

Developments of Islamic Banking in Bangladesh October-December, 2014



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Developments of Islamic Banking in Bangladesh during October-December 2014

Islamic Banking Industry plays crucial roles in mobilizing deposits and financing key sectors of the economy in Bangladesh since its inception in 1983. At present Islamic banking industry comprising 8 full-fledged Islamic banks, 19 Islamic banking branches of 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks is providing Islamic banking services in Bangladesh. At the end of October-December 2014 quarter, deposits, investments and investment-deposit ratio of Islamic banking industry grew by 4.17%, 5.85% and 1.61% respectively, while surplus of liquidity decreased by 9.33% 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 of Islamic Banking in Bangladesh, October-December 2014

- Total deposits in Islamic banking industry reached Tk. 144148.97 crores at the end of October-December 2014 quarter, which increased by Tk. 5774.64 crores or by 4.17% compared to previous quarter and by Tk. 24993.88 crores or by 20.98% compared to corresponding quarter of the last year.
- Total investments in Islamic banking sector stood at Tk. 123950.15 crores at the end of October-December 2014 quarter, which went up by Tk. 6849.22 crores or by 5.85% and by Tk. 21231.85 crores or by 20.67% compared to previous quarter and same quarter of the preceding year respectively.
- Investment-Deposit ratio reached at 0.86 in October-December 2014, which was 0.85 and 0.86 at the end of the previous quarter and December 2013 respectively.
- At the end of October-December 2014 quarter, surplus liquidity of Islamic banks stood at Tk. 12644.25 crores, which was lower by Tk. 1300.63 crores (9.33%) than previous quarter and higher by Tk. 3442.64 crores (37.41%) compared to the corresponding quarter of the preceding year.
- Total Remittance in Islamic banking sector stood at Tk. 9166.73 crores at the end of October-December 2014 quarter, which was lower by Tk. 669.54 crores or by 6.81% and higher by Tk. 134.66 crores or by 1.49% compared to previous quarter and same quarter of the preceding year respectively.
- At the end of the quarter under review, the number of branches of Islamic banks including Islamic branches/windows of commercial banks stood at 934 which was 900 during the previous quarter and 867 during the same quarter of the last year.
- Total manpower in Islamic banking sector was 27202 in number at the end of the quarter under review which was greater by 674 persons than that of the last quarter and by 2559 persons compared to the same quarter of the last year.

Table 1: Islamic Banking Activities in Bangladesh, October-December 2014

	Dec-14#	Sept-14	Dec-13	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (In Crore Taka)	144148.97	138374.33	119155.08	5774.64	24993.88	4.17	20.98
a) Full-fledged Islamic Banks	136709.89	131091.04	112447.73	5618.85	24262.16	4.29	21.58
b) Conventional banks having Islamic banking branches	5171.93	5111.63	4607.40	60.30	564.53	1.18	12.25
c) Islamic banking windows	2267.14	2171.66	2099.95	95.48	167.19	4.40	7.96
Total Investments* (In Crore Taka)	123950.15	117100.93	102718.30	6849.22	21231.85	5.85	20.67
a) Full-fledged Islamic Banks	118147.38	111474.81	97197.49	6672.57	20949.89	5.99	21.55
b) Conventional banks having Islamic banking branches	4137.59	3948.17	3961.57	189.42	176.03	4.80	4.443
c) Islamic banking windows	1665.18	1677.95	1559.24	-12.77	105.93	-0.76	6.79
Investment/Deposit Ratio	0.86	0.85	0.86	0.01	0.00	1.61	-0.25
a) Full-fledged Islamic Banks	0.86	0.85	0.86	0.01	0.00	1.63	-0.02
b) Conventional banks having Islamic banking branches	0.80	0.77	0.86	0.03	-0.06	3.58	-6.96
c) Islamic banking windows	0.73	0.77	0.74	-0.04	-0.01	-4.94	-1.08
Liquidity Surplus(+)/Deficit(-) (In Crore Taka)	12644.25	13944.88	9201.61	-1300.63	3442.64	-9.33	37.41
a) Full-fledged Islamic Banks	10711.07	11963.45	7817.19	-1252.38	2893.88	-10.47	37.02
b) Conventional banks having Islamic banking branches	1456.62	1498.79	1053.19	-42.17	403.43	-2.81	38.31
c) Islamic banking windows	476.56	482.65	331.24	-6.09	145.32	-1.26	43.87
Total Remittance (In Crore Taka)	9166.73	9836.26	9032.07	-669.53	134.66	-6.81	1.49
a) Full-fledged Islamic Banks	9088.40	9770.78	8922.20	-682.38	166.20	-6.98	1.86
b) Conventional banks having Islamic banking branches	77.81	65.37	109.77	12.44	-31.96	19.03	-29.12
c) Islamic banking windows	0.52	0.11	0.10	0.41	0.42	364.57	411.49
Total Branches	934	900	867	34	67	3.78	7.73
a) Full-fledged Islamic Banks	890	856	823	34	67	3.97	8.14
b) Conventional banks having Islamic banking branches	19	19	19	0	0	0.00	0.00
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	27202	26528	24643	674	2559	2.54	10.38
a) Full-fledged Islamic Banks	26660	25988	24113	672	2547	2.59	10.56
b) Conventional banks having Islamic banking branches	404	407	395	-3	9	-0.74	2.28
c) Islamic banking windows	138	133	135	5	3	3.76	2.22

* = Excluding Inter-Bank Items

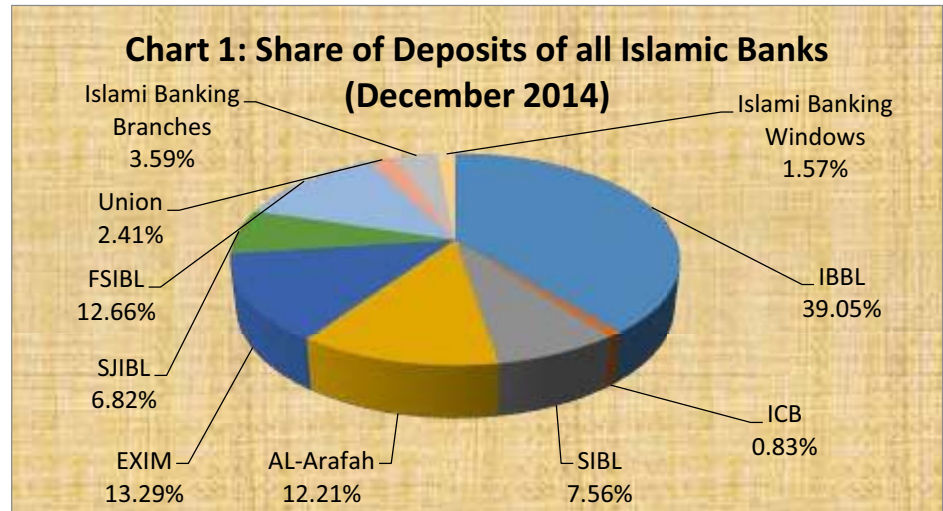
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Deposits

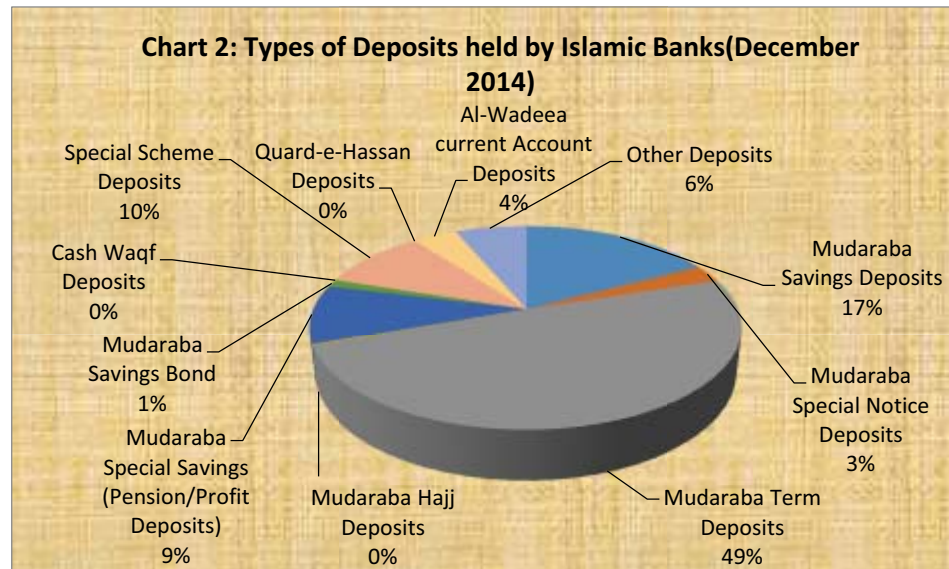
Total deposits of Islamic banking industry stood at Tk. 144148.97 crores at the end of the quarter October-December 2014, which was higher by 5774.64 crores (4.17%) and by Tk. 24993.88 (20.98%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 16268.37 crores and time deposit was Tk. 127880.60 crores. Among all banks and private banks, the share of total deposits of Islami banks accounted for 20.46% and 32.78% respectively.

Total deposits of the eight full-fledged Islamic banks accounted for 94.84% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 136709.89 crores as on end December 2014.

Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of deposits (39.05%) [chart-1], followed by Exim Bank Ltd. (13.29%), First Security Islami Bank Ltd.(12.66%), Al-Arafah Islami Bank Ltd. (12.21%), Social Islami Bank Ltd. (7.56%), Shahjalal Islami Bank Ltd. (6.82%), Islami banking branches (3.59%), Union Bank Limited (2.41%), Islami banking windows (1.57%) and ICB Islamic Bank Limited (0.83%).



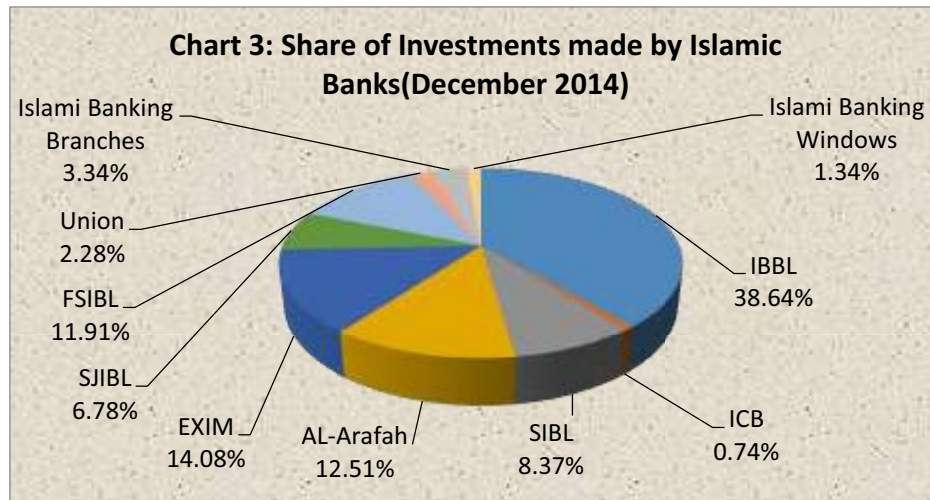
Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (49%) [chart-2] followed by Mudaraba Savings Deposits (MSD) (17%), Mudaraba Special Savings pension/profit) Deposits (9%), Special Scheme Deposit (10%), Current Account Deposits (4%) etc.



Investments

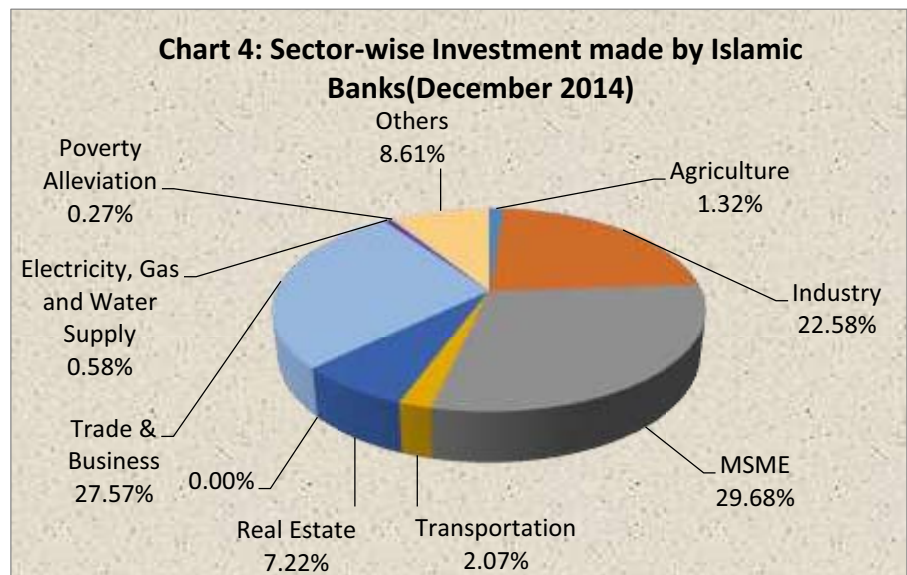
Total amount of investments in Islamic Banking industry reached at Tk. 123950.15 crores at the end of the quarter October-December 2014. During the quarter under review, investments increased by 5.85% and 20.67% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islami banks accounted for 17.15% among all bankks.

Among total investments of Islami banks, 95.32% were made by 8 full-fledged Islamic banks, 3.34% by the scheduled banks' Islamic banking branches and the rest 1.34% by the scheduled banks' Islamic banking windows. As in the case of deposits, Islami Bank

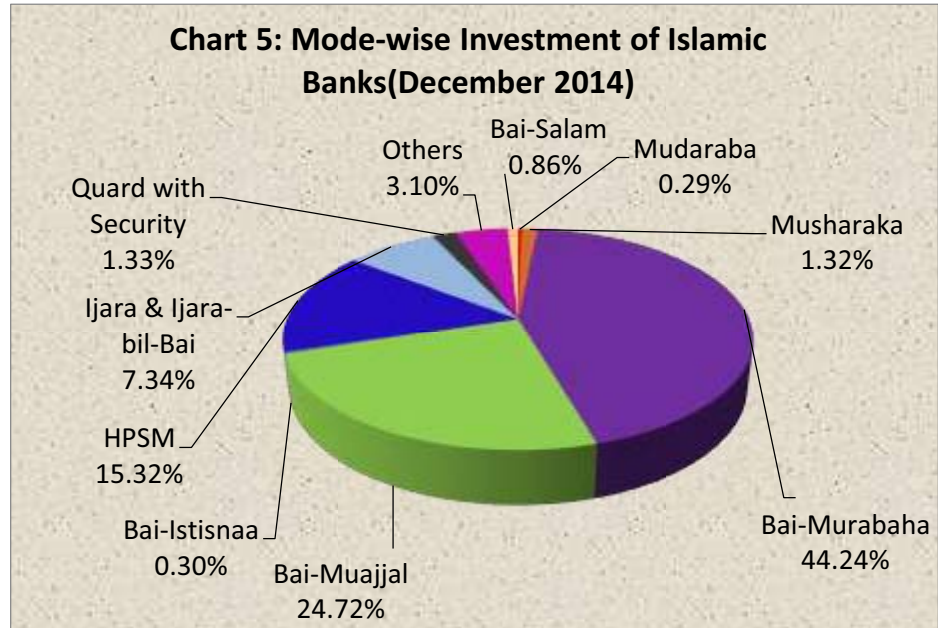


Bangladesh Ltd. attained the highest share in investments which was 38.64% at the end of the quarter October-December 2014, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (14.08%), Al Arafah Islami Bank Ltd. (12.51%), First Security Islami Bank Ltd (11.91%), Social Islami Bank Ltd (8.37%), Shahjalal Islami Bank (6.78%), Union Bank (2.28%) and ICB Islami Bank Ltd (0.74%).

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 29.68% (chart-4) at the end of the quarter October-December 2014. The next position was occupied by Business & Trade sector (27.57%) followed by Industrial sector (22.58%), others (8.61%), Real Estate (7.22%), , Transportation (2.07%), Agriculture (1.32%), Electricity, Gas and Water supply (0.58%) and Poverty Alleviation (0.27%).



The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.24%) at the end of the quarter October-December 2014, [chart-5] followed by Bai-Muajjal (24.72%), HPSM (15.32%), Ijara & Ijara-bil-Bai (7.34%), others (3.10%), Quard with Security (1.97%), Musharaka (1.33%), Bai-Salam(0.86%), Bai-Istisna (0.30%) and Mudaraba (0.29%).



Investment situation in the Agricultural sector

Islamic Banking Industry have made tangible contributions in sectors and sub-sectors of agricultural and rural investment programs. During October-December 2014 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 371.31 crores which was higher by Tk. 40.41 crores and lower by Tk. 174.59 crores than the previous quarter and the same quarter of the preceding year respectively. Summary of Investments in agricultural sector under the Islamic banking framework is provided in table-2:

Table-2: Summary of Investments in agricultural sector

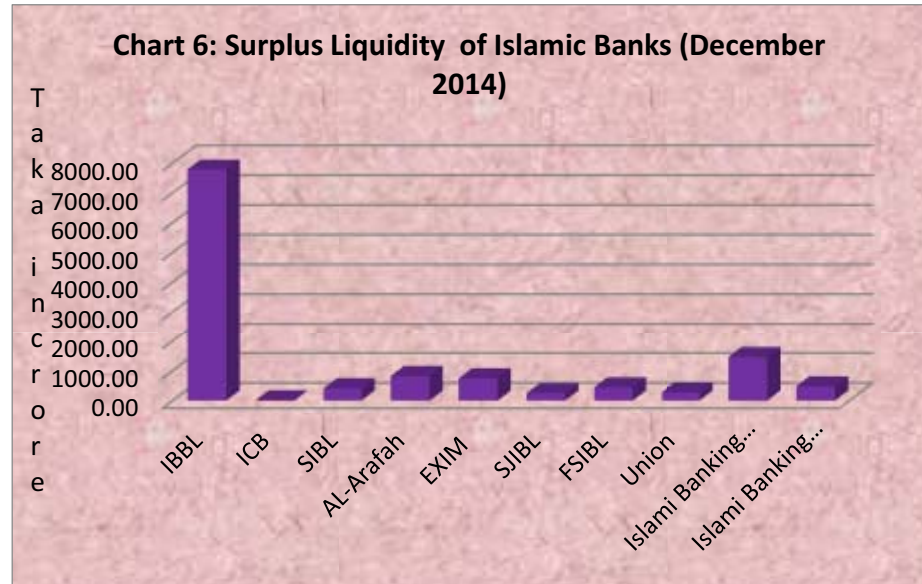
(Taka in crore)

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	
Dec-14#	34089.63	49831.32	446.39	371.31	342.03	1634.07	510.96	711.00	
Sept-14	25213.54	36514.05	455.87	330.90	601.56	1547.23	258.93	653.51	
Dec-13	11250.00	11867.00	528.29	545.90	550.42	1962.94	239.45	360.29	
Changes	Quarterly	8876.09	13317.27	-9.48	40.41	-259.53	86.84	252.03	57.49
	Annual	22839.63	37964.32	-81.90	-174.59	-208.38	-328.87	271.51	350.71

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Liquidity Situation

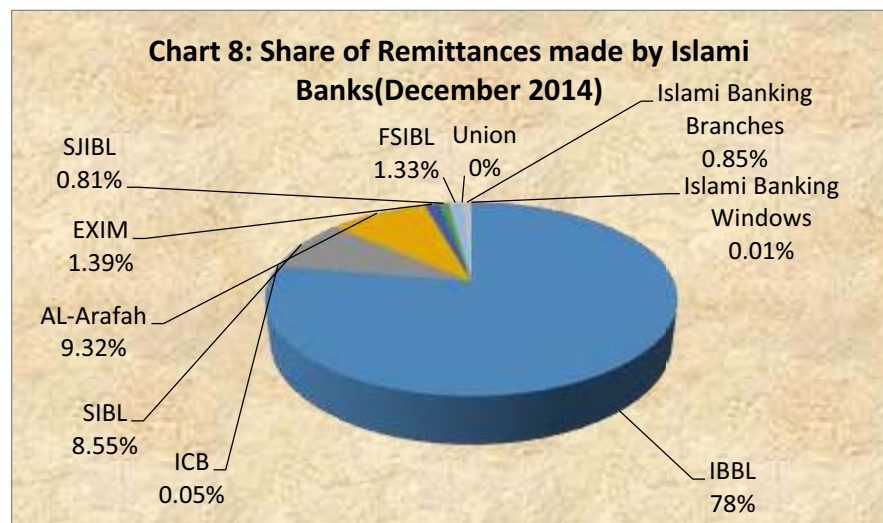
At the end of the quarter October-December 2014, surplus liquidity in the Islamic banking sector stood at Tk.12644.25 crores which was lower by Tk.1300.63 crores or by 9.33% and higher by Tk. 3442.64 crores or by 37.41% than the last quarter and the same quarter of the previous year respectively. Among all banks and private banks the share of total excess liquidity of Islami banks accounted for 11.07% and 24.81% respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of



conventional banks and Islamic windows of conventional banks stood at Tk. 10711.07 crores, Tk. 1456.62 crores and Tk. 476.56 crores respectively. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6 and Annexure-6.

Remittances

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the whole country. During October-December, 2014 amount of remittances reached at Tk.9166.73 crores which was lower by Tk. 669.54 crores or by 6.81% and higher by Tk. 134.66 crores or by 1.49% than the previous quarter and the corresponding quarter of the last year respectively. Among the



Islamic Banking banks, Islami Bank Bangladesh Ltd. occupied the top position (78%) in respect of remittance collection at the end of December 2014. The shares of remittance of other Islamic banks included Al Arafah Islami Bank Ltd. (9.32%), Social Islami Bank Ltd (8.55%), EXIM

Bank Ltd. (1.39%), First Security Islami Bank Ltd (1.33%), Shahjalal Islami Bank (0.81%), ICB Islami Bank Ltd (0.05%). The Islamic Banking Industry accounted for 46.12% share of remittances collected by the entire banking industry at the end of the quarter under review.

Branches

The number of Islamic Banking branches (including Islamic branches of conventional banks and windows) was 934 at the end of the quarter October-December, 2014 which was 900 at the end of the preceding quarter and 867 at the end of December 2013. At the end of the quarter under review, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 890 branches, 8 conventional commercial banks had 19 and 7 regular banks had 25 windows. The share of total bank branches of Islami banks among all schedule banks and Private banks accounted for 10.33% and 23.84% respectively. Information on branches of Islamic banks at the end of the October-December, 2014 quarter is shown in Table-3.

Table-3: Number of Bank Branches of Islamic Banks

Name of the Bank		Urban	Rural*	Total
A)	Full-fledged Islamic Banks	559	331	890
1	Islami Bank Bangladesh Limited*	212	82	294
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	54	46	100
4	Al-Arafah Islami Bank Limited	71	48	119
5	EXIM Bank Limited	50	37	87
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	71	66	137
8	Union Bank Limited	14	13	27
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	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	602	332	934

* Including SME ** Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet.

Corporate Social Responsibility

Islamic banks undertake and implement various types of social programs under Corporate Social Responsibility (CSR) activities. Sources of funds of Islamic banks available for CSR activities include Zakat, compensation charges (penal charges from defaulting investment clients) and 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 people, who, because of 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 poverty. Expenditure on CSR activities increased by 18.07% in this quarter from the previous quarter. At the end of October-December 2014 quarter, total expenditure on CSR activities of Islamic Banking Industry was Tk. 28.27 crores which was Tk. 23.94 crores and Tk. 0.19 crores during the previous quarter and corresponding quarter of the last year respectively.

Conclusion

Islamic banking industry with more than 20% market share and 27,202 employees are now playing very important roles in mobilizing deposits and financing industry, services and other key sectors of the economy, and collecting foreign remittances in Bangladesh. Despite the activities of Islamic banking is increasing day by day in Bangladesh but the number of rural branches of full-fledged Islamic banks has not increased as per demand, and the activities of Islamic banking branches/windows of conventional banks are not being expanded countrywide yet. As investments made by Islamic banks has been concentrated in trade and related sectors, they should invest more in socially desirable sectors especially in agriculture and small enterprises. They should also pay more attention in promoting investments under Mudaraba and Musharaka modes, the ideal modes of Islamic finance.