

Developments of Islamic Banking in Bangladesh October-December, 2015

Quarterly Report Preparation Committee¹

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'The value driven, speculation-averse risk-sharing features of Islamic finance attribute greater inclusivity and stability supportiveness to it. Islamic banks and financial institutions fared better than conventional ones in the last global financial crisis, which may be a reason why we see niche presence of Islamic financing widening steadily in non-Muslim countries including the advanced Western economies.With its ethical, inclusivity promoting and stability enhancing attributes, Islamic finance undoubtedly bears promise of playing major beneficial role in our socioeconomic development.' --Governor, Bangladesh Bank.²

Developments of Islamic Banking Industry in Bangladesh during October-December 2015

Islamic banking industry 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 October-December 2015 quarter. As at the end of December 2015, 8 full-fledged Islamic banks are operating with 965 branches out of total 9397 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 October-December 2015 quarter, deposits and investments of Islamic banking industry grew by 3.51% and 6.03% respectively while the surplus of liquidity declined by 4.19% 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, October-December 2015

- ✓ **Total Deposits** in Islamic banking industry reached at Tk. 163095.24 crores at the end of October-December 2015 quarter, which increased by Tk. 5534.73 crores or by 3.51% compared to previous quarter and by Tk. 18946.28 crores or by 13.14% compared to corresponding quarter of the last year.
- ✓ **Total Investments** (Loans in conventional sense) in Islamic banking sector stood at Tk. 143203.44 crores at the end of October-December 2015 quarter, which went up by Tk. 8138.47 crores or by 6.03% and by Tk. 16079.25 crores or by 12.65% compared to previous quarter and same quarter of the preceding year respectively.
- ✓ **Investment-Deposit Ratio** (Credit-Deposit Ratio in conventional sense) reached at 0.88 in October-December 2015 quarter which was 0.86 at the previous quarter and remained same 0.88 at the end of December 2014.
- ✓ **Surplus Liquidity** of Islamic banking industry stood at Tk. 13115.80 crores at the end of October-December 2015 quarter, which was lower by Tk. 573.69 crores (4.19%) and higher at Tk. 471.55 crores (3.73%) compared to the previous quarter and corresponding quarter of the preceding year respectively.
- ✓ **Total Remittances** mobilized by the Islamic banking sector stood at Tk. 9780.19 crores at the end of October-December 2015 quarter, which was lower by Tk. 504.36 crores or by 4.90% and higher by Tk. 613.47 crores or by 6.69% 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 1010 at the end of the quarter under review which was 983 during the previous quarter and 934 during the same quarter of the last year.
- ✓ **Total Manpower** in Islamic banking sector was 28196 in number at the end of the quarter under review which was greater by 534 persons than that of the last quarter and by 994 persons compared to the same quarter of the last year.

² Keynote address delivered by Dr. Atiur Rahman, Governor, Bangladesh Bank at the IFSB-BB Seminar on the Prospects and Challenges in Development of Islamic Finance for Bangladesh held on 23 September 2013 at Hotel Purbani International, Dhaka.

Table 1: Islamic Banking Activities in Bangladesh, October-December 2015

	December-15# Quarter	September-15 Quarter	December-14 Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Taka in Crore)	163095.24	157560.52	144148.97	5534.73	18946.28	3.51	13.14
a) Full-fledged Islamic Banks	155023.25	149416.52	136709.89	5606.73	18313.36	3.75	13.40
b) Conventional banks having Islamic banking branches	5189.24	5409.42	5171.93	-220.18	17.31	-4.07	0.33
c) Islamic banking windows	2882.76	2734.58	2267.14	148.18	615.61	5.42	27.15
Total Investments* (Taka in Crore)	143203.44	135064.98	127124.19	8138.47	16079.25	6.03	12.65
a) Full-fledged Islamic Banks	134989.46	127887.26	121321.42	7102.21	13668.04	5.55	11.27
b) Conventional banks having Islamic banking branches	6150.83	5233.57	4137.59	917.26	2013.23	17.53	48.657
c) Islamic banking windows	2063.15	1944.15	1665.18	119.00	397.98	6.12	23.90
Investment/Deposit Ratio	0.88	0.86	0.88	0.02	0.00	2.43	-0.44
a) Full-fledged Islamic Banks	0.87	0.86	0.89	0.01	-0.02	1.74	-1.88
b) Conventional banks having Islamic banking branches	1.19	0.97	0.80	0.22	0.39	22.51	48.16
c) Islamic banking windows	0.72	0.71	0.73	0.00	-0.02	0.67	-2.56
Liquidity Surplus(+)/Deficit(-) (Taka in Crore)	13115.80	13689.49	12644.25	-573.69	471.55	-4.19	3.73
a) Full-fledged Islamic Banks	12091.97	12581.60	10711.07	-489.63	1380.90	-3.89	12.89
b) Conventional banks having Islamic banking branches	542.45	726.54	1456.62	-184.09	-914.17	-25.34	-62.76
c) Islamic banking windows	481.39	381.35	476.56	100.04	4.83	26.23	1.01
Total Remittances (Taka in Crore)	9780.19	10284.55	9166.73	-504.36	613.47	-4.90	6.69
a) Full-fledged Islamic Banks	9685.17	10212.98	9088.40	-527.81	596.77	-5.17	6.57
b) Conventional banks having Islamic banking branches	93.27	71.13	77.81	22.14	15.46	31.12	19.87
c) Islamic banking windows	1.7498	0.4368	0.5166	1.31	1.23	300.60	238.71
Total Branches	1010	983	934	27	76	2.75	8.14
a) Full-fledged Islamic Banks	965	938	890	27	75	2.88	8.43
b) Conventional banks having Islamic banking branches	20	20	19	0	1	0.00	5.26
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	28196	27662	27202	534	994	1.93	3.65
a) Full-fledged Islamic Banks	27632	27087	26660	545	972	2.01	3.65
b) Conventional banks having Islamic banking branches	412	420	404	-8	8	-1.90	1.98
c) Islamic banking windows	152	155	138	-3	14	-1.94	10.14

* = Excluding Inter-Bank Items.

Provisional

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

Items	October-December 2015 #		
	All Banks	Islamic Banks	Share of Islamic Banks Among All Banks
	1	2	$3=(2/1*100)$
Total Deposits (In Crore Taka)	745023.10	163095.24	21.89
Total Credit (In Crore Taka)	617473.50	143203.44	23.19
Remittances (In Crore Taka)	27861.53	9780.19	35.10
Total Excess Liquidity (In Crore Taka)	123437.27	13115.80	10.63
Total Number of Bank Branches	9397	1010	10.75
Total Agricultural Credit (In Crore Taka)	8755.99	611.06	6.98

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

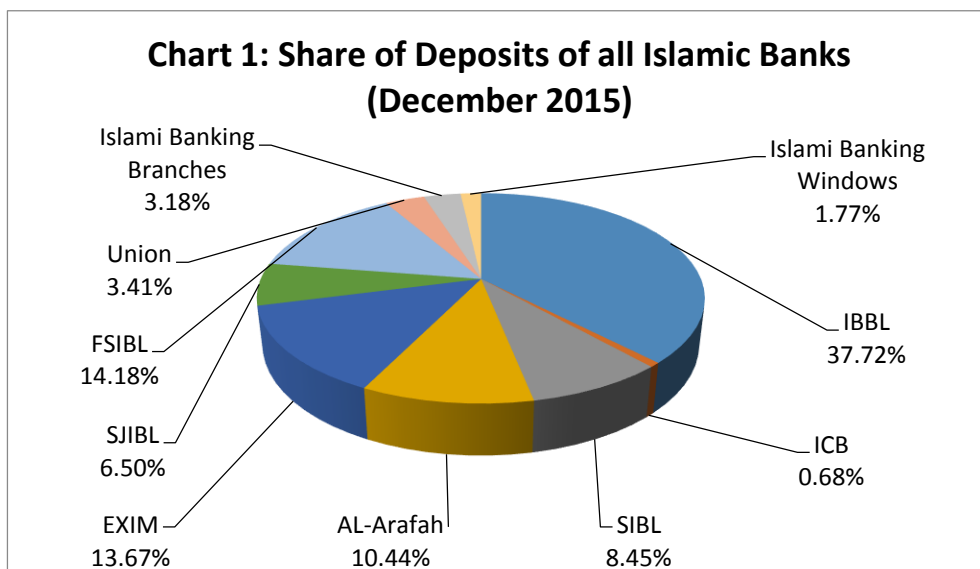
Provisional

Mobilization of Deposits

Total deposits of Islamic banking industry stood at Tk. 163095.24 crores at the end of the quarter October-December 2015, which was higher by 5534.73 crores (3.51%) and by Tk. 18946.28 crores (13.14%) respectively as compared to the previous quarter and the corresponding quarter of the preceding year. Among total deposits, demand deposit was Tk. 17732.65 crores and time deposit was Tk. 145362.60 crores. The share of total deposits of Islami banks accounted for 21.89% among all banks during the period under review.

Total deposits of the eight full-fledged Islamic banks accounted for 95.05% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 155023.25 crores as on end December 2015.

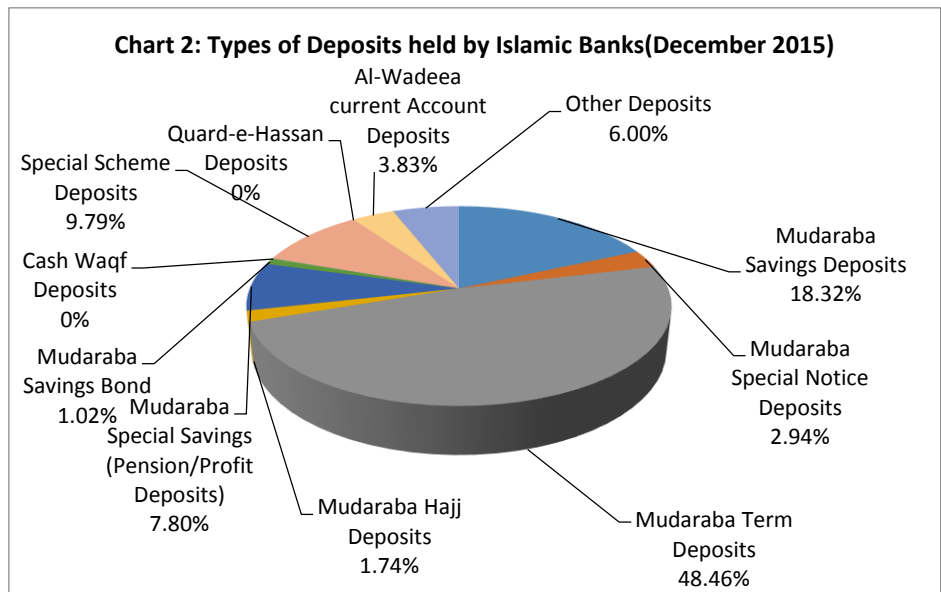
Among Islamic banks, Islami Bank Bangladesh Limited accounted for the biggest share of



deposits (37.72%) [chart-1], followed by First Security Islami Bank Ltd.(14.18%), Exim Bank Ltd. (13.67%), , Al-Arafah Islami Bank Ltd. (10.44%), Social Islami Bank Ltd. (8.45%), Shahjalal Islami Bank Ltd. (6.50%), Union Bank Limited (3.41%), Islami banking branches (3.18%), Islami banking windows (1.77%) and ICB Islamic Bank Limited (0.68%).

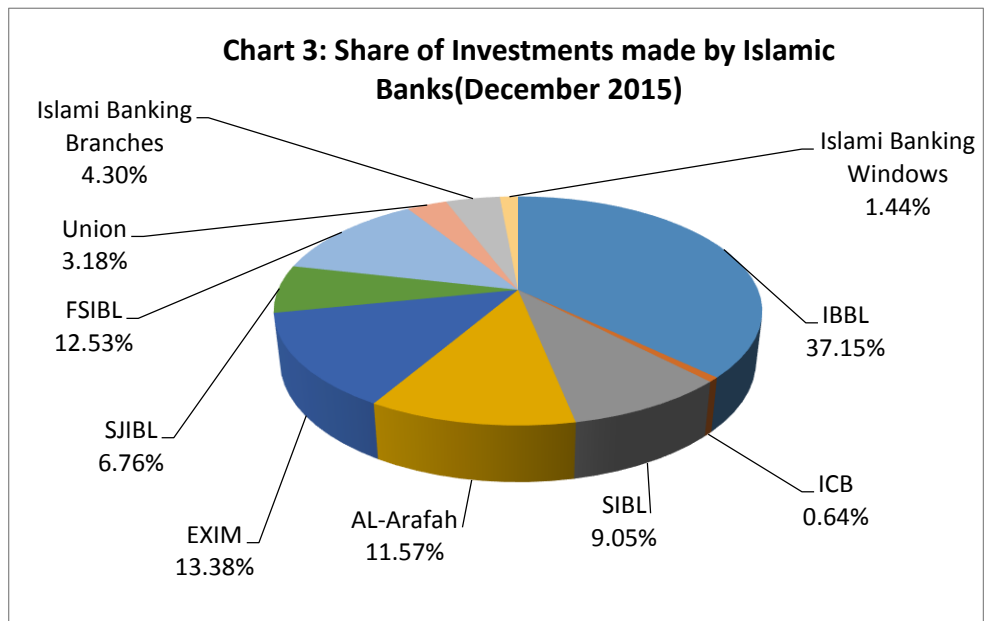
Types of Deposits

Among different types of deposits of the Islamic Banking industry, Mudaraba Term Deposits secured the highest position (48.46%) [chart-2] followed by Mudaraba Savings Deposits (18.32%), Special Scheme Deposit (9.79%), Mudaraba Special Savings pension/profit Deposits (7.80%), Other deposits (6.00%), Current Account Deposits (3.83%), Mudaraba Special Notice Deposits(2.94%), Mudaraba Savings Bond (1.02%) etc.



Investments

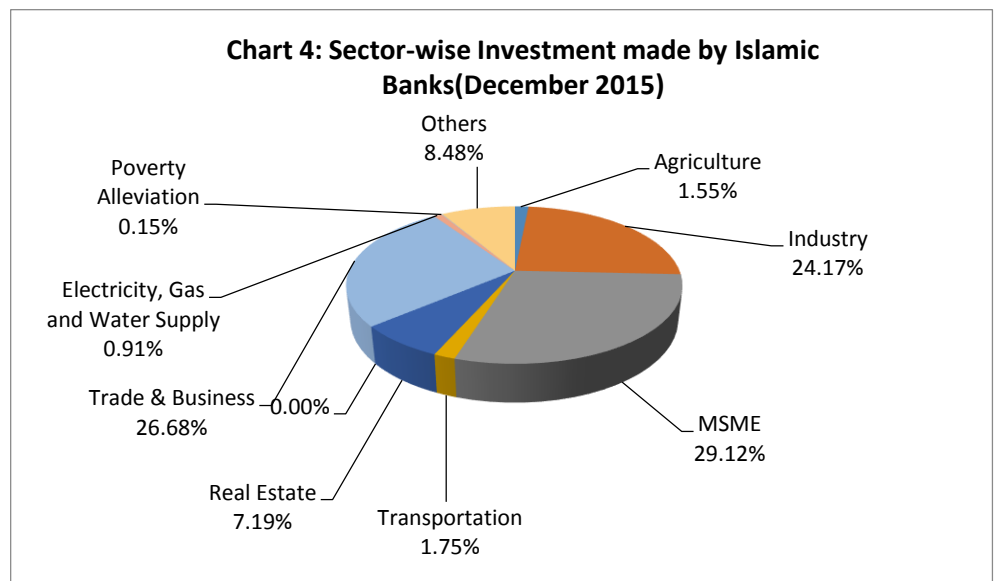
Total amount of investments in Islamic Banking industry reached at Tk. 143203.44 crores at the end of the quarter October-December 2015. During the quarter under review, investments increased by 6.03% and 12.65% respectively as compared to the previous quarter and the corresponding quarter of the preceding year. The share of total Investment of Islamic banks accounted for 23.19% among all banks.



Among total investments of Islami banks, 94.26% were made by 8 full-fledged Islamic banks, 4.30% by the scheduled banks' Islamic banking branches and the rest 1.44% 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 37.15% at the end of the quarter October-December 2015, (chart-3). The share of investments made by other Islamic banks included EXIM Bank Ltd. (13.38%), First Security Islami Bank Ltd (12.53%), Al Arafah Islami Bank Ltd. (11.57%), Social Islami Bank Ltd (9.05%), Shahjalal Islami Bank (6.76%), Islami banking branches (4.30%), Union Bank (3.18%), Islami banking windows (1.44%) and ICB Islami Bank Ltd (0.64%).

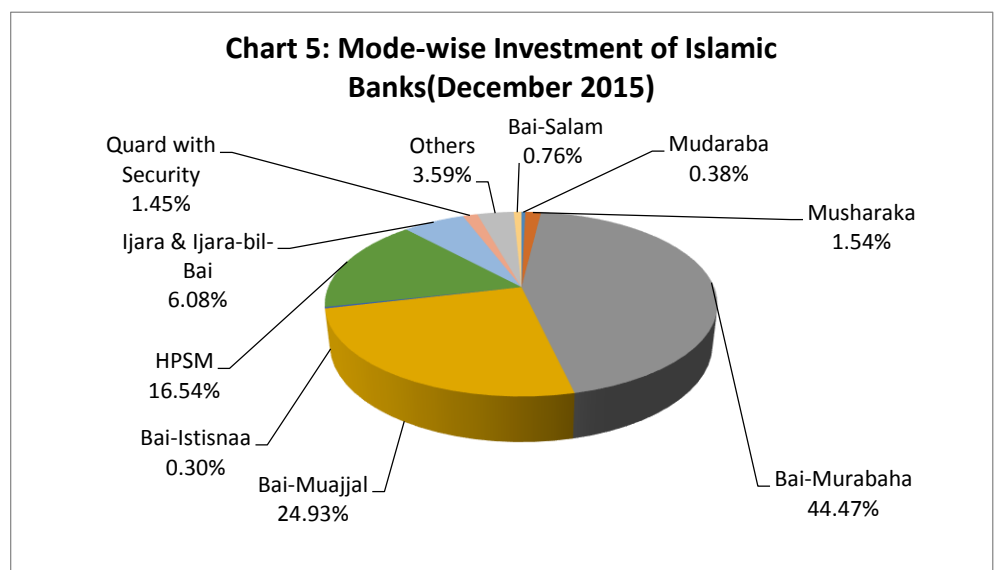
Sector-wise Investments

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 29.12% (chart-4) at the end of the quarter October-December 2015. The next position was occupied by Business & Trade sector (26.68%) followed by Industrial sector (24.17%), others (8.48%), Real Estate (7.19%), , Transportation (1.75%), Agriculture (1.55%), Electricity, Gas and Water supply (0.91%) and Poverty Alleviation (0.15%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.47%) at the end of the quarter October-December 2015, [chart-5] followed by Bai-Muajjal (24.93%), HPSM (16.54%), Ijara & Ijara-bil-Bai (6.08%), others (3.59%), Quard with Security (1.45%), Musharaka (1.54%), Bai-Salam(0.76%), Bai-Istisna (0.30%) and Mudaraba (0.38%).



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 October-December 2015 quarter, investments in agricultural sector made by Islamic banking Industry reached at Tk. 611.06 crores which was lower by Tk. 83.15 crores and higher by Tk. 256.99 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 6.98% 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

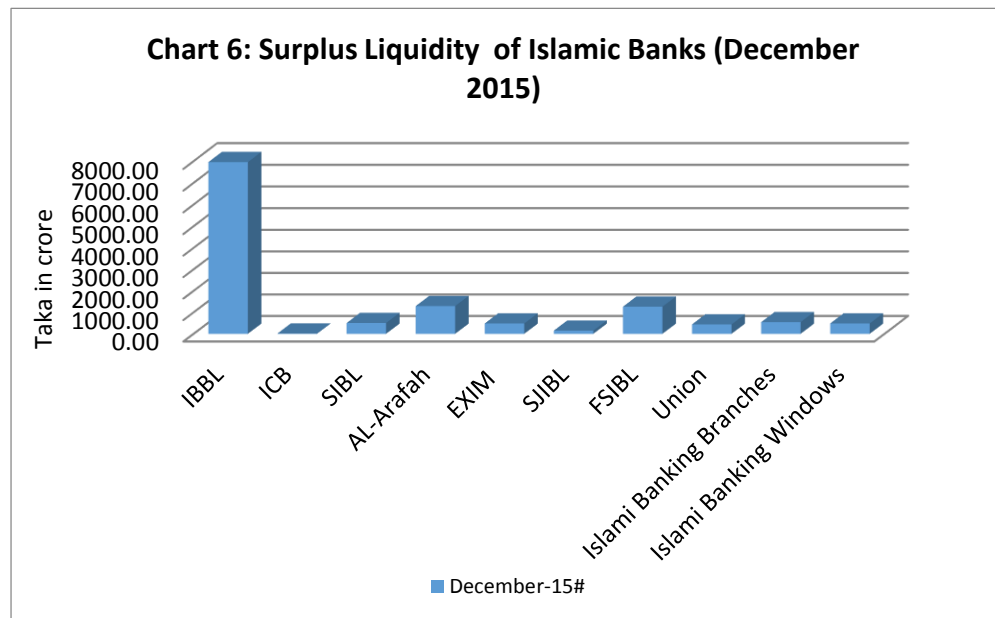
(Taka in crore)

Details	Total Investment		Agricultural Sector						
	Target	Actual Investment	Investment Target	Actual Investment/Di sbursement	Recovery	Investm ent/Outs tanding	Overdue Investment	Classified Investment	
1	2	3	4	5	6	7	8	9	
December-15#	39126.29	55602.90	439.77	611.06	590.82	2415.53	526.46	821.54	
September-15	26033.69	38385.44	439.67	694.22	386.95	2355.41	624.95	877.65	
December-14	34049.31	49834.49	446.39	354.08	323.86	1702.75	510.98	711.00	
Changes	Quarterly	13092.59	17217.46	0.10	-83.15	203.87	60.12	-98.49	-56.11
	Annual	5076.98	5768.40	-6.62	256.99	266.96	712.78	15.48	110.54

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Liquidity Situation

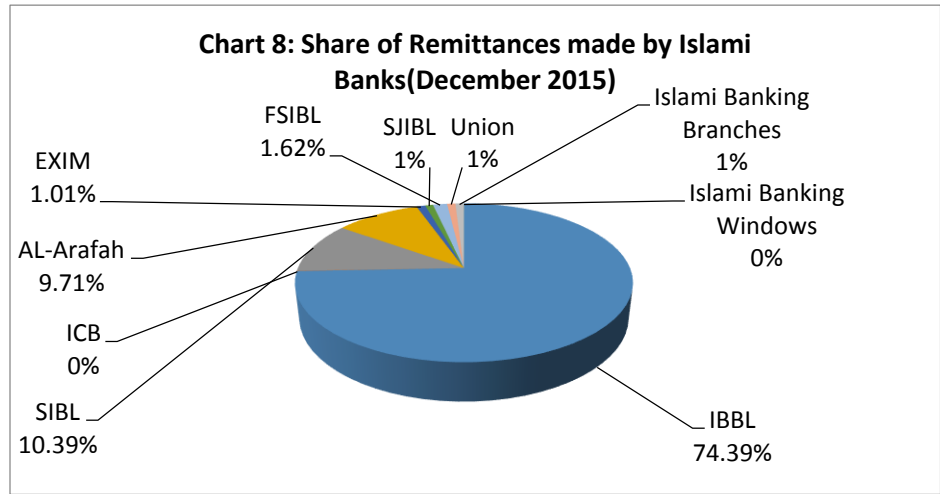
At the end of the quarter October-December 2015, surplus liquidity in the Islamic banking sector stood at Tk.13115.80 crores which was lower by Tk.573.79 crores or by 4.19% and higher by Tk. 471.55 crores or by 3.73% than the last quarter and the same quarter of the previous year respectively. The surplus liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of 7 conventional banks stood at Tk. 12091.97 crores, Tk.



542.45 crores and Tk. 481.39 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 10.63% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in chart 6.

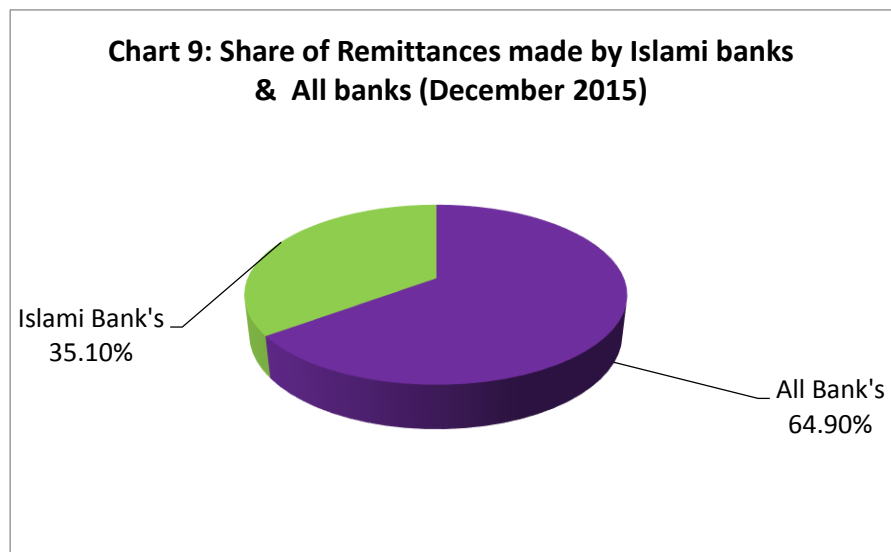
Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry is playing a vital role in collecting foreign remittances and disbursing the same transferring among beneficiaries across the country. During October-December 2015 amount of remittances reached at Tk.9780.19 crores which was lower by Tk. 504.36 crores or by 4.90% and higher by Tk. 613.47 crores or by 6.69%



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 (74.39%) in respect of remittance collection at the end of December 2015. The shares of remittance of other Islamic banks included Social Islami Bank Ltd (10.39%), Al Arafah Islami Bank Ltd. (9.71%), First Security Islami Bank Ltd (1.62%), EXIM Bank Ltd. (1.01%), Shahjalal Islami Bank (0.90%), Islamic banking branches(0.95%) and

Union Bank Ltd (0.94%). The Islamic Banking Industry accounted for 35.10% 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 1010 at the end of the quarter under review which was 983 at the end of the previous quarter and was 934 at the end of the preceding quarter of December 2014. At the end of October-December 2015 quarter, among the Islamic Banking Industry, 8 full-fledged Islamic banks had 965 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 10.75% 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 (October-December, 2015)

Name of the Bank		Urban	Rural*	Total
A)	Full-fledged Islamic Banks	589	376	965
1	Islami Bank Bangladesh Limited*	217	87	304
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited*	60	51	111
4	Al-Arafah Islami Bank Limited	67	62	129
5	EXIM Bank Limited	58	45	103
6	Shahjalal Islami Bank Limited	59	34	93
7	First Security Islami Bank Limited	77	71	148
8	Union Bank Limited	23	21	44
B)	Islamic banking branches of Conventional banks	19	1	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	3	0	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
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	633	377	1010

* 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 75.51% in this quarter compared to the previous quarter. At the end of October-December 2015 quarter, total expenditure on CSR activities of Islamic Banking Industry stood at Tk. 65.01 crores which was Tk. 37.04 crores during the previous quarter.

Events Organized by the Islamic banks during the quarter

Islamic banks' Sharia'h Supervisory Boards have inspected 239 branches and 14 meetings held during the quarter October-December 2015. Total number of publications published by the Islamic banks are 11 including Islami Bank Bangladesh Ltd. 6 (Books: Islamic banking in Bangladesh: Progress and Potentials, In house magazine: Polli Unnaayon Barta: October 2015, Brochure: Ek Nazare Islami Bank November 2015 and Other publications: Islami bank byabosther Shresthotwo o Safolyo) 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 36 seminar/workshop/conference and 59 training course in home and the participants of foreign training course is 9 in number for boost up the Sharia'h based knowledge of its employees during October-December 2015 quarter.

Concluding Remarks and Recommendations

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. 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. Thereby, this banking industry with more than 20% market share and 28196 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 investment of Islamic banking industry increased significantly which increased their total profit and decreased total surplus liquidity 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 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.

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 1.9% 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, from the stability point of view, Islamic banks are less vulnerable in terms of risks than conventional banks as they are quite able to adjust the negative financial shocks due mainly to the beauty of rules of the Islamic financial contracts. 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.

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