

Developments of Islamic Banking in Bangladesh¹

July-September 2020



Islamic Banking Cell
Research Department
Bangladesh Bank

¹Prepared by Islamic Banking Cell, Research Department, Bangladesh Bank (The Central Bank of Bangladesh). Feedbacks are welcome. Feedbacks may be sent to Md. Golzare Nabi, Deputy General Manager, Research Department, Bangladesh Bank. (E-mail: golzare.nabi@bb.org.bd), Md. Mokhlesur Rahman, Joint Director (E-mail: mokhlesur.rahman2@bb.org.bd) and Md. Alamin, Assistant Director (E-mail: alamin.paikara@gmail.com)

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Islamic financial services industry continues to grow globally following its risk sharing, resilience, inclusive and real asset backed transactions features. The growth of the Islamic financial industry has been strengthened by various positive initiatives undertaken by different countries as well as its growing demand across the globe. Bangladesh Islamic banking sector has also experienced robust growth due to policy supports and strong public demand. Recently Ministry of Finance, Government of Bangladesh has issued Bangladesh Government Investment Sukuk Guidelines 2020 for issuance of sovereign sukuk. Bangladesh Securities and Exchange Commission (BSEC) has also issued investment sukuk rules for corporate sukuk. Introduction of sukuk would smooth liquidity management of Islamic banks, help deficit budget financing and promote Islamic capital markets for financing infrastructure and industrial projects towards achieving higher inclusive GDP growth and other sustainable development goals (SDGs).

At the end of September 2020, Bangladesh's 8 full-fledged Islamic banks have been operating with 1464 branches out of total 10607 branches of the whole banking industry. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 166 Islamic banking windows of 12 conventional commercial banks are also providing Islamic financial services in Bangladesh. It may be mentioned here that three conventional banks namely Mercantile Bank, Midland Bank and NRB Commercial Bank have also started offering Islamic Shariah compliant financial services through dedicated windows. Moreover, two conventional banks such as Standard Bank and NRB Global Bank in the new name of Global Islamic Bank Limited have started operating as full-fledged Islamic banks since 1 January 2021 after completion of conversion process.

At the end of the July-September 2020 quarter, deposits and investments grew by 9.72% and 3.10% respectively, while remittance and excess liquidity of Islamic banking industry increased by 73.92% and 95.51% respectively compared to the last 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.

Similar to conventional banks, Islamic banks are playing vital roles in addressing negative impacts of Covid-19 pandemic. Key steps of Islamic banks for mitigation of adverse impact of the pandemic include keeping branches open to a limited extent during lock down, implementation of financial stimulus package as directed by Bangladesh Bank, extension of time for repayment of investments, timely delivery of remittances, undertaking safety measures for staff and emphasizing on online banking and virtual meeting and training.

Highlights: Islamic Banking Sector in Bangladesh, July-September 2020

Total Deposits

Total Deposits in Islamic banking industry reached BDT 3196248.59 million at the end of September, 2020 which increased by BDT 283209.58 million or 9.72% compared to end June, 2020 and by BDT 575139.33 million or 21.94 % compared to the end of the same month of last year.

Total Investments

Total Investments (loans in conventional banking sense) of Islamic banking sector stood at BDT 2840105.53 million at the end of September, 2020 which went up by BDT 85445.90 million or 3.10% and by BDT 336876.16 million or 10.04% compared to end June, 2020 and the end of same month of preceding year respectively.

Investment-Deposit Ratio

At the end of September 2020, Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) stood at 0.89 which was 0.95 at the end of June 2020 and 0.96 at the end of September 2019.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at BDT 182540.01 million at the end of September, 2020 which was higher by BDT 89172.11 million (95.51%) and higher by BDT 121233.96 million (197.75%) compared to end June, 2020 and end of the same month of the last year respectively.

Total Remittances

Total Remittances mobilized by the Islamic banking sector stood at BDT 179552.69 million during July-September 2020 quarter, which was higher by BDT 76311.46 million or by 73.92% and higher by BDT 60928.57 million or 51.36% compared to the June quarter of 2020 and the September quarter of the 2019 respectively. Islamic banks have accounted for 31.53% share of remittances mobilized by the entire banking industry during September 2020 quarter.

Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1464 at the end of September, 2020 which was 1448 at the end June, 2020 and 1301 at end September of last year.

Manpower

Total employment in the Islamic banking sector stood at 38125 at the end of September, 2020 which was 36582 at the end of June, 2020 and 36337 at end September 2019.

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

(In Million BDT)

Items	July-September 2020 [@]			April-June 2020 [@]
	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	12364475	3196248.59	25.85	24.67
Total Investments	11163924	2840105.53	25.44	25.03
Remittances	569392.50	179552.69	31.53	27.44
Total Excess Liquidity	1696508.60	182540.01	10.76	6.69
Total Number of Bank Branches	10607	1464	13.80	13.68
Total Agricultural Credit	440419.10	18541.25	4.21	2.59

Source: Statistics Department and MPD, Bangladesh Bank.

[@] Provisional

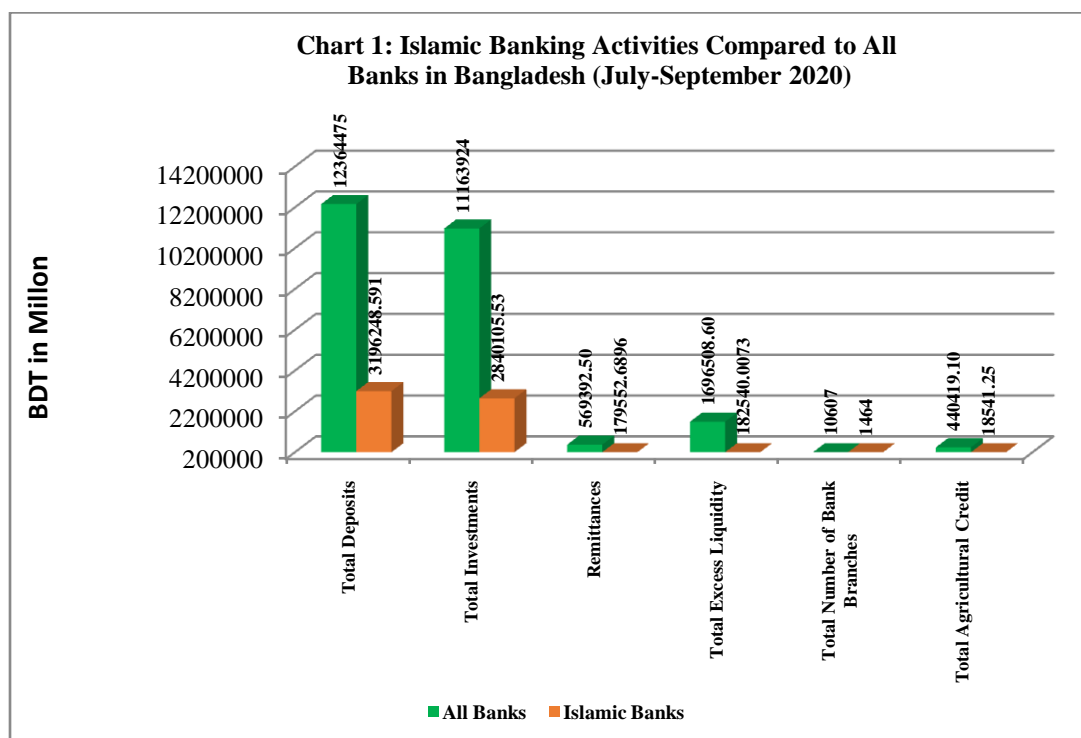


Table 2: Islamic Banking Activities in Bangladesh, July-September 2020

(In Million BDT)

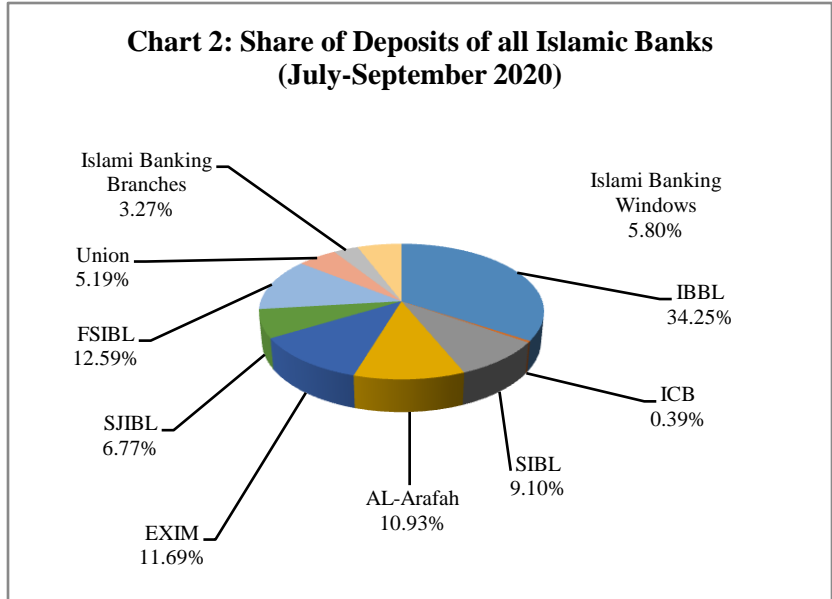
Statistics of Islamic Banking Industry	September-20# Quarter	June -20# Quarter	September -19# Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Outstanding)	3196248.59	2913039.01	2621109.26	283209.58	575139.33	9.72	21.94
a) Full-fledged Islamic Banks	2906070.48	2722089.16	2461066.50	183981.32	445003.98	6.76	18.08
b) Conventional banks having Islamic banking branches	104664.10	95722.63	85787.77	8941.47	18876.33	9.34	22.00
c) Islamic banking windows	185514.01	95227.22	74254.99	90286.79	111259.02	94.81	28.24
Total Investments* (Outstanding)	2840105.53	2754659.63	2503229.37	85445.90	336876.16	3.10	10.04
a) Full-fledged Islamic Banks	2696362.02	2620124.40	2376472.84	76237.62	319889.18	2.91	10.25
b) Conventional banks having Islamic banking branches	77256.15	78244.58	71824.86	-988.42	5431.29	-1.26	8.94
c) Islamic banking windows	66487.36	56290.65	54931.66	10196.71	11555.69	18.11	21.04
Investment/Deposit Ratio	0.89	0.95	0.96	-0.06	-0.07	-6.03	-6.96
a) Full-fledged Islamic Banks	0.93	0.96	0.97	-0.03	-0.04	-3.61	-3.91
b) Conventional banks having Islamic banking branches	0.74	0.82	0.84	-0.08	-0.10	-9.70	-11.84
c) Islamic banking windows	0.65	0.66	0.74	0.00	-0.09	-0.50	-11.87
Liquidity Excess(+)/Shortfall(-)	182540.01	93367.89	61306.05	89172.11	121233.96	95.51	197.75
a) Full-fledged Islamic Banks	136037.10	61146.84	48198.11	74890.26	87838.99	122.48	182.25
b) Conventional banks having Islamic banking branches	19382.97	4866.76	-1144.72	14516.21	20527.69	298.27	-1793.26
c) Islamic banking windows	27119.93	27354.30	14252.66	-234.36	12867.28	-0.86	90.28
Total Remittances	179552.69	103241.23	118624.12	76311.46	60928.57	73.92	51.36
a) Full-fledged Islamic Banks	177148.95	102358.36	118003.18	74790.59	59145.77	73.07	50.12
b) Conventional banks having Islamic banking branches	1999.83	523.26	484.43	1476.57	1515.39	282.19	312.82
c) Islamic banking windows	403.91	359.61	136.51	44.30	267.40	12.32	195.88
Total Number of Branches	1464	1448	1301	16	163	1.10	12.53
a) Full-fledged Islamic Banks	1279	1274	1221	5	58	0.39	4.75
b) Conventional banks having Islamic banking branches	19	19	19	0.00	0.00	0.00	0.00
c) Islamic banking windows	166	155	61	11	105	7.10	172.13
Total Number of Manpower	38125	36582	36337	1543	1788	4.22	4.92
a) Full-fledged Islamic Banks	37183	35745	35659	1438	1524	4.02	4.27
b) Conventional banks having Islamic banking branches	377	364	384	13	-7	3.57	-1.82
c) Islamic banking windows	565	473	294	92	271	19.95	92.18

* = Excluding Inter-Bank Items

Provisional

Mobilization of Deposits

Total Deposits in Islamic banking industry reached BDT 3196248.59 million at the end of September 2020, which increased by BDT 283209.58 million or 9.72% compared to end June, 2020 and by BDT 575139.33 million or 21.94% compared to the of same month of last year. Among the total deposits, demand deposit was BDT 352070.06 million and time deposit was BDT 2844178.53 million. The share of total deposits of Islamic banks accounted for 25.85% among the all banks at the end of September 2020.

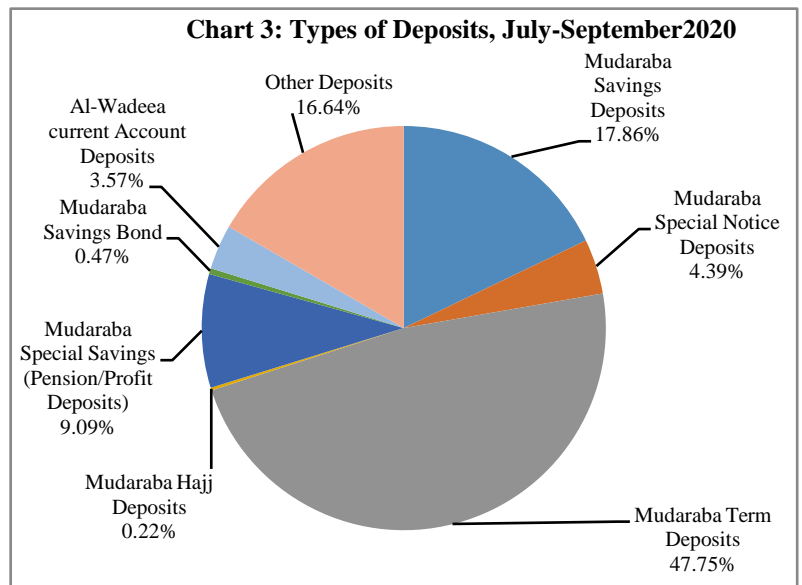


Deposits of 8 full-fledged Islamic banks stood at BDT 2906070.47 million at the end of September 2020. Total deposits of the eight full-fledged Islamic banks accounted for 90.92% of deposits of the Islamic banking industry.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (34.25%) followed by First Security Islami Bank Ltd. (12.59%), EXIM Bank Ltd. (11.69%), Al-Arafah Islami Bank Ltd. (10.93%), Social Islami Bank Ltd. (9.10%), Shahjalal Islami Bank Ltd. (6.77%), Union Bank Limited (5.19%), Islamic banking branches (3.27%), Islamic banking windows (5.80 %) and ICB Islamic Bank Limited (0.39%),[Chart-2].

Types of Deposits

Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (47.75%) followed by Mudaraba Savings Deposits (MSD) (17.86%), Other Deposits (16.64%), Mudaraba Special Savings (pension/profit) Deposits (9.09%), Mudaraba Special Notice Deposits (4.39%), Al-Wadeeah Current Account Deposits (3.57%), Mudaraba Savings Bond (0.47%) and Mudaraba Hajj Deposits (0.22%) etc. during July-September,2020 [Chart-3].

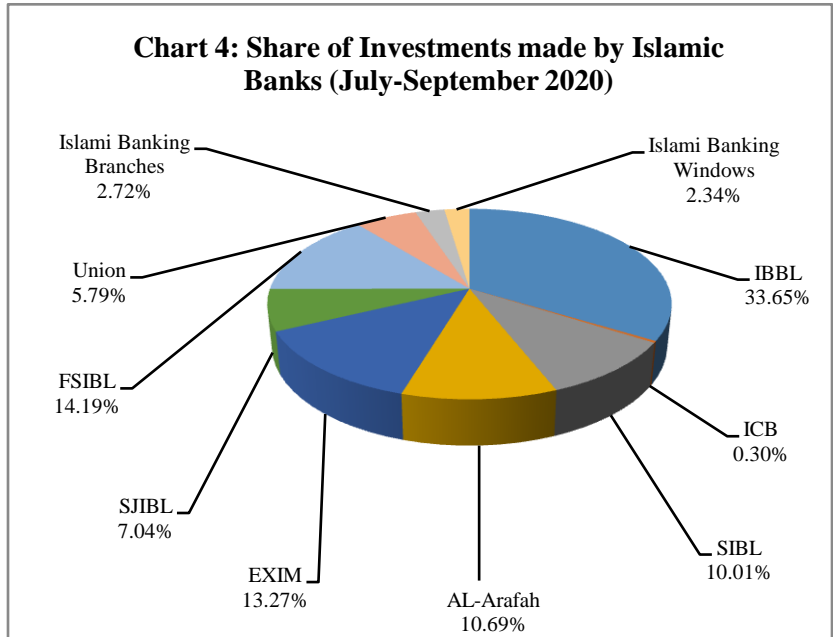


Investments

Total Investments (loans in conventional banking sense) in Islamic banking sector stood at BDT 2840105.53 million at the end of September 2020, which went up by BDT 85445.90 million or 3.10% and by BDT 336876.16 million or 10.04% compared to end June, 2020 and the end of same month of preceding year respectively. The share of total Investment of Islamic banks accounted for 25.44% among all banks.

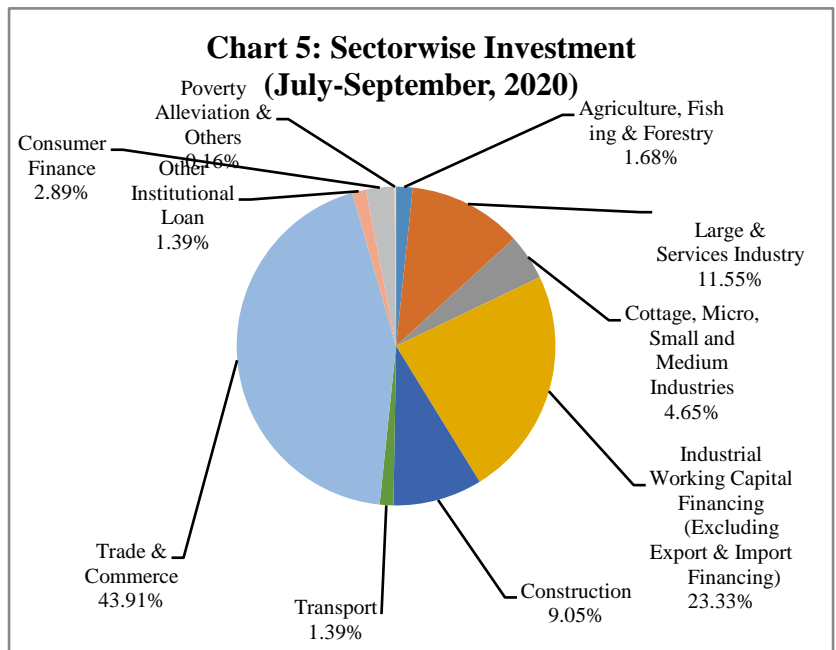
Out of total investments of Islamic banks, 94.94% was made by 8 full-fledged Islamic banks, 2.72% by the conventional bank's Islamic banking branches and the rest 2.34% by the conventional bank's Islamic banking windows.

Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (33.65%) at the end of September, 2020 followed by First Security Islami Bank Ltd. (14.19%), EXIM Bank Ltd. (13.27%), Al-Arafah Islami Bank Ltd. (10.69%), Social Islami Bank Ltd. (10.01%), Shahjalal Islami Bank Ltd. (7.04%), Union Bank Ltd. (5.79%) and ICB Islamic Bank Ltd. (0.30%), (Chart-4).



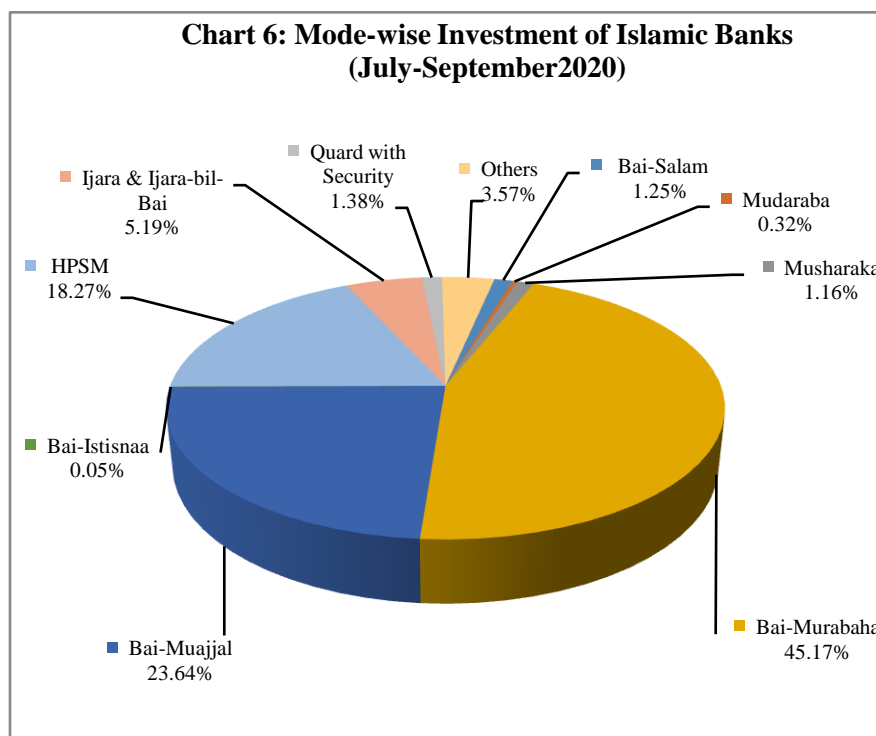
Sector-wise Investments

Analyzing the sector-wise investment, investment in the Trade and Commerce sector (43.91%) was found to be the highest among all sectors at the end of September, 2020 (Chart-5). The next position was occupied by Industrial Working Capital Financing which stood at 23.33% followed by Large & Services Industry (11.55%), Construction (9.05%), CMSM (Cottage, Micro, Small and Medium Industries) (4.65%), Consumer Finance (2.89%), Agriculture, Fishing and Forestry (1.68%), Transport (1.39%), Other Institutional Loan (1.39%), and Poverty Alleviation and Others (0.16%),



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (45.17%) at the end September 2020, [Chart-6] followed by Bai-Muajjal (23.64%), HPSM (18.27%), Ijara & Ijara-bil Bai (5.19%), Others (3.57%), Quard with Security (1.38%), Musharaka (1.16%), Bai-Salam (1.25%), Mudaraba (0.32%), and Bai-Istisna (0.05%).



Investment Situation in the Agricultural Sector

Islamic banking industry has made significant contributions in different sub-sectors of agricultural and rural investment programs. During July-September 2020 quarter, investments in agricultural sector made by Islamic banking industry reached BDT 18541.25 million which was higher by BDT 6723.88 million than the previous quarter and higher by BDT 10247.65 million compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 4.21% 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:

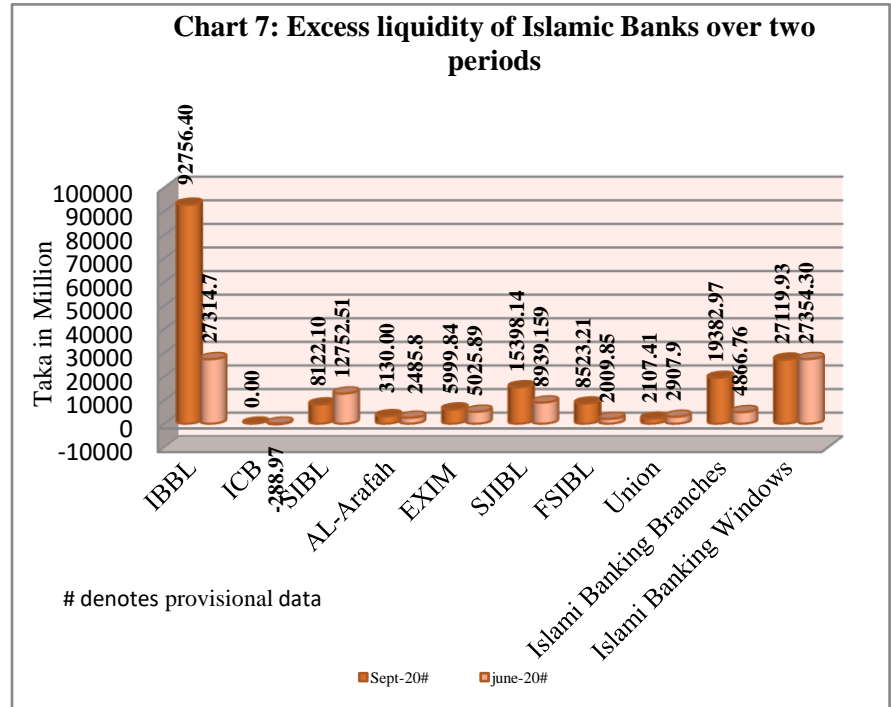
Table-3: Summary of Investments in Agricultural Sector (BDT In Million)

Details	Investment in Agricultural Sector during the quarter (Tk. In Million)						
	Investment Target	Actual Investment/ Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	4	5	6	7	8	9	10
September -20#	8823.69	18541.25	210.13	15881.24	39021.33	11997.00	11028.98
June-20#	8947.75	11817.36	132.07	8958.41	37370.07	12549.22	14303.28
September -19#	6651.91	8293.60	124.68	8428.73	32968.80	11388.31	16741.41
Quarterly Changes	-124.06	6723.88	78.06	6922.82	1651.27	-552.23	-3274.30
Annual Changes	2171.78	10247.65	85.45	7452.50	6025.53	608.68	-5712.43

Provisional

Liquidity Situation

Excess Liquidity of Islamic banking industry stood at BDT 182540.01 million at the end of September 2020, which was higher by BDT 89172.11 million (95.51%) and higher BDT 121233.96 million (197.75%) compared to end June, 2020 and the end of same month of last year respectively. The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic banking windows of conventional banks stood at BDT 136037.10 million, BDT 19382.97 million and BDT 27119.93 million respectively.

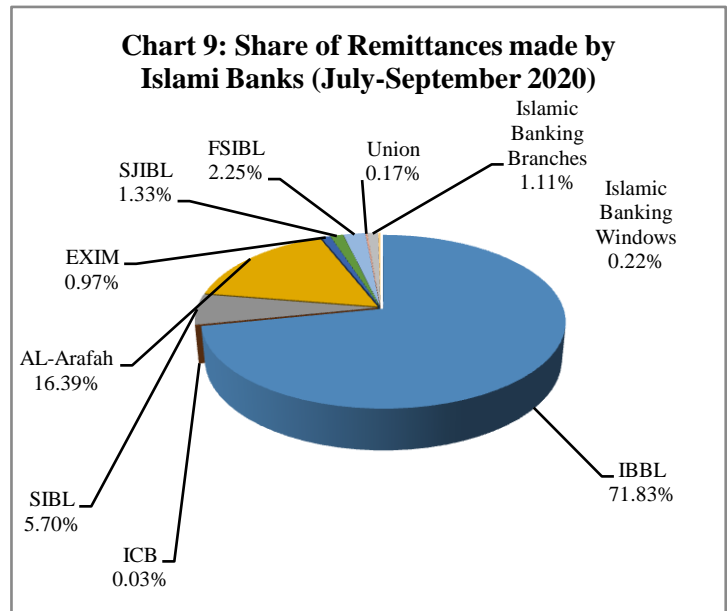


Summary of liquidity situation in the Islamic Banking sector is shown in Chart-7.

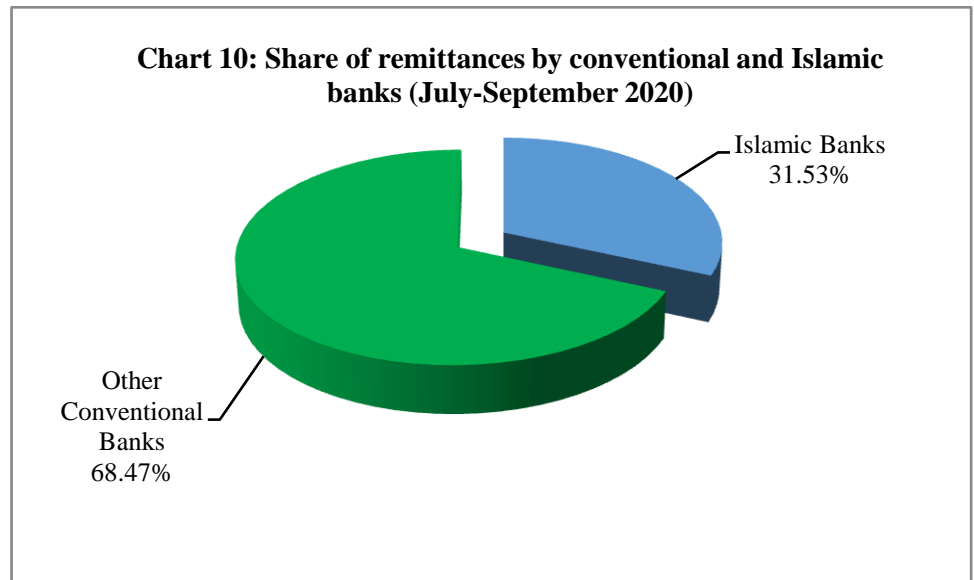
Remittances Mobilized by the Islamic Banking Sector

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 BDT 179552.69 million during July- September 2020 quarter, which was higher by BDT 76311.46 million or 73.92% and higher by BDT 60928.57 million or 51.36% compared to the June quarter of 2020 and the September quarter of the 2019 year respectively.

Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (71.83%) in respect of remittance collection during July-September 2020. The other Islamic banks and their shares of collected remittances were Al-Arafah Islami Bank Ltd. (16.39%), Social Islami Bank Ltd (5.70%), First Security Islami Bank Ltd (2.25%), EXIM Bank Ltd. (0.97%), Shahjalal Islami Bank (1.33%), Union Bank Ltd (0.17%), Islamic banking branches of conventional banks (1.11%), Islamic banking windows (0.22%) and ICB Islamic Bank (0.03%) [Chart-8].



The Islamic banking industry accounted for 31.53% share of remittances collected by the entire banking industry during 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-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 Shariah-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 July-September 2020 quarter had been recorded at BDT 954.50 million which was BDT 1030.71 million in April-June quarter of 2020 and BDT 1030.71 million in July-September quarter of 2019.

Expansion of Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached 1464 at the end of the quarter under review which was 1448 during the previous quarter and 1301 during the same quarter of the last year. At the end of July-September 2020 quarter, 8 full-fledged Islamic banks had 1279 branches, 9 conventional commercial banks had 19 Islamic banking branches and 12 conventional banks had 166 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 13.80% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (July-September 2020)

Name of the Bank		Urban	Rural *	Total
1		2	3	4=(2+3)
A)	Full-fledged Islamic Banks	763	515	1279
1	Islami Bank Bangladesh Limited *	242	119	361
2	ICB Islamic Bank Limited	32	1	33
3	Social Islami Bank Limited *	85	76	161
4	Al-Arafah Islami Bank Limited	95	87	182
5	EXIM Bank Limited	71	60	131
6	Shahjalal Islami Bank Limited	71	61	132
7	First Security Islami Bank Limited	122	67	189
8	Union Bank Limited	45	45	90
B)	Islamic banking branches of Conventional banks	14	0	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	0
C)	Islamic banking windows of Conventional banks	150	16	166
1	Sonali Bank Limited	58	0	58
2	Janata Bank Limited**	0	0	0
3	Agrani Bank Limited	15	0	15
4	Pubali Bank Limited	16	0	16
5	Trust Bank Limited	15	0	15
6	Standard Bank Limited	3	1	4
7	Bank Asia Limited	5	0	5
8	Standard Chartered Bank	1	0	1
9	NRB Global Bank	20	12	32
10	Mercantile Bank***	7	3	10
11	Midland Bank***	2	0	2
12	NRBC Bank***	8	0	8
D)	Total=A+B+C	927	532	1464

* Including SME branches **Janata Bank Limited has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started, *** Mercantile Bank, Midland Bank and NRBC Bank Limited have started offering Islamic services through dedicated windows.

Concluding Remarks and Recommendations

Bangladesh Islamic banking sector plays significant role in mobilizing deposits and financing various economic activities. Among different segments of Bangladesh's Islamic finance industry, Islamic banking industry dominates with almost 25% share of the entire banking sector. The other segments of Islamic finance such as Islamic capital market, Islamic insurance (Takaful) and microfinance sector may also flourish systematically if supportive policies are adopted and implemented.

Recently Ministry of Finance, Government of Bangladesh has issued Bangladesh Government Investment Sukuk Guidelines, 2020 for sovereign sukuk. Bangladesh Securities and Exchange Commission (BSEC) has also issued investment sukuk rules for corporate sukuk which would promote Islamic capital market in the country. As Islam prohibits usury, Islamic banks cannot invest in interest-bearing Government treasury bills and investment bonds existing in the market. So, introduction of Sukuk would smooth liquidity management of Islamic banks, help budget deficit administration and promote Islamic capital market.

The investments made by Islamic banks in ideal Islamic modes like Mudaraba and Musharaka are at a minimal level (below 2% 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. Islamic banks can also play increase investments in microfinance programs and women enterprises towards poverty alleviation and empowerment of the poor. It would promote welfare oriented banking as directed by objectives of Islamic Shariah popularly known as Maqasid al Shariah.

To address Shariah compliance issues of Islamic finance industry properly, adoption of more Shariah standards from Shariah supervisory and auditing organizations will be useful. In this direction, the Islamic banks and conventional banks having Islamic banking branches and windows may undertake necessary action to be the member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

In addition, Bangladesh's Islamic finance industry may also adopt Shariah-compliant fintech to carry out financial transactions more efficiently through technological innovations.

The outbreak of Covid-19 has created challenges for Islamic banking sector as conventional banking sector. Islamic banking sector needs to properly implement stimulus packages to mitigate adverse impacts of the pandemic and maintain its development roles in the national economy by promoting saving-investment process and trade activities further. In a fact, the Covid-19 pandemic is a real test for Islamic banks for maintaining resilience and employing usual commercial tools as well as social tools in the recovery process of the national economy. Islamic banks should focus on support for the poor and destitute through enhanced investments in small and micro enterprises and increased expenditures in CSR activities.
