

Developments of Islamic Banking in Bangladesh¹

October-December 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, General Manager, Research Department, Bangladesh Bank. (E-mail: golzare.nabi@bb.org.bd), Md. Jasim Uddin, Deputy General Manager, E-mail: jasim.uddin@bb.org.bd, Md. Mokhlesur Rahman, Joint Director (E-mail: mokhlesur.rahman2@bb.org.bd) and Md. Alamin, Assistant Director (E-mail: md.alamin962@bb.org.bd)

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Islamic financial sector continues to grow globally following its risk sharing, resilience, inclusive and real asset backed transactions features. In Bangladesh, Islamic banking sector has also recorded robust growth due to policy supports from Bangladesh Bank and public demand. Recently Bangladesh Bank on behalf of the Government has issued sovereign investment sukuk which will smooth liquidity management of Islamic banks, help financing budget deficit and promote Islamic capital markets to raise funds for infrastructure and industrial projects towards achieving higher inclusive GDP growth including sustainable development goals (SDGs).

At the end of December 2020, Bangladesh's 8 full-fledged Islamic banks have been operating with 1311 branches out of total 10752 branches of the whole banking sector. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 198 Islamic banking windows of 14 conventional commercial banks are also providing Islamic financial services in Bangladesh. It may be mentioned here that One Bank and UCB 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 October-December 2020, deposits and investment grew by 2.28% and 3.55% respectively, while remittance and excess liquidity of Islamic banking sector increased by 19.24% and 60.61% respectively compared to that of the last quarter. Islamic banking sector holds more than one-fourth share of the entire banking industry in terms of deposits and investment 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 lockdown period, implementation of financial stimulus package as directed by Bangladesh Bank, extension of time for repayment of loans & advances, timely delivery of remittances, undertaking safety measures for staff and emphasizing on online banking and virtual meeting as well as training.

Highlights: Islamic Banking Sector in Bangladesh, October-December 2020

Total Deposits

Total deposits in Islamic banking sector reached BDT 3269222.47 million at the end of December 2020 which increased by BDT 72973.88 million or 2.28% compared to the end of September 2020 and by BDT 466944.44 million or 16.66 % compared to the same period of the last year.

Total Investment

Total Investment (loans & advances in conventional banking system) of Islamic banking sector stood at BDT 2940936.38 million at the end of December 2020 which went up by BDT 100830.85 million or 3.55% and by BDT 313416.43 million or 8.09% compared to the end of September 2020 and the end of same period of the last year respectively.

Investment-Deposit Ratio

At the end of December 2020, Investment-Deposit ratio (Credit-Deposit ratio in conventional sense) stood at 0.90 which was 0.89 at the end of September 2020 and 0.94 at the end of December 2019.

Excess Liquidity

Excess liquidity of Islamic banking sector stood at BDT 293175.01 million at the end of December 2020 which was higher by BDT 110635.00 million (60.61%) and by BDT 195848.65 million (201.23%) than that of the end of September 2020 and that of the end of the same period of the last year respectively.

Total Remittances

Total remittances mobilized by the Islamic banking sector stood at BDT 214093.53 million during October-December 2020, which was higher by BDT 34540.84 million or by 19.24% and higher by BDT 67768.57 million or 46.31% than that of the September quarter 2020 and the December quarter 2019 respectively. Islamic banks have accounted for 40.51% share of remittances mobilized by the entire banking sector during October-December 2020.

Branches

The number of branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1528 at the end of December 2020 which was 1464 at the end September 2020 and 1380 at end December of last year.

Manpower

Total employment in the Islamic banking sector stood at 38784 at the end of December 2020 which was 38125 at the end of September 2020 and 35906 at end December 2019.

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

(In Million BDT)

Items	October-December 2020 [@]			July-September 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	12904724.00	3269222.47	25.33	25.85
Total loans & advances	11449073.00	2940936.38	25.69	25.44
Remittances	528441.90	214093.53	40.51	31.53
Total excess liquidity	2047380.20	293175.01	14.32	10.76
Total number of bank branches	10752	1528	14.21	13.80
Total agricultural credit	73936.7	9911.5	13.41	22.88

Source: Statistics Department and MPD, Bangladesh Bank.

[@] Provisional

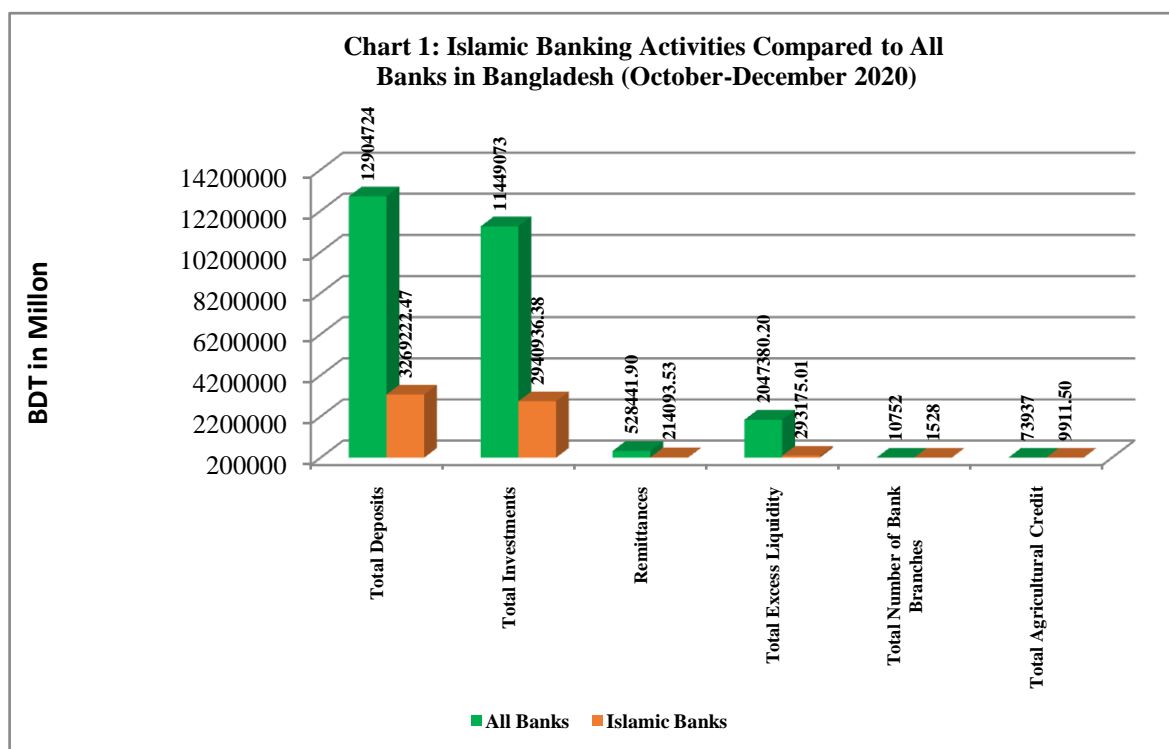


Table 2: Activities of Islamic Banking Sector in Bangladesh, October-December 2020

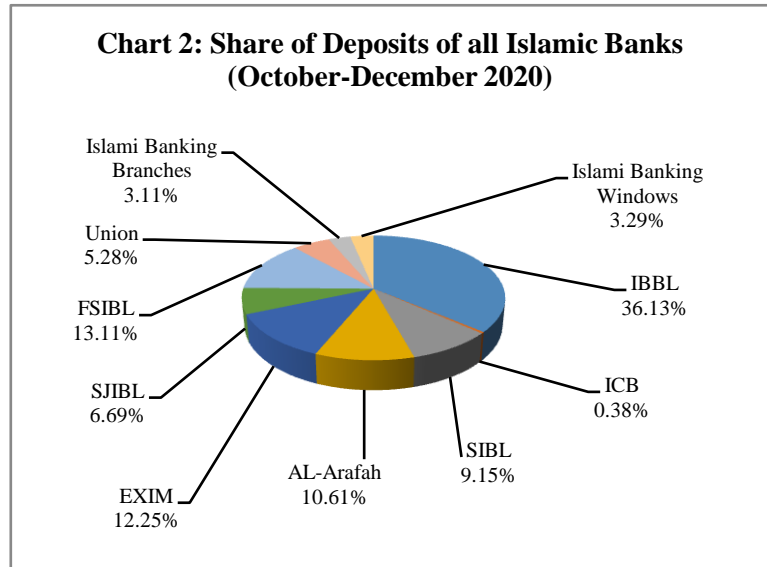
Statistics of Islamic banking Sector	December-20 ^P Quarter	September-20 ^P Quarter	December-19 ^P Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total deposits* (outstanding)	3269222.47	3196248.59	2802278.03	72973.88	466944.44	2.28	16.16
a) Full-fledged Islamic banks	3060002.37	2906070.48	2637564.36	153931.90	422438.01	5.30	16.02
b) Conventional banks having Islamic banking branches	101814.47	104664.10	87375.92	-2849.63	14438.55	-2.72	16.52
c) Islamic banking windows	107405.63	185514.01	77337.74	-78108.38	130067.89	-42.10	139.88
Total Investment* (outstanding)	2940936.38	2840105.53	2627519.94	100830.85	313416.43	3.55	8.09
a) Full-fledged Islamic Banks	2790725.15	2696362.02	2498847.08	94363.13	291878.07	3.50	7.90
b) Conventional banks having Islamic banking branches	77524.91	77256.15	74938.57	268.76	2586.34	0.35	3.09
c) Islamic banking windows	72686.31	66487.36	53734.29	6198.96	18952.03	9.32	35.27
Investment-Deposit ratio	0.90	0.89	0.94	0.01	-0.04	1.24	-4.30
a) Full-fledged Islamic Banks	0.91	0.93	0.95	-0.02	-0.04	-1.71	-4.00
b) Conventional banks having Islamic banking branches	0.76	0.74	0.86	0.02	-0.10	3.16	-11.46
c) Islamic banking windows	0.77	0.65	0.69	0.12	0.08	18.62	12.07
Liquidity excess(+)/shortfall(-)	293175.01	182540.01	97326.36	110635.00	195848.65	60.61	201.23
a) Full-fledged Islamic Banks	255076.42	136037.10	75795.05	119039.32	179281.37	87.51	236.53
b) Conventional banks having Islamic banking branches	17481.18	19382.97	2533.78	-1901.79	14947.40	-9.81	589.92
c) Islamic banking windows	20617.40	27119.93	19840.23	-6502.53	777.18	-23.98	3.92
Total remittances	214093.53	179552.69	146324.97	34540.84	67768.57	19.24	46.31
a) Full-fledged Islamic banks	210896.21	177148.95	145649.97	33747.26	65246.24	19.05	44.80
b) Conventional banks having Islamic banking branches	2840.82	1999.83	476.12	841.00	2364.70	42.05	496.66
c) Islamic banking windows	356.50	403.91	198.87	-47.41	157.63	-11.74	79.26
Total number of branches	1528	1464	1380	64	148	4.37	10.72
a) Full-fledged Islamic Banks	1311	1279	1273	32	38	2.50	2.99
b) Conventional banks having Islamic banking branches	19	19	19	0.00	0.00	0.00	0.00
c) Islamic banking windows	198	166	88	32	110	19.28	125.00
Total number of manpower	38784	38125	35906	659	2878	1.73	8.02
a) Full-fledged Islamic Banks	37810	37183	35145	627	2665	1.69	7.58
b) Conventional banks having Islamic banking branches	349	377	351	-28	-2	-7.43	-0.57
c) Islamic banking windows	625	565	410	60	215	10.62	52.44

* = Excluding inter-bank items.

^P= Provisional.

Mobilization of Deposits

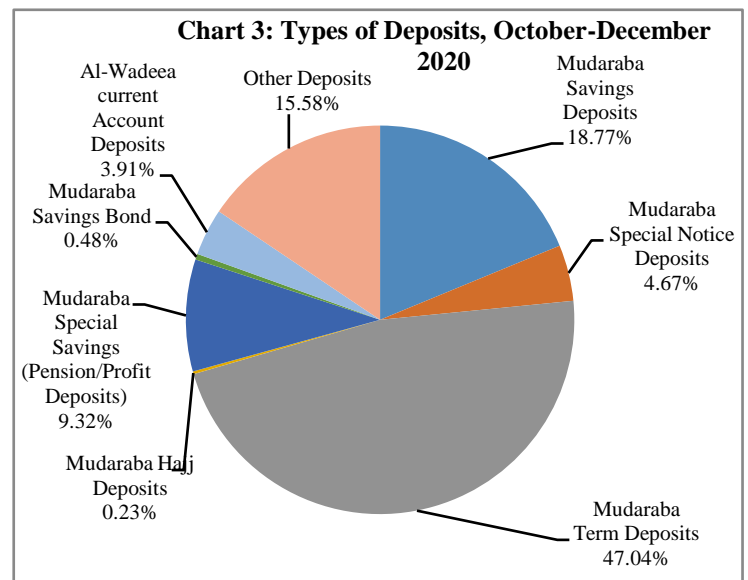
Total deposits in Islamic banking sector reached BDT 3269222.47 million at the end of December 2020, which increased by BDT 72973.88 million or 2.28% compared to that of the end of September 2020 and by BDT 466944.44 million or 16.66% compared to that of the of same month of last year. Among the total deposits, demand deposit was BDT 350499.58 million and time deposit was BDT 2918722.89 million. The share of total deposits of Islamic banks accounted for 25.33% among all banking sector at the end of December 2020.



Deposits of 8 full-fledged Islamic banks stood at BDT 3060002.37 million at the end of December 2020. Total deposits of the eight full-fledged Islamic banks accounted for 93.60% of deposits of the Islamic banking sector. Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (36.13%) followed by First Security Islami Bank Ltd. (13.11%), EXIM Bank Ltd. (12.25%), Al-Arafah Islami Bank Ltd. (10.61%), Social Islami Bank Ltd. (9.15%), Shahjalal Islami Bank Ltd. (6.69%), Union Bank Limited (5.28%), Islamic banking branches (3.11%), Islamic banking windows (3.29 %) and ICB Islamic Bank Limited (0.38%) [Chart-2].

Types of Deposits

Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (47.04%) followed by Mudaraba Savings Deposits (MSD) (18.77%), Other Deposits (15.58%), Mudaraba Special Savings (pension/profit) Deposits (9.32%), Mudaraba Special Notice Deposits (4.67%), Al-Wadeeah Current Account Deposits (3.91%), Mudaraba Savings Bond (0.48%) and Mudaraba Hajj Deposits (0.23%) etc. during October-December 2020 [Chart-3].

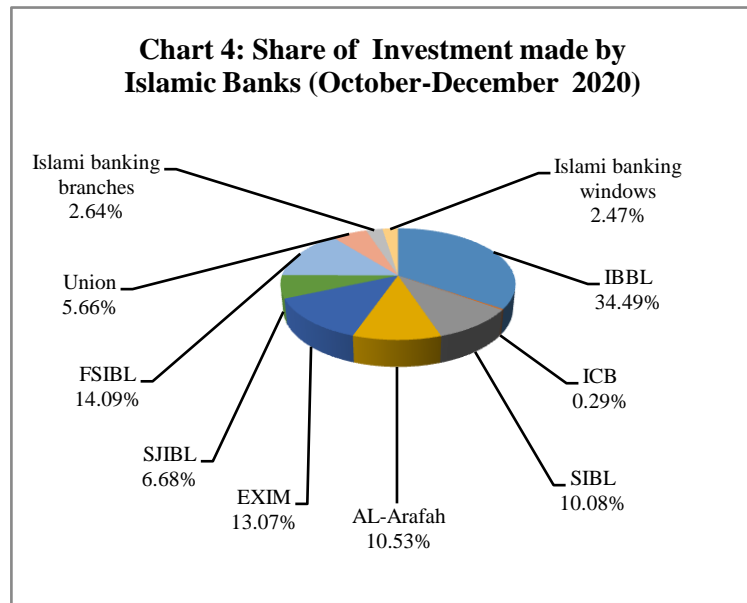


Investment

Total investment (loans & advances in conventional banking system) in Islamic banking sector stood at BDT 2940936.38 million at the end of December 2020, which went up by BDT 100830.85 million or 3.55% and by BDT 313416.43 million or 8.09% compared to that of the end of September 2020 and of the end of same period of preceding year respectively. The share of total investment of Islamic banks accounted for 25.69% among all banks loans & advances.

Out of total investment of Islamic banks, 94.89% was made by 8 full-fledged Islamic banks, 2.64% by the conventional bank's Islamic banking branches and the rest 2.47% by the conventional bank's Islamic banking windows.

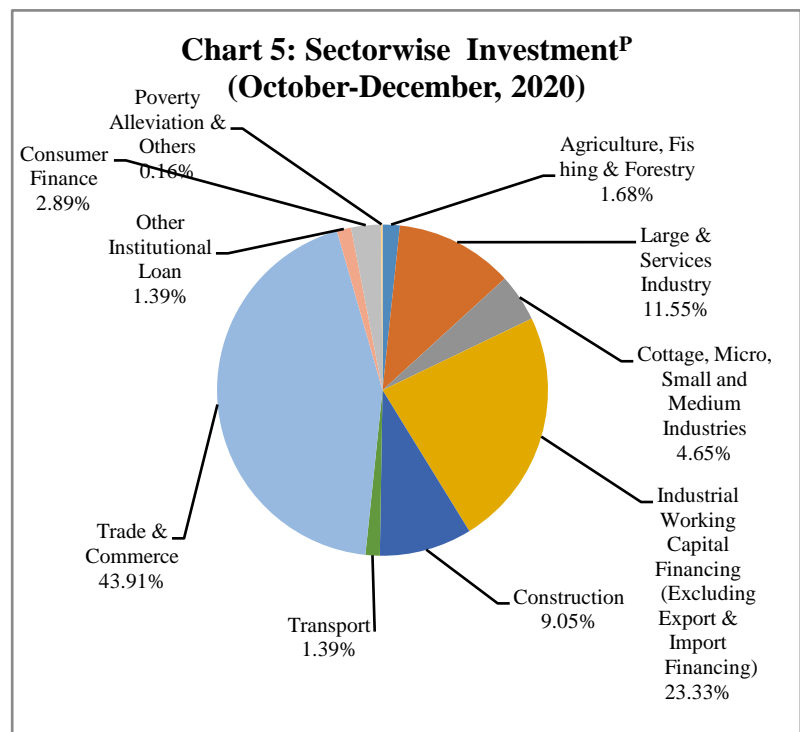
Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investment(34.49%) at the end of December 2020 followed by First Security Islami Bank Ltd. (14.09%), EXIM Bank Ltd. (13.07%), Al-Arafah Islami Bank Ltd. (10.53%), Social Islami Bank Ltd. (10.08%), Shahjalal Islami Bank Ltd. (6.68%), Union Bank Ltd. (5.66%) and ICB Islamic Bank Ltd. (0.29%), (Chart-4).



Sector-wise Investment

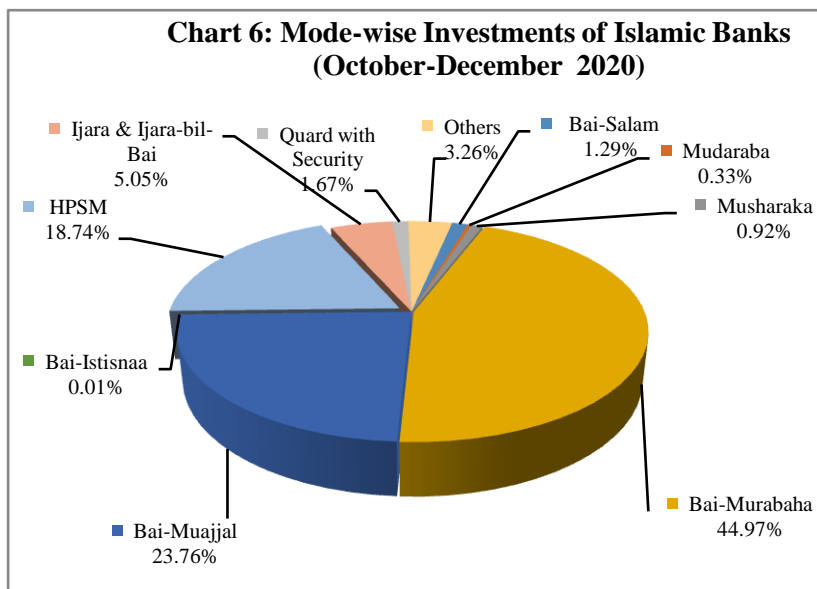
Analyzing the sector-wise investment, in the Trade and Commerce sector (43.91%) was found to be the highest among all sectors at the end of December 2020 (Chart-5). The next position was occupied by Industrial Working Capital Financing which stood at 23.33% followed by Large & Services Industry (11.55%), 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 & Others (0.16%).

P =Provisional



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was made through Bai-Murabaha mode (44.97%) at the end December 2020 [Chart-6] followed by Bai-Muajjal (23.76%), HPSM (18.74%), Ijara & Ijara-bil Bai (5.05%), Others (3.26%), Quard with Security (1.67%), Musharaka (0.92%), Bai-Salam (1.29%), Mudaraba (0.33%), and Bai-Istisna (0.01%).



Investment Situation in the Agricultural Sector

Islamic banking sector has made significant contributions in different sub-sectors of agricultural and rural credit programs. During October-December 2020, investment in agricultural sector made by Islamic banking sector reached BDT 12137.60 million which was lower by BDT 6403.65 million than that of the previous quarter and by BDT 3259.62 million compared to that of the end of the same quarter of the preceding year. The share of total agricultural credit of Islamic banks accounted for 2.75% 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:

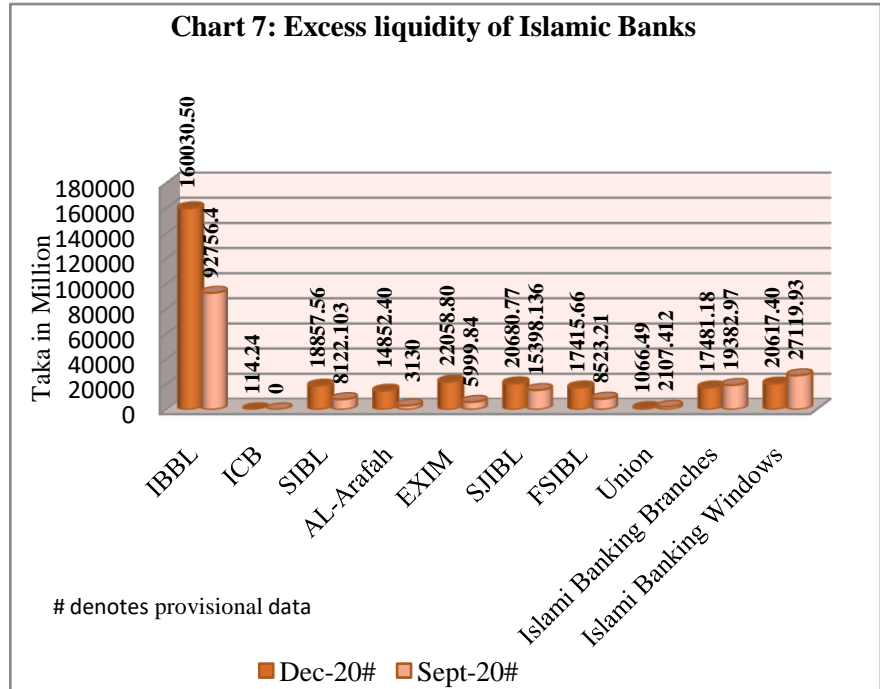
Table-3: Summary of Investment in Agricultural Sector (BDT In Million)

Details	Investment in agricultural sector during the quarter						
	Investment target	Actual Investment disbursement	Target achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	4	5	6	7	8	9	10
December-20#	11268.28	12137.60	107.71	12187.49	39682.75	11513.36	12150.70
September-20#	8823.69	18541.25	210.13	15881.24	39021.33	11997.00	11028.98
December-19#	15397.22	11043.94	71.73	11343.44	28346.76	2289.19	14697.34
Quarterly Changes	2444.59	-6403.65	-102.42	-3693.75	661.42	-483.63	1121.72
Annual Changes	-4128.94	1093.66	35.99	844.05	11336.00	9224.18	-2546.64

Provisional

Liquidity Situation

Excess liquidity of Islamic banking sector stood at BDT 293175.01 million at the end of December 2020, which was higher by BDT 110635.00 million (60.61%) and higher BDT 195848.65 million (201.23%) than that of the end of September 2020 and the end of same month of the 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 255076.42 million, BDT 17481.18 million and BDT 20617.40 million respectively.

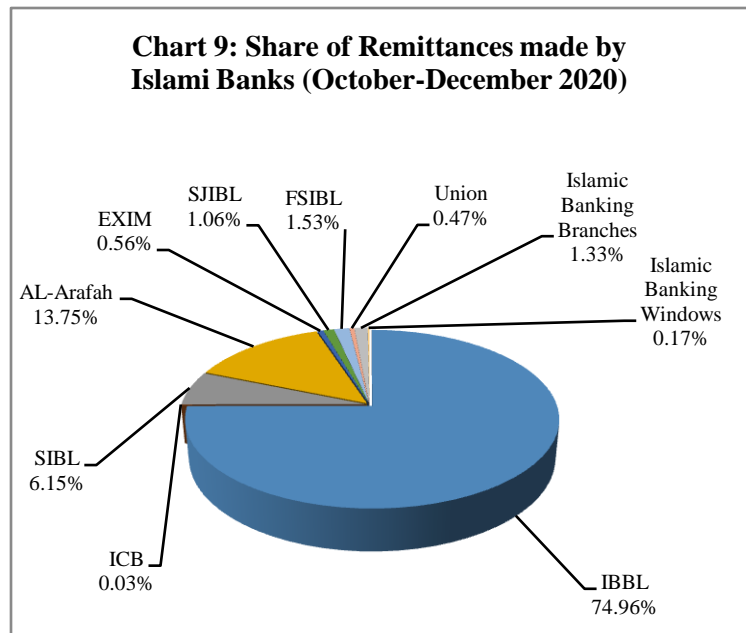


Summary of liquidity situation in the Islamic banking sector is shown in chart-7.

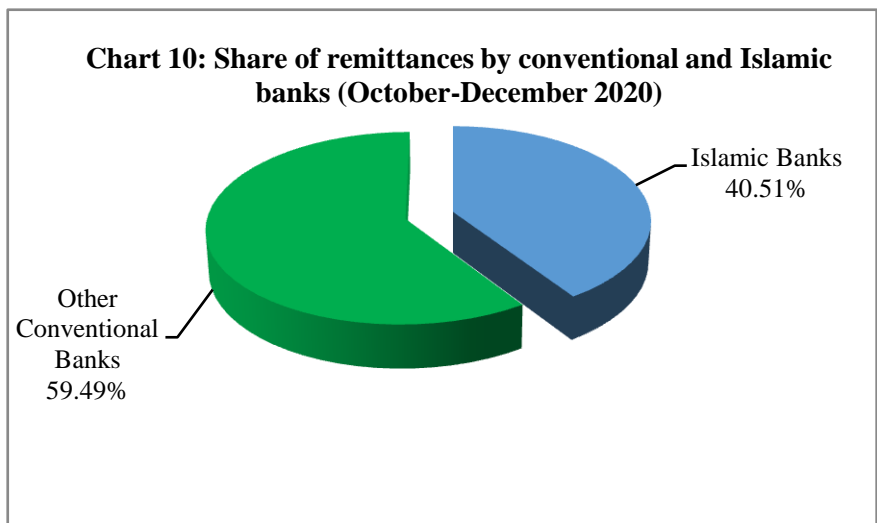
Remittances Mobilized by the Islamic Banking Sector

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 214093.53 million during October-December 2020, which was higher by BDT 34540.84 million or 19.24% and higher by BDT 67768.57 million or 46.31% that that during July September 2020 and October-December 2019 respectively.

Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (74.96%) in respect of remittance collection during October-December 2020. The other Islamic banks and their shares of mobilizing remittances were Al-Arafah Islami Bank Ltd. (13.75%), Social Islami Bank Ltd (6.15%), First Security Islami Bank Ltd (1.53%), EXIM Bank Ltd. (0.56%), Shahjalal Islami Bank (1.06%), Union Bank Ltd (0.47%), Islamic banking branches of conventional banks (1.33%), Islamic banking windows (0.17%) and ICB Islamic Bank (0.03%) [Chart-8].



The Islamic banking sector accounted for 40.51% share of remittances mobilized by the entire banking sector during the quarter under review. Remittance mobilizations of all scheduled banks, all Islamic banks including Islamic banking branches and 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 October-December 2020 had been recorded at BDT 1284.05 million which was BDT 954.28 million in July-September 2020 and BDT 1030.71 million in October-December 2019.

Expansion of Branches:

The number of branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached 1528 at the end of the quarter under review which was 1464 during the previous quarter and 1380 during the same quarter of the last year. At the end of October-December 2020, 8 full-fledged Islamic banks had 1311 branches, 9 conventional commercial banks had 19 Islamic banking branches and 14 conventional banks had 198 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 14.21% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (October-December 2020)

Name of the Bank		Urban	Rural *	Total
1		2	3	4=(2+3)
A)	Full-fledged Islamic Banks	761	550	1311
1	Islami Bank Bangladesh Limited *	247	126	373
2	ICB Islamic Bank Limited	32	1	33
3	Social Islami Bank Limited *	88	80	168
4	Al-Arafah Islami Bank Limited	96	88	184
5	EXIM Bank Limited	71	60	131
6	Shahjalal Islami Bank Limited	71	61	132
7	First Security Islami Bank Limited	109	86	195
8	Union Bank Limited	47	48	95
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	0
C)	Islamic banking windows of Conventional banks	176	22	198
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	17	0	17
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	25	11	36
10	Mercantile Bank	19	6	25
11	Midland Bank	2	0	2
12	NRBC Bank	8	0	8
13	One Bank Limited***	2	0	2
14	UCB***	6	4	10
D)	Total=A+B+C	955	573	1528

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

Bangladesh Government Islamic Securities

This section focuses on Bangladesh Government Islamic Securities comprising Sovereign Investment Sukuk and Bangladesh Government Islamic Investment Bond (GIIB).

Issue of Maiden Sovereign Investment Sukuk and Its Huge Response

Bangladesh Bank on behalf of the Government has issued maiden sukuk on December 28th, 2020 to raise BDT 80.00 billion for the implementation of a safe water supply project across the nation. The overall cost of the project is estimated at BDT 88.51 billion of which BDT 8.51 billion will be provided by the Government according to the prospectus¹. The Finance Ministry and Bangladesh Bank will act as the originator and a special purpose vehicle (SPV) respectively. In first phase, the Government collected BDT 40.00 billion for the projects through an auction held on December 28th, 2020. Investors submitted bids worth BDT15.15 billion during the auction. The issue has been oversubscribed by near four times which indicates vivid prospect of sukuk market in Bangladesh.

The second auction will be held in June, 2021 to raise remaining amount of fund. The sukuk holders will receive a profit of 4.69 percent on their aggregate investment in the Islamic sukuk. Bangladesh Bank has fixed the rate-based on the Bangladesh Government Islamic Investment Bond (BGIIB). Profits will be paid to investors on a half-yearly basis. A client will have to invest a minimum of BDT 10,000 in the security, and there is no upper limit. Banks, corporate institutions and individuals will be permitted to invest. The sukuk will mature in five years.

Bangladesh Government Islamic Investment Bond (BGIIB)

Bangladesh Government Islamic Investment Bond (BGIIB) introduced in 2004 was the only approved Shariah compliant security other than the newly issued sukuk to maintain the SLR by the Islamic banks. However, the limitation of the BGIIB is that Government cannot borrow from BGIIB fund due to absence of Shariah compliant projects. Given this, only Islamic banks can borrow from this fund in case of liquidity shortage which is mobilized through selling of the GIIB securities based on mudarabah principle. Islamic banks avail this fund at a provisional rate of profit based on its Mudarabah short notice deposit accounts which are adjusted after finalization of accounts and rate of profit of the concerned Islamic banks. Table 1 shows the trend of sale, financing and net balance over the periods during FY10-FY20.

¹ https://www.bb.org.bd/mediaroom/notice/sukuk_prospectus.pdf

Table 1: Bangladesh Government Islamic Investment Bond**(Billion BDT)**

	Sale	Financing	Net Balance
FY10	23.40	15.40	8.00
FY11	25.30	22.80	2.50
FY12	31.48	31.26	0.22
FY13	107.13	67.78	39.35
FY14	121.34	24.37	96.96
FY15	135.84	25.40	110.44
FY16	122.94	37.80	85.95
FY17	84.01	54.70	29.31
FY18	92.95	81.20	11.75
FY19	107.11	84.80	22.31
FY20	131.88	67.82	64.06

Source: Annual Report, Bangladesh Bank, Various issues

Concluding Remarks and Recommendations

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

As Islam prohibits usury, Islamic banks cannot invest in interest-bearing Government treasury bills and investment bonds existing in the market. So, the recent introduction of Sukuk will 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 financial industry properly, adoption of Shariah standards from International accounting and auditing organizations will be useful. In this regard, 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 banking sector also needs to increase the application of Shariah-compliant fintech to carry out financial transactions more efficiently.

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 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.

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