

Developments of Islamic Banking in Bangladesh*

October-December, 2018



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Islamic finance has emerged as a growing segment of global financial landscape. It serves as an alternative source of financing in both Muslim majority and minority countries across the world as it has the potentials to promote inclusive growth along with financial stability and build long-term resilience through innovative ways. Global Islamic finance industry owns a total size of assets worth USD 2.44 trillion in 2017 and its assets are forecast to reach USD 3.81 trillion by 2023¹. Moreover, statistics of the IFSB show that, the total assets of the Islamic banking industry in 21 countries grew by 1.7% from USD 1,625 billion in 2017Q2 to USD 1,652 billion in 2018Q2. Financing by Islamic banks in 19 countries which grew by 1.9% reached USD 1,013 billion in 2018Q2 from USD 994 billion in 2017Q2. The number of full-fledged Islamic banks and Islamic windows of conventional banks in 21 countries stood at 189 and 82 in 2018Q2 as compared to 184 and 84 in 2017Q2 respectively². Bangladesh Islamic financial industry comprising 8 full-fledged Islamic banks has also experienced impressive growth due to strong public demand and supports from central bank.

At the end of December 2018, Bangladesh's 8 full-fledged Islamic banks are operating with 1197 branches out of total 10286 branches of the whole banking industry having 59 scheduled banks. 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 October-December 2018 quarter, deposits, investments, remittance and excess liquidity of Islamic banking industry grew by 4.19%, 4.79%, 6.46% and 25.40% respectively from the previous 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.

Investment-Deposit ratio of the Islamic banks during the last quarter of 2018 has exceeded the ratio declared by the central bank.

During the December quarter, excess liquidity increased compared to the previous quarter. However, introducing Sukuk or Islamic bond could be an alternative in upcoming years to resolve the excess liquidity problem.

Inflow of remittances through the Islamic banks has been increasing significantly over the last few years and recently it has captured 43% share of remittances collected by the entire banking industry.

¹State of the Global Islamic Economy Report 2018/19, Thomson Reuters

² Prudential and Structural Islamic Financial Indicators, Islamic Financial Services Board (IFSB)

Islamic Banking Sector in Bangladesh, October-December 2018 Highlights

Total Deposits

Total Deposits in Islamic banking industry reached at Tk. 237366.91 crores at the end of October-December 2018 quarter, which increased by Tk. 9552.47 crores or by 4.19% compared to previous quarter and by Tk. 23051.40 crores or by 10.76% compared to corresponding quarter of the last year.

Total Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 230907.28 crores at the end of October-December 2018 quarter, which went up by Tk. 10564.13 crores or by 4.79% and by Tk. 29807.69 crores or by 14.82% compared to previous quarter and same quarter of the preceding year respectively.

Investment-Deposit Ratio

During the current quarter Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) remained unchanged at the level of the previous quarter and stood at 0.97 which was 0.94 at the end of December 2017.

Excess Liquidity

Excess Liquidity of Islamic banking industry stood at Tk. 6524.21 crores at the end of October-December 2018 quarter, which was higher by Tk. 1321.42 crores (25.40%) and lower by Tk. 2115.64 crores (24.49%) compared to the previous quarter and corresponding quarter of the previous year respectively.

Total Remittances

Total Remittances mobilized by the Islamic banking sector stood at Tk. 13075.81 crores at the end of October-December 2018 quarter, which was higher by Tk. 793.86 crores or by 6.46% compared to the previous quarter as well as higher by Tk. 2004.95 crores or by 18.11% compared to the same quarter of the previous year.

Branches

The Number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1241 at the end of the quarter under review which was 1200 during the previous quarter and 1168 during the same quarter of the last year.

Manpower

Total employment in the Islamic banking sector decreased by 31 persons and stood at 33027 at the end of December 2018 from 33058 at the end of September 2018. However, the employment remained higher compared to 30991 at the end of December 2017.

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

(In Crore Taka)

Items	October-December 2018 [@]			July-September 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	1009981	237366.91	23.50	23.31
Total Investments	960462	230907.28	24.04	24.02
Remittances	30413	13075.81	43	38.03
Total Excess Liquidity	76393.1*	6524.21	8.54	6.45
Total Number of Bank Branches	10286	1241	12.06	11.81
Total Agricultural Credit	40112.35	2811.72	7	2.09

Source: Statistics Department & BRPD, Bangladesh Bank.

*Major Economic Indicators: Monthly Updates, Volume 1/2019, MPD, Bangladesh Bank.

[@] Provisional

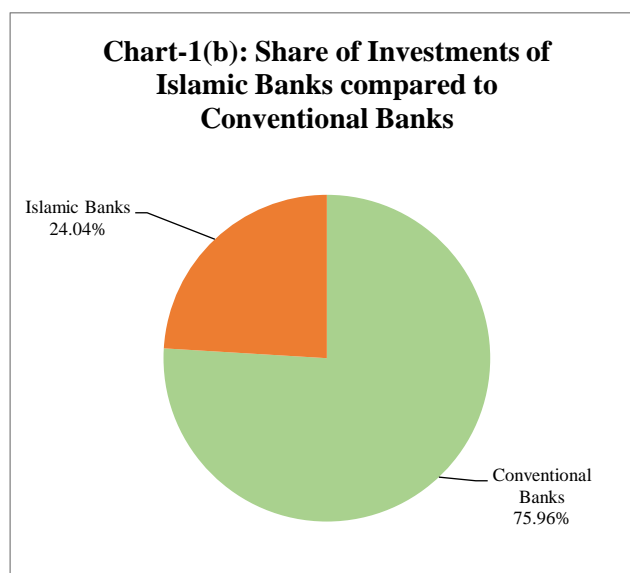
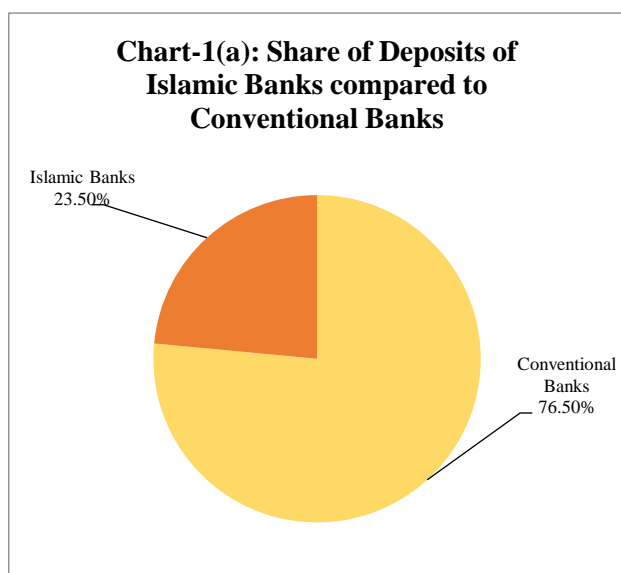


Table 2: Islamic Banking Activities in Bangladesh, October-December 2018

(Taka in Crore)

Statistics of Islamic Banking Industry	December-18# Quarter	September-18# Quarter	December-17# Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Outstanding)	237366.91	227814.44	214315.52	9552.47	23051.40	4.19	10.76
a) Full-fledged Islamic Banks	223657.17	215309.77	203698.12	8347.40	19959.05	3.88	9.80
b) Conventional banks having Islamic banking branches	7478.93	6527.12	5922.29	951.80	1556.64	14.58	26.28
c) Islamic banking windows	6230.82	5977.55	4695.11	253.27	1535.71	4.24	32.71
Total Investments* (Outstanding)	230907.28	220343.15	201099.59	10564.13	29807.69	4.79	14.82
a) Full-fledged Islamic Banks	219796.71	209806.90	191279.35	9989.81	28517.36	4.76	14.91
b) Conventional banks having Islamic banking branches	6161.58	5776.58	5583.04	385.00	578.54	6.66	10.362
c) Islamic banking windows	4948.99	4759.67	4237.20	189.32	711.79	3.98	16.80
Investment/Deposit Ratio	0.97	0.97	0.94	0.01	0.03	0.58	3.67
a) Full-fledged Islamic Banks	0.98	0.97	0.94	0.01	0.04	0.85	4.65
b) Conventional banks having Islamic banking branches	0.82	0.89	0.94	-0.06	-0.12	-6.91	-12.61
c) Islamic banking windows	0.79	0.80	0.90	0.00	-0.11	-0.25	-11.99
Liquidity Excess(+)/Shortfall(-)	6524.21	5202.79	8639.85	1321.42	-2115.64	25.40	-24.49
a) Full-fledged Islamic Banks	4848.18	4253.26	7791.84	594.92	-2943.66	13.99	-37.78
b) Conventional banks having Islamic banking branches	702.23	130.04	110.06	572.19	592.17	440.01	538.02
c) Islamic banking windows	973.80	819.49	737.95	154.31	235.85	18.83	31.96
Total Remittances	13075.81	12281.95	11070.85	793.86	2004.95	6.46	18.11
a) Full-fledged Islamic Banks	13001.03	12215.06	10980.14	785.97	2020.89	6.43	18.40
b) Conventional banks having Islamic banking branches	64.60	57.00	57.45	7.60	7.15	13.34	12.44
c) Islamic banking windows	10.18	9.89	33.26	0.29	-23.09	2.91	-69.41
Total Number of Branches	1241	1200	1168	41	73	3.42	6.25
a) Full-fledged Islamic Banks	1197	1156	1124	41	73	3.55	6.49
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	33027	33058	30991	-31	2036	-0.09	6.57
a) Full-fledged Islamic Banks	32446	32482	30408	-36	2038	-0.11	6.70
b) Conventional banks having Islamic banking branches	388	395	405	-7	-17	-1.77	-4.20
c) Islamic banking windows	193	181	178	12	15	6.63	8.43

* = Excluding Inter-Bank Items

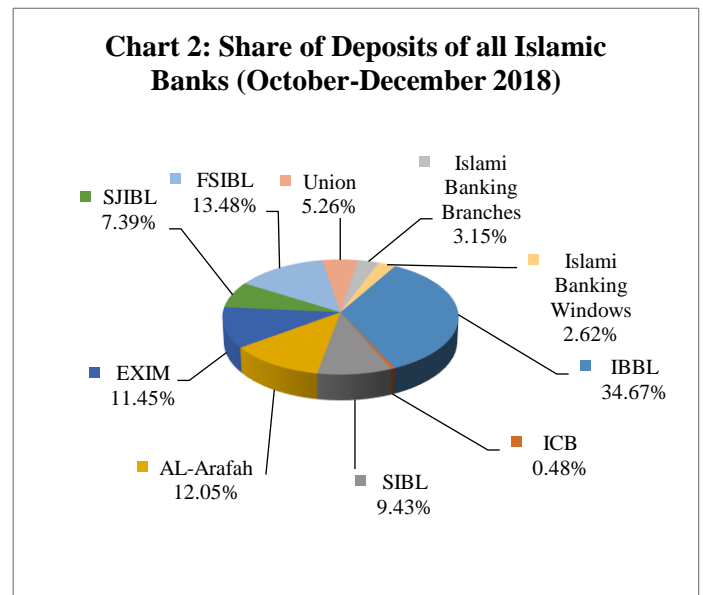
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Mobilization of Deposits

Total Deposits in Islamic banking industry reached at Tk. 237366.91 crores at the end of October-December 2018 quarter, which increased by Tk. 9552.47 crores or by 4.19% compared to previous quarter and by Tk. 23051.40 crores or by 10.76% compared to corresponding quarter of the last year. Among total deposits, demand deposit was Tk. 27770.93 crores and time deposit was Tk. 209595.98 crores. The share of total deposits of Islamic banks accounted for 23.50% among all banks during the period under review.

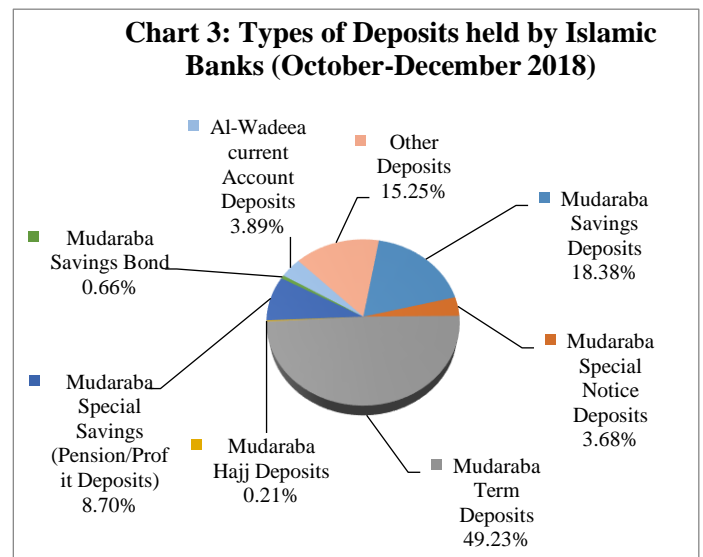
Total deposits of the eight full-fledged Islamic banks accounted for 94.22% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at Tk. 223657.17 crores at the end of December 2018.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (34.67%) [Chart-2], followed by First Security Islami Bank Ltd. (13.48%), Al-Arafah Islami Bank Ltd. (12.05%), EXIM Bank Ltd. (11.45%), Social Islami Bank Ltd. (9.43%), Shahjalal Islami Bank Ltd. (7.39%), Union Bank Limited (5.26%), Islamic banking branches (3.15%), Islamic banking windows (2.62%) and ICB Islamic Bank Limited (0.48%).



Types of Deposits

Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (49.23%) [Chart-3] followed by Mudaraba Savings Deposits (MSD) (18.38%), Other Deposits (15.25%), Mudaraba Special Savings (pension/profit) Deposits (8.70%), Al-Wadeeah Current Account Deposits (3.89%), Mudaraba Special Notice Deposits (3.68%), Mudaraba Savings Bond (0.66%) and Mudaraba Hajj Deposits (0.21%) etc.

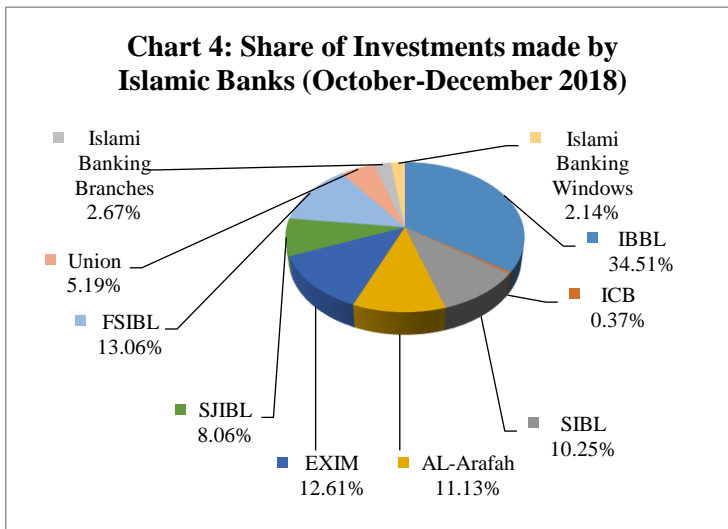


Investments

Total Investments (Loans in conventional sense) in Islamic banking sector stood at Tk. 230907.28 crores at the end of October-December 2018, which went up by Tk. 10564.13 crores or by 4.79% and by Tk. 29807.69 crores or by 14.82% compared to previous quarter and same quarter of the preceding year respectively. The share of total Investment of Islamic banks accounted for 24.04% among all banks.

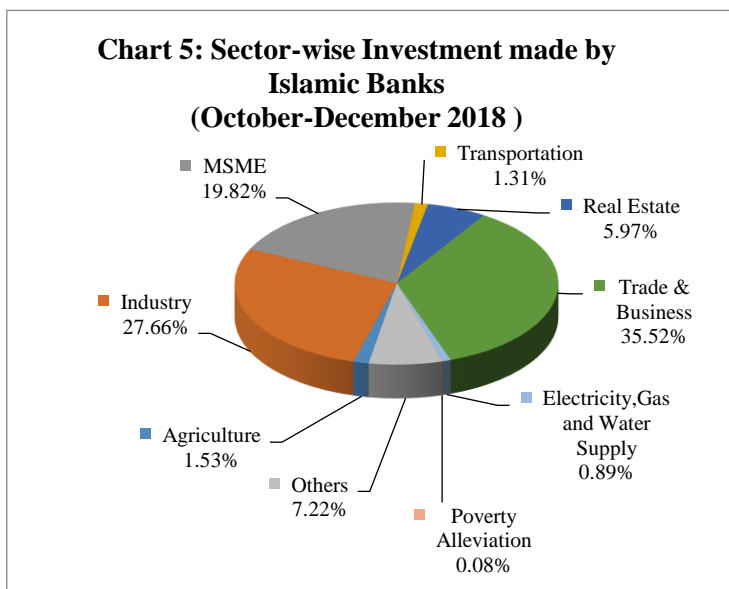
Among total investments of Islamic banks, 95.19% were made by 8 full-fledged Islamic banks, 2.67% by the conventional banks' Islamic banking branches and the rest 2.14% by the conventional banks' Islamic banking windows.

Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (34.51%) at the end of the quarter October-December 2018, (Chart-4) followed by First Security Islami Bank Ltd. (13.06%), EXIM Bank Ltd. (12.61%), Al-Arafah Islami Bank Ltd. (11.13%), Social Islami Bank Ltd. (10.25%), Shahjalal Islami Bank Ltd. (8.06%), Union Bank Ltd. (5.19%) and ICB Islamic Bank Ltd. (0.37%).



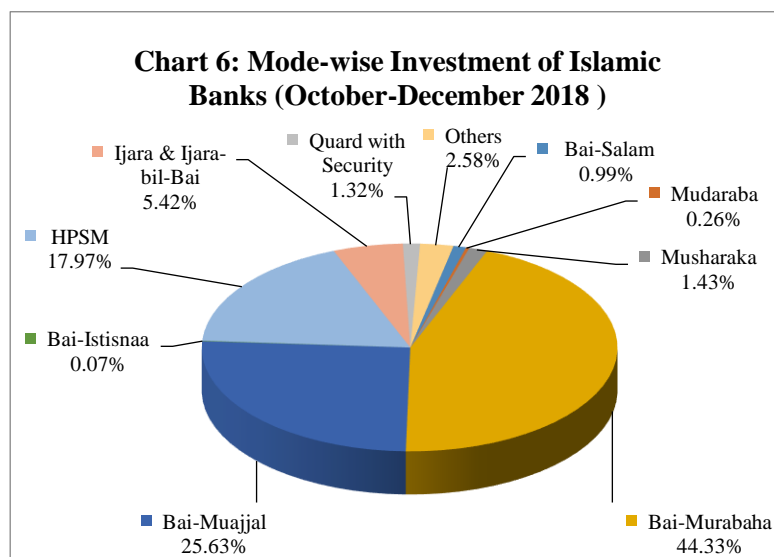
Sector-wise Investments

After analyzing the sector-wise investment, it can be observed that investment in the Trade and Business sector (35.52%) was the highest among all sectors (Chart-5) at the end of the October-December 2018 quarter. The next position was occupied by Industry sector which stood at 27.66% followed by MSME (Micro, Small and Medium Enterprises, 19.82%), Others (7.22%), Real Estate (5.97%), Agriculture (1.53%), Transportation (1.31%), Electricity, Gas and Water supply (0.89%) 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 (44.33%) at the end of October-December 2018, [Chart-6] followed by Bai-Muajjal (25.63%), HPSM (17.97%), Ijara & Ijara-bil-Bai (5.42%), Others (2.58%), Musharaka (1.43%), Quard with Security (1.32%), Bai-Salam (0.99%), Mudaraba (0.26%) and Bai-Istisna (0.07%).



Investment situation in the Agricultural sector

Islamic Banking Industry has made significant contributions in different sub-sectors of agricultural and rural investment programs. During October-December 2018 quarter, investments in agricultural sector made by Islamic banking industry reached at Tk. 2811.72 crores which was higher by Tk. 1982.36 crores than the previous quarter and Tk. 2048.33 crores compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 7% 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 (Tk. In Crore)

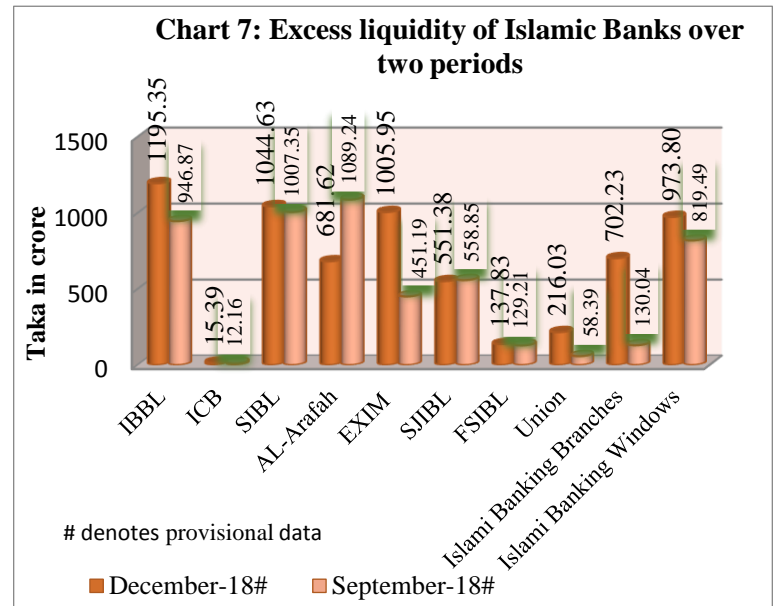
Details	Total Investment		Investment in Agricultural Sector during the quarter						
	Target	Actual Investment	Investment Target	Actual Investment/ Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8	9	10
December-18#	33663.34	68561.38	666.67	2811.72	421.76	2526.05	3466.26	936.58	1309.76
September-18#	33663.34	58514.40	665.19	829.36	124.68	842.87	3296.88	1138.83	1674.14
December-17#	31190.69	58478.39	606.27	763.39	125.92	949.84	3317.05	647.02	1047.21
Quarterly Changes	0.00	10046.97	1.48	1982.36	2401.37	2623.38	-2360.30	170.93	-364.38
Annual Changes	2472.65	10082.98	60.41	2048.33	2400.14	2516.42	-2380.47	662.74	262.55

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Liquidity Situation

Excess Liquidity of Islamic banking industry stood at Tk. 6524.21 crores at the end of October-December 2018 quarter, which was higher by Tk. 1321.42 crores (25.40%) and lower by Tk. 2115.64 crores (24.49%) compared to the previous quarter and corresponding quarter of the previous year respectively. The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic windows of conventional banks stood at Tk. 4848.18 crores, Tk. 702.23 crores, and Tk. 973.80 crores respectively.

During the December quarter, excess liquidity increased compared to the previous quarter. However, introducing Sukuk or Islamic bond could be an alternative in upcoming years to resolve the excess liquidity problem.

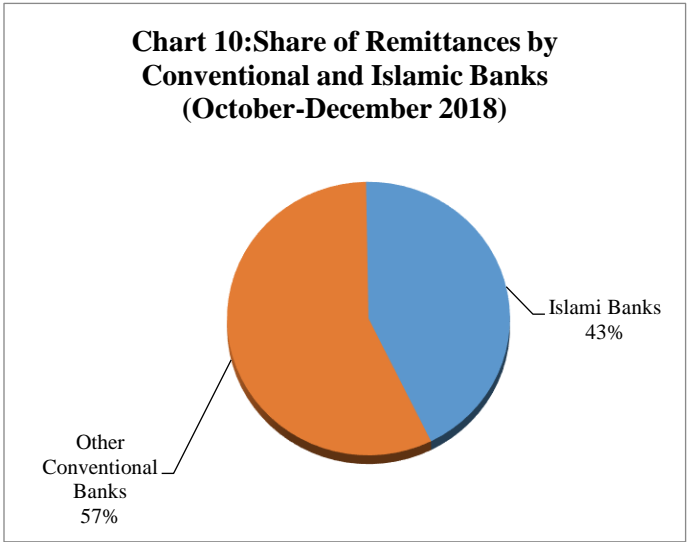
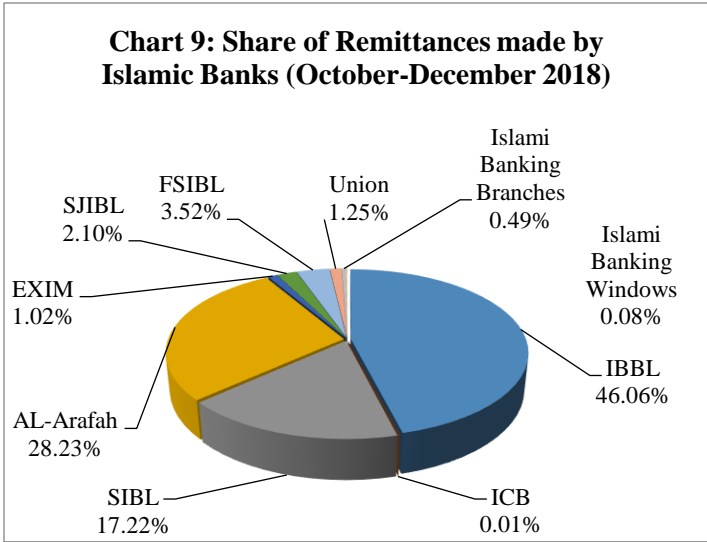


The share of total excess liquidity of Islamic banks accounted for 8.54% among all banks during the period under review. Summary of liquidity situation in the Islamic Banking sector is shown in Chart 7.

Remittances Mobilized by the Islamic Banking Sector

Islamic Banking Industry of the country is playing a vital role in collecting foreign remittances and disbursing it among beneficiaries across the country. Total Remittances mobilized by the Islamic banking sector stood at Tk. 13075.81 crores at the end of October-December 2018 quarter, which was higher by Tk. 793.86 crores or by 6.46% compared to the previous quarter as well as higher by Tk. 2004.95 crores or by 18.11% compared to the same quarter of the previous year. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (46.06%) in respect of remittance collection at the end of October-December 2018. The shares of remittances collected by other Islamic banks were Al-Arafah Islami Bank Ltd. (28.23%), Social Islami Bank Ltd (17.22%), First Security Islami Bank Ltd (3.52%), Shahjalal Islami Bank (2.10%), Union Bank Ltd (1.25%), EXIM Bank Ltd. (1.02%), Islamic banking branches of conventional banks (0.49%), Islamic banking windows (0.08%) and ICB Islamic Bank (0.01%) [Chart-9].

Statistics shows that the inflow of remittances through the Islamic banks has been increasing significantly over the last few years.



The Islamic Banking Industry accounted for 43% 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 including Islamic banking branches/windows of conventional banks are provided in Chart-10.

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 October-December quarter had been recorded Tk. 62.68 crores which was 85.30% higher than the Tk. 33.82 crores of July-September quarter of 2018.

Expansion of Branches

The Number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks stood at 1241 at the end of the quarter under review which was 1200 during the September-2018 quarter and 1168 during the December quarter of the last year. At the end of October-December 2018 quarter, 8 full-fledged Islamic banks had 1197 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 Islamic banks among all scheduled banks accounted for 12.06% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (October-December 2018)

	Name of the Banks	Urban	Rural *	Total
	1	2	3	4=(2+3)
A)	Full-fledged Islamic Banks	693	504	1197
1	Islami Bank Bangladesh Limited *	218	124	342
2	ICB Islamic Bank Limited	28	5	33
3	Social Islami Bank Limited *	83	72	155
4	Al-Arafah Islami Bank Limited	88	80	168
5	EXIM Bank Limited	76	47	123
6	Shahjalal Islami Bank Limited	70	52	122
7	First Security Islami Bank Limited	91	86	177
8	Union Bank Limited	39	38	77
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	736	505	1241

* 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

The leading Islamic banks' Sharia'h Supervisory Boards had inspected 334 branches and 25 meetings were held during the quarter. Total numbers of publications by the Islamic banks as well as other conventional banks running Islamic banking branches or windows were 05, of which the Islami Bank Bangladesh Ltd. had 01, Dhaka Bank 03 and ICB Islamic Bank Ltd. had 01 publication during the quarter under review.

Bangladesh Bank, Bangladesh Bank Training Academy (BBTA), Bangladesh Institute of Bank Management (BIBM), Islamic Bank's Consultative Forum (IBCF) and some commercial banks arranged a number of training courses and workshops during the last quarter of 2018. Among various seminars, workshops and trainings- 'Foreign Exchange and Foreign Trade under Islamic Framework', 'Leadership and Communication Skills for Bankers', 'Prevention of Financial Crimes in Banks', 'Economic Dialogue on Green Growth', 'UCP-600 and Related ICC Guidelines', 'How to Incorporate Bio-Diversity Issues in Green Banking in Bangladesh'-these were noteworthy. Participants from different banks were present in those sessions.

Concluding Remarks and Recommendations

Islamic Finance and Banking 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. In Asia, the value of Islamic financial assets has been estimated to exceed USD 1 trillion by 2023. 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 1.69% 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. As H.E. Fazle Kabir, the Governor of Bangladesh Bank, has taken over the Chairmanship of the IFSB for 2019, Islamic financial sectors are expected to receive more attention than before. The Islamic capital market and the Islamic insurance-the other two components of Islamic finance industry are expected to be the part of a comprehensive report which will help to summarize the overall industry of Islamic finance in Bangladesh. Moreover, Islamic banks may explore 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 legal framework may be enacted for proper streamlining and supervision of this rapidly growing sector.