

Developments of Islamic Banking in Bangladesh¹

July-September, 2018



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Developments of Islamic Banking Industry in Bangladesh during July-September 2018

Islamic Finance and Banking, a comprehensive approach, 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. At the end of 2017, the assets of Islamic financial industry in Asia stood at USD 528.7 billion which was 26% of the world's Shariah compliant financial assets. In Asia, the value of Islamic financial assets has been estimated to exceed USD 1 trillion by 2023. According to the International Monetary Fund, regional output is predicted to grow to 5.5% in 2018, supported by robust consumption and investment.² However, according to the Islamic Financial Services Board (IFSB), the total assets of the Islamic banking industry grew by 8.0% from USD 1,573 billion in 2017Q1 to USD 1,699 billion in 2018Q1. The number of full-fledged Islamic banks and Islamic windows of conventional banks in 21 IFSB member participating countries stood at 188 and 85 in 2018Q1 from 184 and 84 in 2017Q1 respectively.³

In this report we prepared an overview of the Islamic Banking industry in Bangladesh during the July-September 2018 quarter. At the end of September 2018, 8 full-fledged Islamic banks are operating with 1156 branches out of total 10159 branches of the whole 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 the July-September 2018 quarter, deposits, investments and remittance of Islamic banking industry grew by 1.36%, 1.62% and 7.15% respectively from the previous quarter while excess liquidity went down by 19.54% during the same period. 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.

Investment-Deposit ratio of the Islamic banks during the third quarter of 2018 has exceeded ratio declared by the central bank. On top of that, the excess liquidity decreased compared to the previous two quarters, notwithstanding the fact that Islamic banks in Bangladesh have been facing excess liquidity problem. However, introducing Sukuk or Islamic bond could be an alternative in upcoming years. During this quarter, remittances increased significantly through Islamic banks of Bangladesh.

² MIFC. (2018). Islamic Finance in Asia: Reaching New Heights.

(<http://www.mifc.com/index.php?ch=28&pg=72&ac=188&bb=uploadpdf>)

³IFSB. (2018). Prudential and Structural Islamic Financial Indicators (PSIFIs).(<http://psifi.ifsb.org>)

Highlights on Islamic Banking Sector in Bangladesh, July-September 2018

Total Deposits

Total Deposits in Islamic banking industry reached at Tk. 227814.44 crores at the end of July-September 2018 quarter, which increased by Tk. 3056.64 crores or by 1.36% compared to previous quarter and by Tk. 23807.38 crores or by 11.67% compared to corresponding quarter of the last year.

Total Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 220343.15 crores at the end of July-September 2018 quarter, which went up by Tk. 3515.72 crores or by 1.62% and by Tk. 27098.88 crores or by 14.02% 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 July-September 2018 quarter which was 0.96 at the previous quarter of this year and 0.95 at the end of September 2017.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at Tk. 5202.79 crores at the end of July-September 2018 quarter, which was lower by Tk. 1263.13 crores (19.54%) and Tk. 1259.62 crores (19.49%) 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. 12281.95 crores at the end of July-September 2018 quarter, which was higher by Tk. 820.05 crores or by 7.15% compared to the previous quarter as well as higher by Tk. 2402.23 crores or by 24.31% 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 1200 at the end of the quarter under review which was 1178 during the previous quarter and 1126 during the same quarter of the last year.

Manpower

Total Manpower in Islamic banking sector was 33058 in number at the end of the quarter under review which was greater by 479 persons than that of the last quarter and by 2452 persons compared to the same quarter of the last year.

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

(In Crore Taka)

Items	July-September 2018 [@]			April-June 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	977120.7	227814.44	23.31	23.21
Total Investments	917245.9	220343.15	24.02	23.93
Remittances	32299	12281.95	38.03	32.59
Total Excess Liquidity	80629.34	5202.79	6.45	6.63
Total Number of Bank Branches	10159	1200	11.81	11.64
Total Agricultural Credit	39623.83	829.36	2.09	2.15

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

[@] Provisional

Table 2: Islamic Banking Activities in Bangladesh, July-September 2018

Statistics of Islamic Banking Industry	September-18# Quarter	June-18# Quarter	September-17# Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits*	227814.44	224757.80	204007.06	3056.64	23807.38	1.36	11.67
a) Full-fledged Islamic Banks	215309.77	212859.12	193601.39	2450.65	21708.38	1.15	11.21
b) Conventional banks having Islamic banking branches	6527.12	6539.94	6010.61	-12.82	516.52	-0.20	8.59
c) Islamic banking windows	5977.55	5358.74	4395.06	618.81	1582.49	11.55	36.01
Total Investments*	220343.15	216827.43	193244.27	3515.72	27098.88	1.62	14.02
a) Full-fledged Islamic Banks	209806.90	206393.27	183675.33	3413.63	26131.57	1.65	14.23
b) Conventional banks having Islamic banking branches	5776.58	5807.35	5525.00	-30.78	251.58	-0.53	4.553
c) Islamic banking windows	4759.67	4626.81	4043.95	132.87	715.73	2.87	17.70
Investment/Deposit Ratio	0.97	0.96	0.95	0.00	0.02	0.26	2.11
a) Full-fledged Islamic Banks	0.97	0.97	0.95	0.00	0.03	0.50	2.71
b) Conventional banks having Islamic banking branches	0.89	0.89	0.92	0.00	-0.03	-0.33	-3.72
c) Islamic banking windows	0.80	0.86	0.92	-0.07	-0.12	-7.78	-13.46
Liquidity Excess(+)/Shortfall(-)	5202.79	6465.92	6462.41	-1263.13	-1259.62	-19.54	-19.49
a) Full-fledged Islamic Banks	4253.26	5677.72	5718.52	-1424.46	-1465.26	-25.09	-25.62
b) Conventional banks having Islamic banking branches	130.04	114.54	443.73	15.50	-313.69	13.54	-70.69
c) Islamic banking windows	819.49	673.67	300.16	145.83	519.33	21.65	173.02
Total Remittances	12281.95	11461.90	9879.72	820.05	2402.23	7.15	24.31
a) Full-fledged Islamic Banks	12215.06	11398.61	9808.79	816.45	2406.27	7.16	24.53
b) Conventional banks having Islamic banking branches	57.00	53.82	60.17	3.18	-3.16	5.91	-5.26
c) Islamic banking windows	9.89	9.47	10.76	0.41	-0.87	4.37	-8.13
Total Number of Branches	1200	1178	1126	22	74	1.87	6.57
a) Full-fledged Islamic Banks	1156	1134	1082	22	74	1.94	6.84
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 Number of Manpower	33058	32579	30606	479	2452	1.47	8.01
a) Full-fledged Islamic Banks	32482	32007	30032	475	2450	1.48	8.16
b) Conventional banks having Islamic banking branches	395	392	396	3	-1	0.77	-0.25
c) Islamic banking windows	181	180	178	1	3	0.56	1.69

* = Excluding Inter-Bank Items

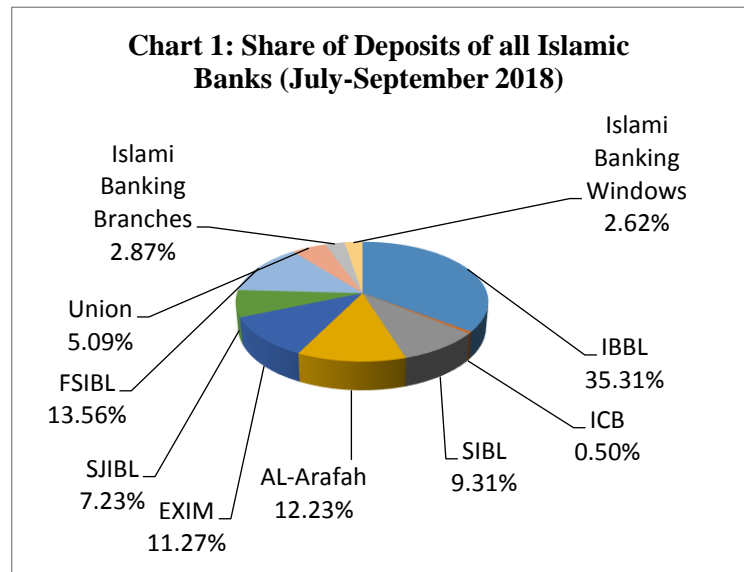
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Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 227814.44 crores at the end of July-September 2018 quarter, which increased by Tk. 3056.64 crores or by 1.36% compared to previous quarter and by Tk. 23807.38 crores or by 11.67% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 31196.44 crores and time deposit was Tk. 196618 crores. The share of total deposits of Islami banks accounted for 23.31% among all banks during the period under review.

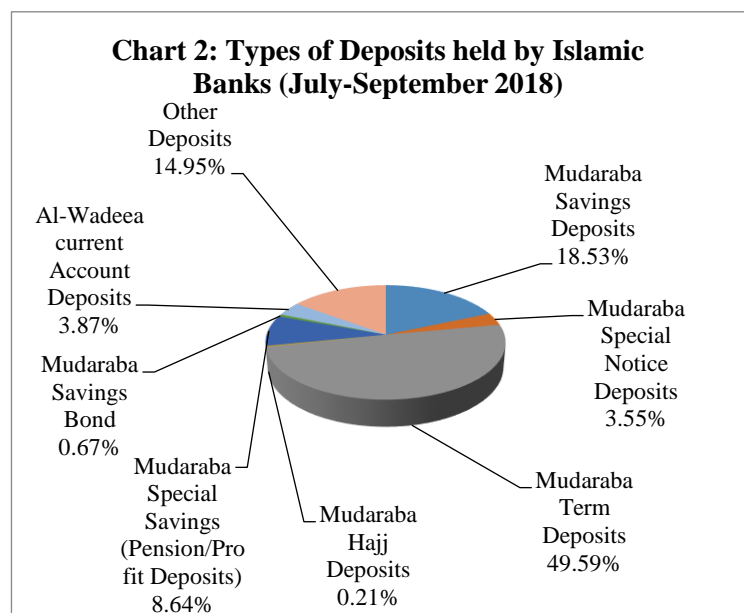
Total deposits of the eight full-fledged Islamic banks accounted for 94.51% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 215309.77 crores at the end of September 2018.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (35.31%) [chart-1], followed by First Security Islami Bank Ltd. (13.56%), Al-Arafah Islami Bank Ltd. (12.23%), EXIM Bank Ltd. (11.27%), Social Islami Bank Ltd. (9.31%), Shahjalal Islami Bank Ltd. (7.23%), Union Bank Limited (5.09%), Islami banking branches (2.87%), Islami banking windows (2.62%) and ICB Islamic Bank Limited (0.50%).



Types of Deposits

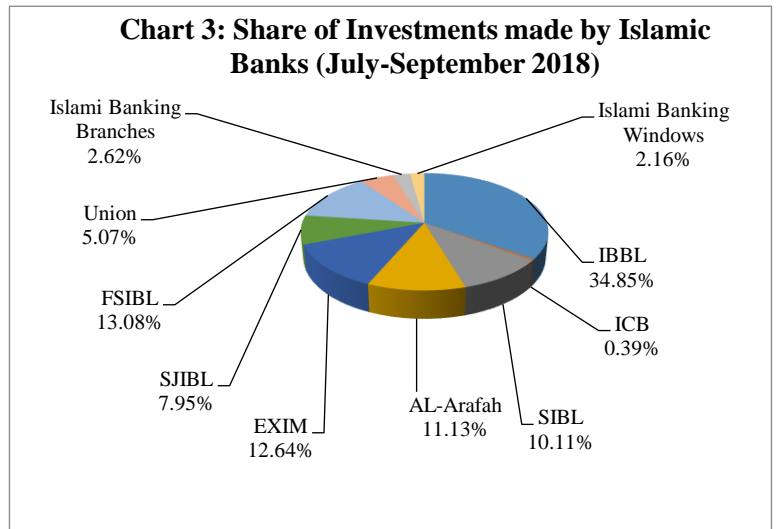
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (49.59%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (18.53%), Other deposits (14.95%), Mudaraba Special Savings (pension/profit) Deposits (8.64%), Al-Wadeeah Current Account Deposits (3.87%), Mudaraba Special Notice Deposits (3.55%), Mudaraba Savings Bond (0.67%) and Mudaraba Hajj Deposits (0.21%) etc.



Investments

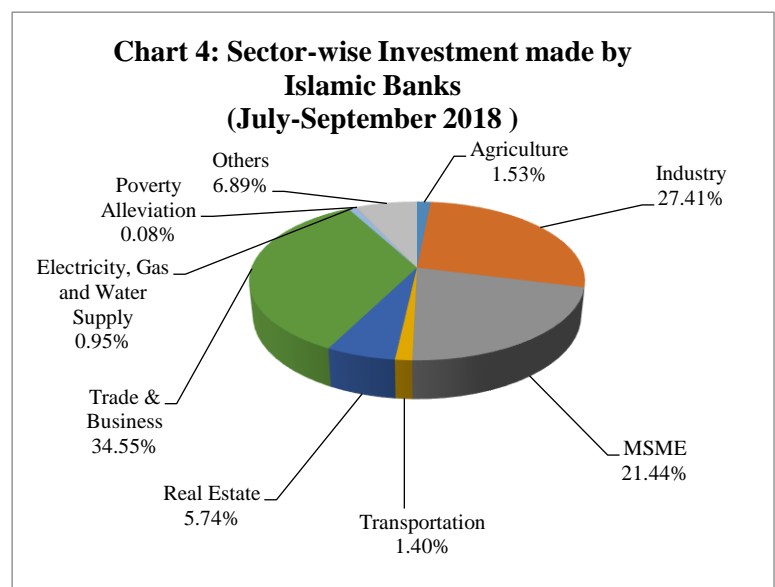
Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 220343.15 crores at the end of July-September 2018 quarter, which went up by Tk. 3515.72 crores or by 1.62% compared to previous quarter and by Tk. 27098.88 crores or by 14.02% compared to previous quarter same quarter of the preceding year. The share of total Investment of Islamic banks accounted for 24.02% among all banks.

Among total investments of Islami banks, 95.22% were made by 8 full-fledged Islamic banks, 2.62% by the scheduled banks' Islamic banking branches and the rest 2.16% by the scheduled banks' Islamic banking windows. Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (34.85%) at the end of the quarter July-September 2018, (chart-3). During the same period, the share of investments made by the other Islamic banks were 13.08% by First Security Islami Bank Ltd., 12.64% by EXIM Bank Ltd., 11.13% by Al-Arafah Islami Bank Ltd., 10.11% by Social Islami Bank Ltd., 7.95% by Shahjalal Islami Bank Ltd., 5.07% by Union Bank Ltd. and 0.39% by ICB Islami Bank Ltd.



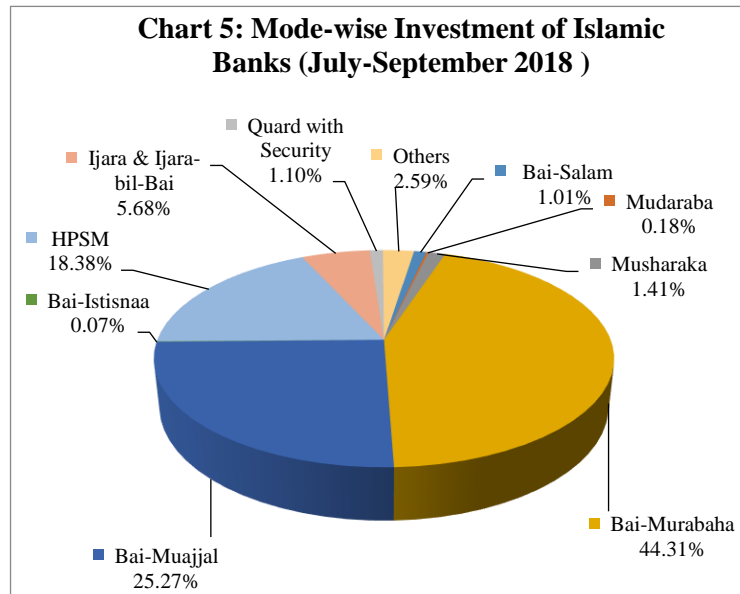
Sector-wise Investments

After analyzing the sector-wise investment, it can be observed that investment in the Trade & Business sector (34.55%) sector was the highest among all sectors (chart-4) at the end of the quarter July-September 2018. The next position was occupied by Industrial sector which stood at 27.41% followed by MSME (Micro, Small and Medium Enterprises, 21.44%), Others (6.89%), Real Estate (5.74%), Agriculture (1.53%), Transportation (1.40%), Electricity, Gas and Water supply (0.95%) 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 (44.31%) at the end of the quarter July-September 2018, [chart-5] followed by Bai-Muajjal (25.27%), HPSM (18.38%), Ijara & Ijara-bil-Bai (5.68%), others (2.59%), Musharaka (1.41%), Quard with Security (1.10%), Bai-Salam (1.01%), Mudaraba (0.18%) and Bai-Istisna (0.07%).



Investment situation in the Agricultural sector

Islamic Banking Industry has made significant contributions in sectors and sub-sectors of agricultural and rural investment programs. During July-September 2018 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 829.36 crores which was lower by Tk. 43.44 crores than the previous quarter but higher by Tk. 62.51 crores compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 2.09% among all banks during the quarter under review (Table-2). Summary of Investments in Agricultural Sector under the Islamic banking framework is provided in table-3:

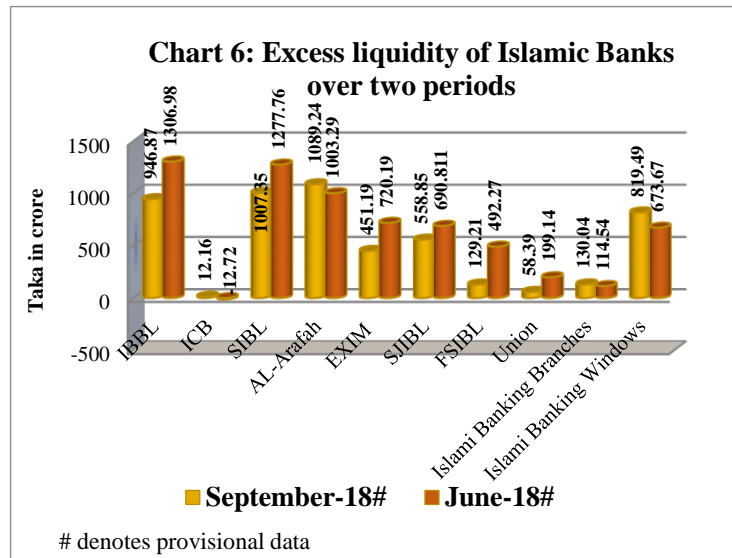
Table-3: Summary of Investments in Agricultural Sector

Details	Total Investment		Agricultural Sector (Tk. In Crore)						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8	9	10
September-18#	33663.34	58514.40	665.19	829.36	124.68	842.87	3296.88	1138.83	1674.14
June-18#	33444.36	54724.69	647.64	872.80	134.77	1115.46	3258.47	763.99	1455.23
September-17#	29993.03	51893.42	584.60	766.85	131.17	606.22	3453.25	1891.35	1172.91
Quarterly Changes	218.98	3789.72	17.55	-43.44	708.11	2181.42	-2119.64	910.16	218.92
Annual Changes	3670.31	6620.98	80.59	62.51	711.70	2690.66	-2314.42	-217.21	501.23

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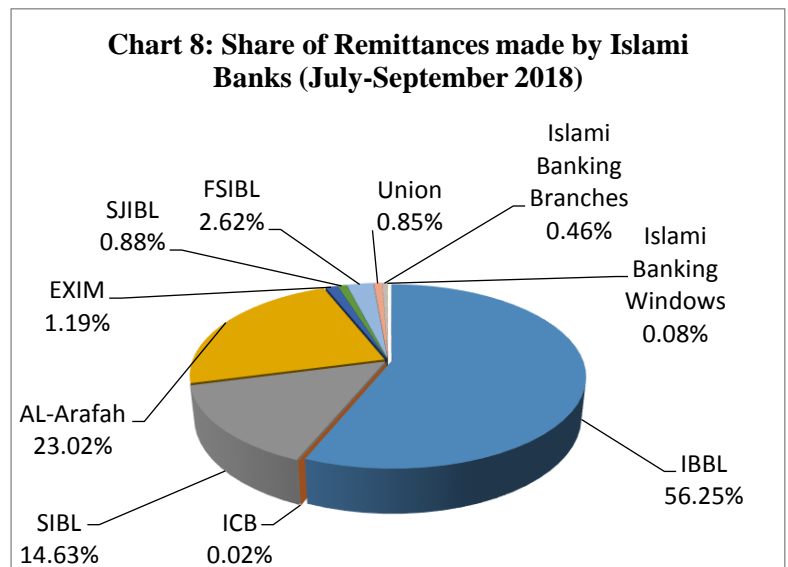
Liquidity Situation

Excess Liquidity of Islamic banking industry decreased significantly by Tk. 1263.13 crores (19.54%) and stood at Tk. 5202.79 crores at the end of July-September 2018 quarter compared to the previous quarter. Comparing to the same quarter of the previous year, the amount of decrease was Tk. 1259.62 crores (19.49%). The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 4253.26 crores, Tk. 130.04 crores, and Tk. 819.49 crores respectively. The share of total excess liquidity of Islamic banks accounted for 6.45% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

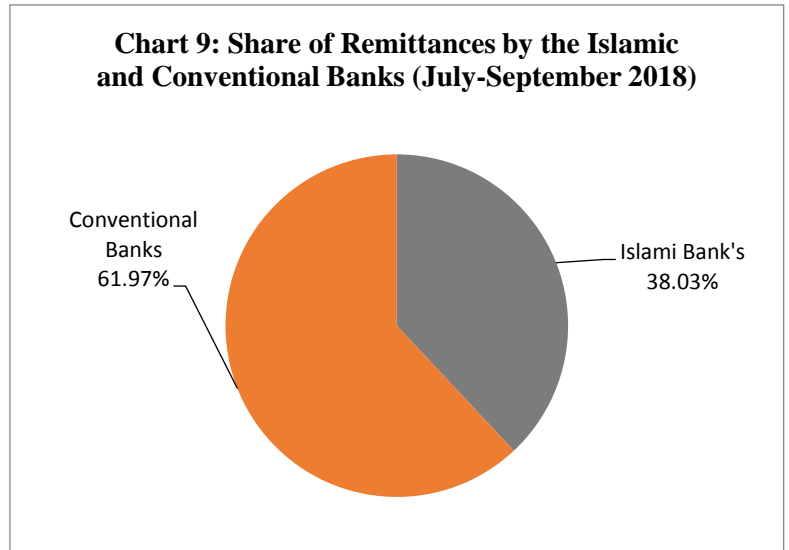


Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry of the country is playing a vital role in collecting foreign remittances and disbursing the same among beneficiaries across the country. Total Remittances mobilized by the Islamic banking sector stood at Tk. 12281.95 crores at the end of July-September 2018 quarter, which is higher by Tk. 820.05 crores or by 7.15% compared to the previous quarter as well as higher by Tk. 2402.23 crores or by 24.31% compared to the same quarter of the preceding year. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (56.25%) in respect of remittance collection at the end of July-September 2018. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (23.02%), Social Islami Bank Ltd (14.63%), First Security Islami Bank Ltd (2.62%), EXIM Bank Ltd. (1.19%), Shahjalal Islami Bank (0.88%), Union Bank Ltd (0.85%), Islamic banking branches of conventional banks (0.46%), and Islamic banking windows (0.08%).



The Islamic Banking Industry accounted for 38.03% 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 during this has been recorded significantly low compared to the last few quarters. It decreased by 85.82 % and stood at Tk. 33.82 crores at the end of July-September 2018 quarter, which was Tk. 238.53 crores and Tk. 43.51 crores during the previous quarter and same quarter of the preceding year respectively.

Expansion of Branches

The Number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 1200 at the end of the quarter under review which was 1178 during the June-2018 quarter and 1126 during the same quarter of the last year. At the end of July-September 2018 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 1156 branches, 9 conventional commercial banks had 19 Islamic banking branches and 7 conventional banks had 25 Islamic banking windows. The share of total bank branches of Islami banks among all scheduled banks accounted for 11.81% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (July-September 2018)

	Name of the Banks	Urban	Rural *	Total
	1	2	3	4=(2+3)
A)	Full-fledged Islamic Banks	697	459	1156
1	Islami Bank Bangladesh Limited *	237	102	339
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	79	70	149
4	Al-Arafah Islami Bank Limited	85	78	163
5	EXIM Bank Limited	74	44	118
6	Shahjalal Islami Bank Limited	70	43	113
7	First Security Islami Bank Limited	88	82	170
8	Union Bank Limited	36	35	71
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	740	460	1200

* 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

Islamic banks' Sharia'h Supervisory Boards have inspected 277 branches and 14 meetings held during the quarter. Total numbers of publications by the Islamic banks are 10, of which the Islami Bank Bangladesh Ltd. had 08, Dhaka 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) arranged a number of training courses and workshops during the third quarter of 2018. Among various seminars, workshops and trainings-Time and Stress Management for Islamic Bankers; Managing Organizational Change; Green Banking, Environmental Risk Rating and Environmental Risk Management; Powerful Communication Techniques; Prevention of Money Laundering and Combating the Terrorist Financing-these were noteworthy. Participants from different banks were present in those sessions.

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 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 1.59% 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; 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 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 through their banking model.

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