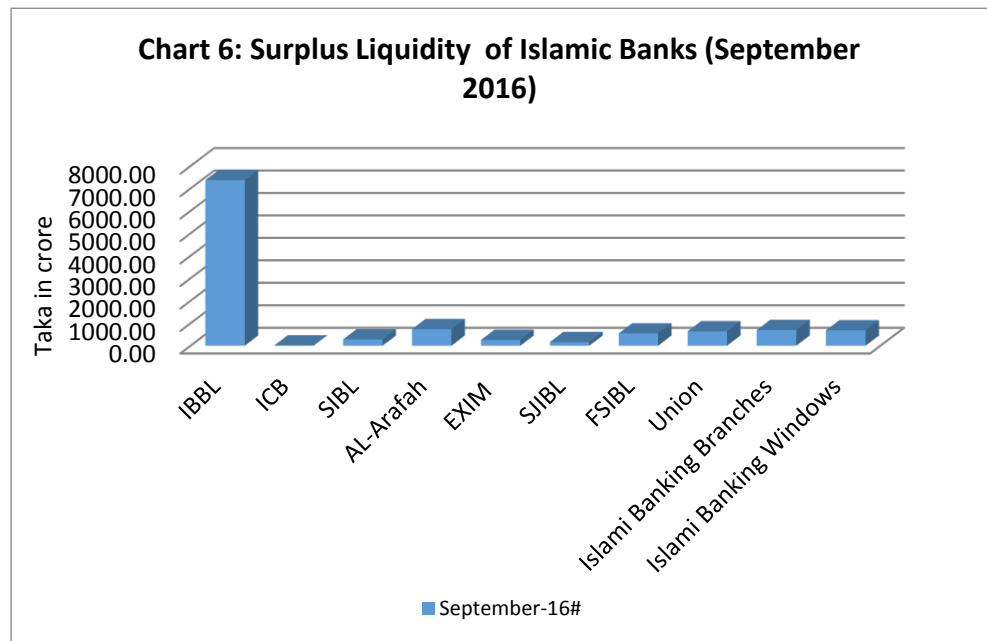
(Taka in crore)

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	
Sptember-16#	28147.97	42194.40	490.72	750.03	544.83	2420.68	296.99	1114.25	
June-16#	28109.07	51517.77	441.92	667.73	687.62	2280.27	280.36	1093.84	
Sptember-15	26033.69	38385.44	439.67	694.22	386.95	2355.41	624.95	877.65	
Changes	Quarterly	38.90	-9323.37	48.40	82.31	-142.78	140.41	16.63	20.42
	Annual	2114.28	3808.96	51.05	55.82	157.88	65.26	-327.96	236.60

Provisional

Liquidity Situation

At the end of the quarter July-September 2016, surplus liquidity in the Islamic banking sector stood at Tk.11401.30 crores which was higher by Tk.802.04 crores or by 7.57% and lower by Tk. 2292.78 crores or by 16.74% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of

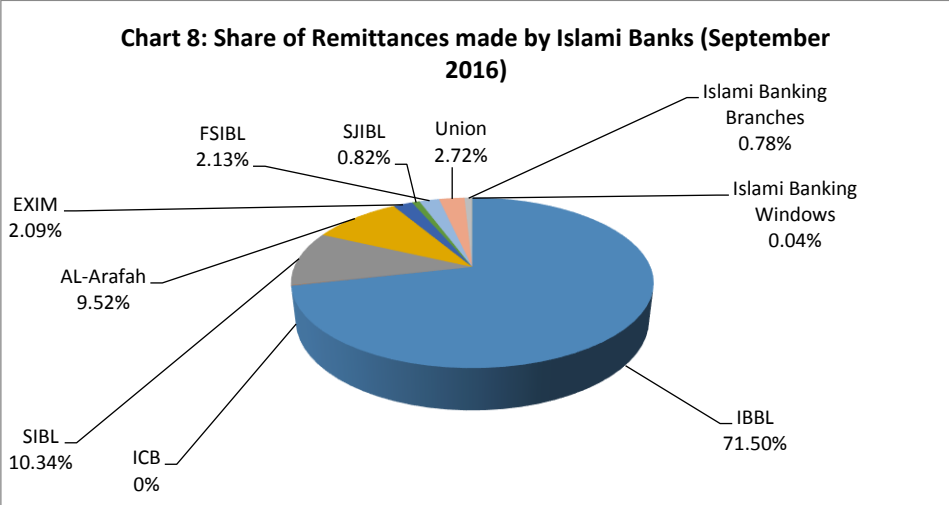


conventional banks and Islamic windows of 7 conventional banks stood at Tk. 10015.06 crores, Tk. 699.40 crores and Tk. 686.84 crores respectively. Actually Islamic banks in Bangladesh have been facing excess liquidity problem since long as they could not invest in Government Treasury Bills and Bonds

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 9.03% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

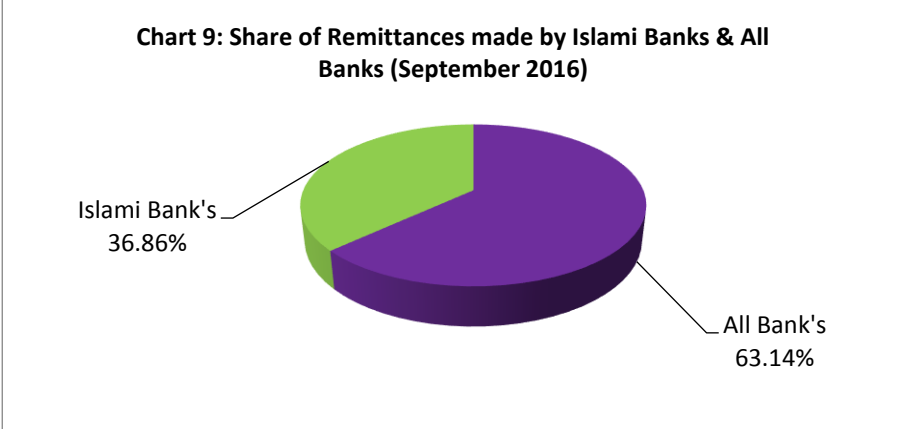
Remittances Mobilized by the Islamic Banking Sector

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 2016 amount of remittances reached at Tk.9378.59 crores which was lower by Tk. 311.30 crores or by 3.21% and Tk. 905.92 crores or by 8.81% 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 (71.50%) in respect of remittance collection at the end of September 2016. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (10.34%), Al Arafah Islami Bank Ltd. (9.52%), Union Bank Ltd (2.72%), First Security Islami Bank Ltd (2.13%), EXIM Bank Ltd. (2.09%), Shahjalal Islami Bank (0.82%) and Islamic banking branches(0.78%).

The Islamic Banking Industry accounted for 36.86% 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 1051 at the end of the quarter under review which was 1042 at the end of the previous quarter and was 983 at the end of the preceding quarter of September 2015. At the end of July-September 2016 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1006 branches, 9

conventional commercial banks had 20 and 7 conventional banks had 25 windows. The share of total bank branches of Islami banks among all scheduled banks accounted for 11.05% 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 (July-September, 2016)

Name of the Bank		Urban	Rural*	Total
A)	Full-fledged Islamic Banks	612	394	1006
1	Islami Bank Bangladesh Limited*	217	87	304
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	65	56	121
4	Al-Arafah Islami Bank Limited	72	65	137
5	EXIM Bank Limited	62	48	110
6	Shahjalal Islami Bank Limited	60	34	94
7	First Security Islami Bank Limited	80	73	153
8	Union Bank Limited	28	26	54
B)	Islamic banking branches of Conventional banks	17	3	20
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	1	2	3
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	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	654	397	1051

* 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 44.92% in this quarter compared to the previous quarter. At the end of April-June 2016 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk.48.59 crores which was Tk. 33.53 crores and Tk.37.62 crores during the previous quarter and preceding quarter of June 2015 respectively.

Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 211 branches and 18 meetings held during the quarter April-June 2016. Total number of publications published by the Islamic banks are 10 including Islami Bank Bangladesh Ltd. 4 (Books: 1. Investment operation manual, 2. Roza o Takwar Alope Manabik Banking; Brochure: Eid Campaign with VISA; Other Publications: Ramadan Calender) followed by First Security Islami Bank Ltd. 4 and EXIM Bank Ltd. 1 (Journal: EXIM Parikroma) during the quarter under review. Besides, Islamic banks have organized 27 seminar/workshop/conference and 85 training course in home and the participants of foreign training course is 10 in number for boost up the Sharia'h based knowledge of its employees during April-June 2016 quarter.

Concluding Remarks and Recommendations

Islamic banking has been thriving in the vibrantly growing Bangladesh economy with avid participation of the Islamic banks in the financial inclusion campaign. 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.

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 28543 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.

During the quarter under review it is observed that, total profit of Islamic banking industry increased significantly due to increased their total deposit and investment compared to the previous quarter. Total investment increased this quarter mainly in the sector like Industry, MSME (Micro, Small and Medium Enterprises), Real Estate and Trade & Business sector through the operational mechanism of different modes like Mudaraba, Musharaka, Bai-Murabaha, Bai-Muajjal, Bai-Salam and HPSM (Hire Purchase under Sirkatul Melk). 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 respectable human being. As the bulk of the investments made by Islamic banks has been concentrated in trade and rent-related sectors, they should invest more in socially desirable and sustainable real sectors especially in micro, share-cropping, non-traditional agriculture and small enterprises.

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 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, Islamic banks through profit and loss sharing mode of investment including Zakat, Awkalf and charitable activities can be a alternative pathway to reduce poverty in Bangladesh. Besides, the fast and stable growth of Islamic banks in the world financial system during the last few decades indicate the inherent strength of Islamic banking as a challenging alternative to the interest based capitalistic financial system. Not only that the Sharia'h based activities of the Islamic banks and reliable commitments to the client also encourage the Muslims to be attracted by the Islamic banking services which increased the activities of Islamic banking industry in the countrywide. Furthermore, as the fundamental principle of Islamic banks is to ensure equity and distributive justice in the economic life of the mass people in society, they should achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country which can help to uplift the low income community in the country.

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