

Developments of Islamic Banking in Bangladesh*

October-December 2019



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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 taken by the stakeholders as well as its growing demand in the market. Bangladesh Islamic banking sector has also experienced robust growth due to policy supports and strong public demand. Recent issuance of sukuk rules by Bangladesh Securities and Exchange Commission (BSEC) would promote Islamic capital markets badly needed for financing infrastructure and industrial projects towards achieving higher inclusive GDP growth and other sustainable development goals (SDGs).

At the end of December 2019, Bangladesh's 8 full-fledged Islamic banks have been operating with 1273 branches out of total 10578 branches of the whole banking industry. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 88 Islamic banking windows of 8 conventional commercial banks are also providing Islamic financial services in Bangladesh.

At the end of the October-December 2019 quarter, deposits and investments grew by 6.91% and 4.97% respectively, while remittance and excess liquidity of Islamic banking industry increased by 23.35% and 58.75% 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.

Highlights: Islamic Banking Sector in Bangladesh, October-December 2019

Total Deposits	Total Deposits in Islamic banking industry reached BDT 2802278.03 million at the end of December, 2019 which increased by BDT 181168.76 million or 6.91% compared to end September, 2019 and by BDT 428608.90 million or 18.06% compared to the end of the same month of last year.
Total Investments	Total Investments (Loans in conventional sense) of Islamic banking sector stood at BDT 2627519.94 million at the end of December, 2019 which went up by BDT 124290.58 million or 4.97% and by BDT 318447.16 million or 8.41% compared to end September, 2019 and the end of same month of preceding year respectively.
Investment-Deposit Ratio	At the end of December 2019, Investment-Deposit Ratio (Credit-Deposit Ratio in conventional sense) stood at 0.94 which was 0.96 at the end of September 2019 and 0.97 at the end of December 2018.
Excess Liquidity	Excess Liquidity of Islamic banking industry stood at BDT 97326.36 million at the end of December, 2019 which was higher by BDT 36020.31 million (58.75%) and BDT 32084.26 million (49.18%) compared to end September, 2019 and end of the same month of the last year respectively.
Total Remittances	Total Remittances mobilized by the Islamic banking sector stood at BDT 146324.97 million during October-December 2019 quarter, which was higher by BDT 27700.84 million or by 23.35% and BDT 15566.90 million or 11.91% compared to the September quarter of 2019 and the December quarter of the 2018 year respectively. Islamic banks have captured 35.34% share of remittances collected by the entire banking industry during December 2019 quarter.
Branches	The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached at 1380 at the end of December, 2019 which was 1301 at end September, 2019 and 1241 at end December of last year.
Manpower	Total employment in the Islamic banking sector stood at 35906 at the end of December 2019 which was 36337 at end September 2019 and 33027 at end December 2018.

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

(In Million BDT)

Items	October-December 2019 [@]			July-September 2019
	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	11369796.00	2802278.03	24.65	23.98
Total Investments	10587073.00	2627519.94	24.82	24.59
Remittances	414090.80	146324.97	35.34	31.12
Total Excess Liquidity	1056460.00	97326.36	9.21	-
Total Number of Bank Branches	10578	1380	13.05	12.50
Total Agricultural Credit	430264.00	11043.94	2.57	2.07

Source: Statistics Department, MPD, Bangladesh Bank.

[@] Provisional

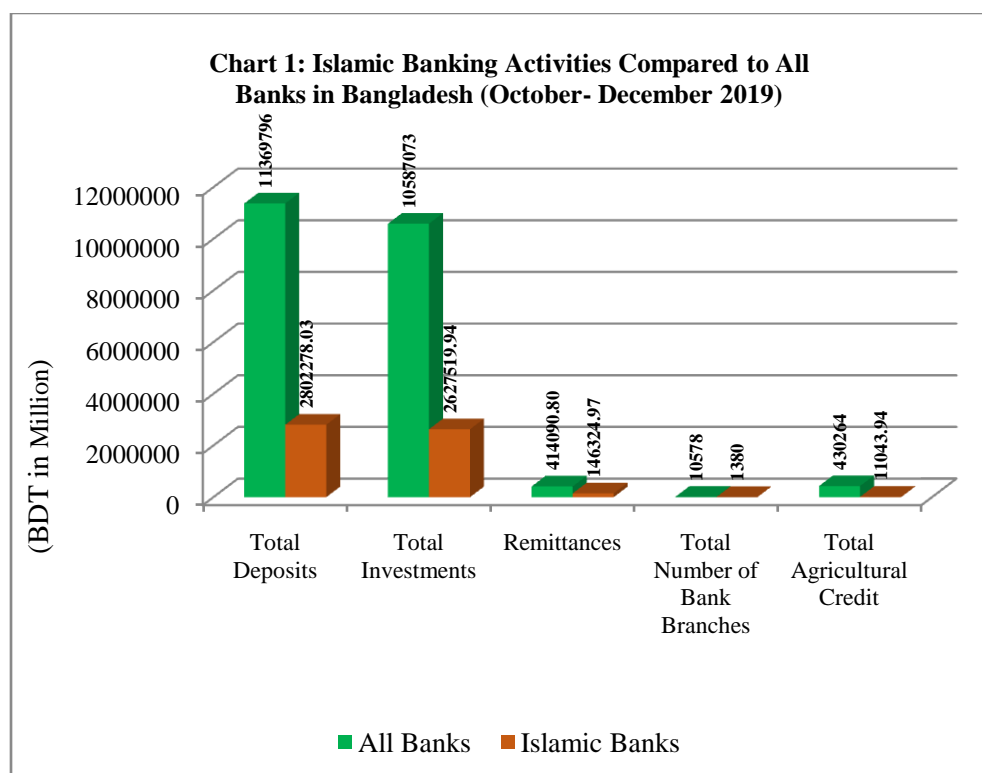


Table 2: Islamic Banking Activities in Bangladesh, October-December 2019

(In Million BDT)

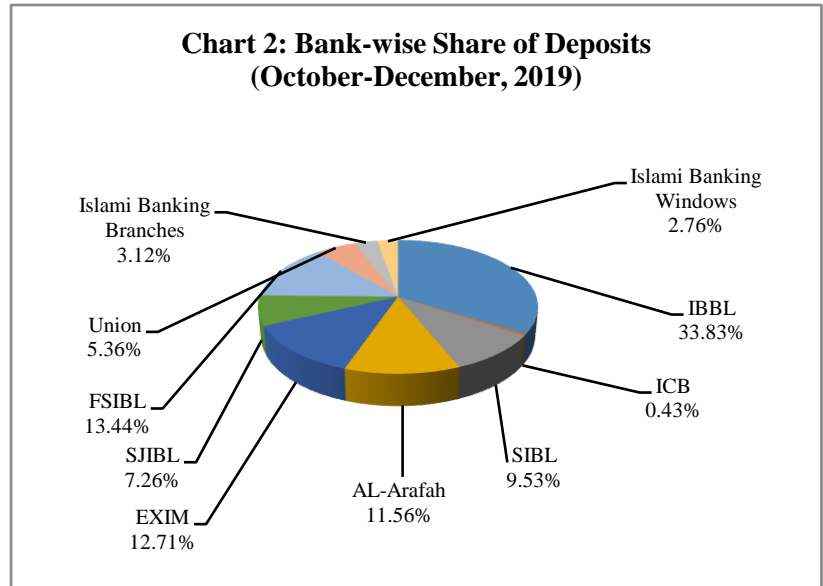
Statistics of Islamic Banking Industry	December -19# Quarter	September -19# Quarter	December -18# Quarter	Changes		% Changes	
				Quarterly	Annual	Quarterly	Annual
Total Deposits* (Outstanding)	2802278.03	2621109.26	2373669.12	181168.76	428608.90	6.91	18.06
a) Full-fledged Islamic Banks	2637564.36	2461066.50	2236571.71	176497.86	400992.66	7.17	17.93
b) Conventional banks having Islamic banking branches	87375.92	85787.77	74789.27	1588.15	12586.65	1.85	16.83
c) Islamic banking windows	77337.74	74254.99	62308.15	3082.75	15029.59	4.15	19.17
Total Investments* (Outstanding)	2627519.94	2503229.37	2309072.79	124290.58	318447.16	4.97	8.41
a) Full-fledged Islamic Banks	2498847.08	2376472.84	2197967.06	122374.24	300880.02	5.15	8.12
b) Conventional banks having Islamic banking branches	74938.57	71824.86	61615.79	3113.71	13322.78	4.34	16.57
c) Islamic banking windows	53734.29	54931.66	49489.93	-1197.38	4244.35	-2.18	8.58
Investment/Deposit Ratio	0.94	0.96	0.97	-0.94	-0.97	-	-
a) Full-fledged Islamic Banks	0.95	0.97	0.98	-0.07	-0.11	-	-
b) Conventional banks having Islamic banking branches	0.86	0.84	0.82	-0.07	-0.04	-	-
c) Islamic banking windows	0.69	0.74	0.79	-0.02	-0.11	-	-
Liquidity Excess(+)/Shortfall(-)	97326.36	61306.05	65242.10	36020.31	32084.26	58.75	49.18
a) Full-fledged Islamic Banks	75795.05	48198.11	48481.80	27596.94	27313.25	57.26	56.34
b) Conventional banks having Islamic banking branches	2533.78	-1144.72	7022.29	3678.50	-4488.51	-321.35	-63.92
c) Islamic banking windows	19840.23	14252.66	9738.01	5587.57	10102.22	39.20	103.74
Total Remittances	146324.97	118624.12	130758.07	27700.84	15566.90	23.35	11.91
a) Full-fledged Islamic Banks	145649.97	118003.18	130010.30	27646.79	15639.67	23.43	12.03
b) Conventional banks having Islamic banking branches	476.12	484.43	646.01	-8.31	-169.89	-1.72	-26.30
c) Islamic banking windows	198.87	136.51	101.76	62.36	97.12	45.69	95.44
Total Number of Branches	1380	1301	1241	79	139	6.07	11.20
a) Full-fledged Islamic Banks	1273	1221	1197	52	76	4.26	6.35
b) Conventional banks having Islamic banking branches	19	19	19	0	0	0.00	0.00
c) Islamic banking windows	88	61	25	27	63	44.26	252.00
Total Number of Manpower	35906	36337	33027	-431	2879	-1.19	8.72
a) Full-fledged Islamic Banks	35145	35659	32446	-514	2699	-1.44	8.32
b) Conventional banks having Islamic banking branches	351	384	388	-33	-37	-8.59	-9.54
c) Islamic banking windows	410	294	193	116	217	39.46	112.44

* = Excluding Inter-Bank Items

Provisional

Mobilization of Deposits

Total Deposits in Islamic banking industry reached BDT 2802278.03 million at the end of December 2019, which increased by BDT 181168.76 million or 6.91% compared to end September, 2019 and by BDT 2373669.12 million or 18.06% compared to the of same month of last year. Among the total deposits, demand deposit was BDT 267988.65 million and time deposit was BDT 2537721.04 million. The share of total deposits of Islamic banks accounted for 24.65% among the all banks at the end of December, 2019.

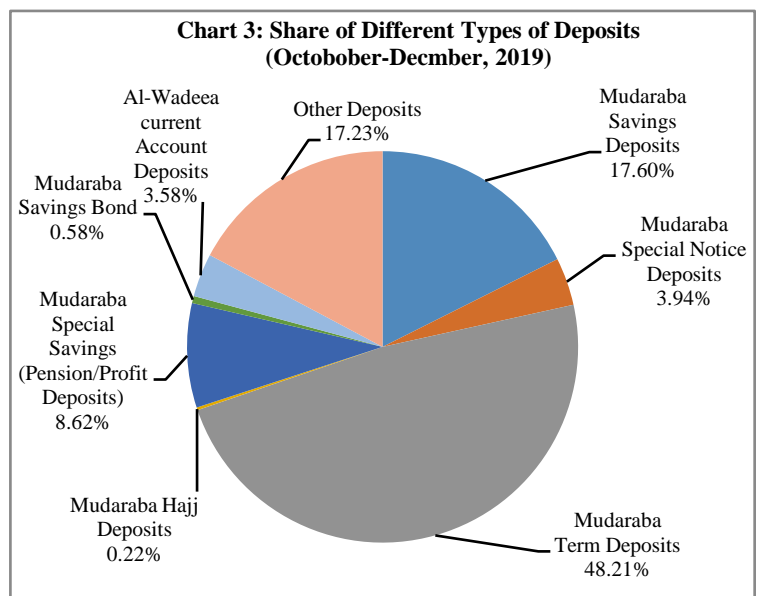


Total deposits of the eight full-fledged Islamic banks accounted for 94.12% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at BDT 2637564.36 million at the end of December 2019.

Among all Islamic banks, Islami Bank Bangladesh Limited accounted for the highest share of deposits (33.83%) followed by First Security Islami Bank Ltd. (13.44%), EXIM Bank Ltd. (12.71%), Al-Arafah Islami Bank Ltd. (11.56%), Social Islami Bank Ltd. (9.53%), Shahjalal Islami Bank Ltd. (7.26%), Union Bank Limited (5.36%), Islamic banking branches (3.12%), Islamic banking windows (2.76%) and ICB Islamic Bank Limited (0.43%),[Chart-2].

Types of Deposits

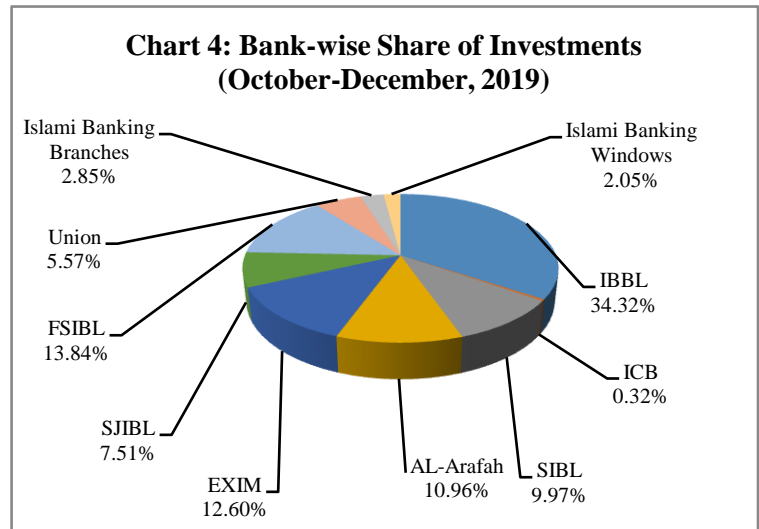
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits secured the highest position (48.21%) followed by Mudaraba Savings Deposits (MSD) (17.60%), Other Deposits (17.23%), Mudaraba Special Savings (pension/profit) Deposits (8.62%), Mudaraba Special Notice Deposits (3.94%), Al-Wadeeah Current Account Deposits (3.58%), Mudaraba Savings Bond (0.58%) and Mudaraba Hajj Deposits (0.22%) etc., [Chart-3].



Investments

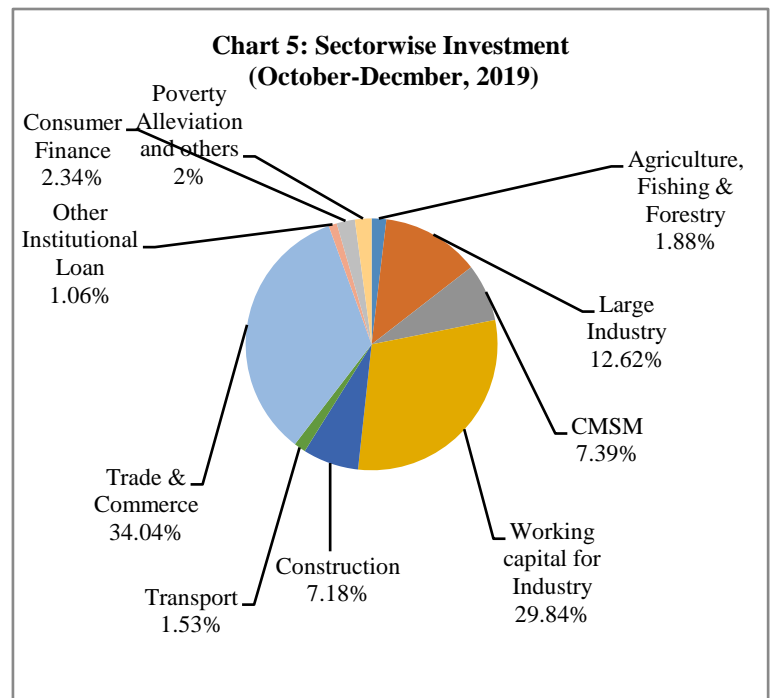
Total Investments (Loans in conventional sense) in Islamic banking sector stood at BDT 2627519.94 million at the end of December 2019, which went up by BDT 124290.58 million or 4.97% and by BDT 318447.16 million or 8.41% compared to end September, 2019 and the end of same month of preceding year respectively. The share of total Investment of Islamic banks accounted for 24.82% among all banks.

Out of total investments of Islamic banks, 95.10% was made by 8 full-fledged Islamic banks, 2.85% by the conventional banks' Islamic banking branches and the rest 2.05% by the conventional banks' Islamic banking windows. Among the 8 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. made the highest investments (34.32%) at the end of December, 2019 followed by First Security Islami Bank Ltd. (13.84%), EXIM Bank Ltd. (12.60%), Al-Arafah Islami Bank Ltd. (10.96%), Social Islami Bank Ltd. (9.97%), Shahjalal Islami Bank Ltd. (7.51%), Union Bank Ltd. (5.57%) and ICB Islamic Bank Ltd. (0.32%), (Chart-4).



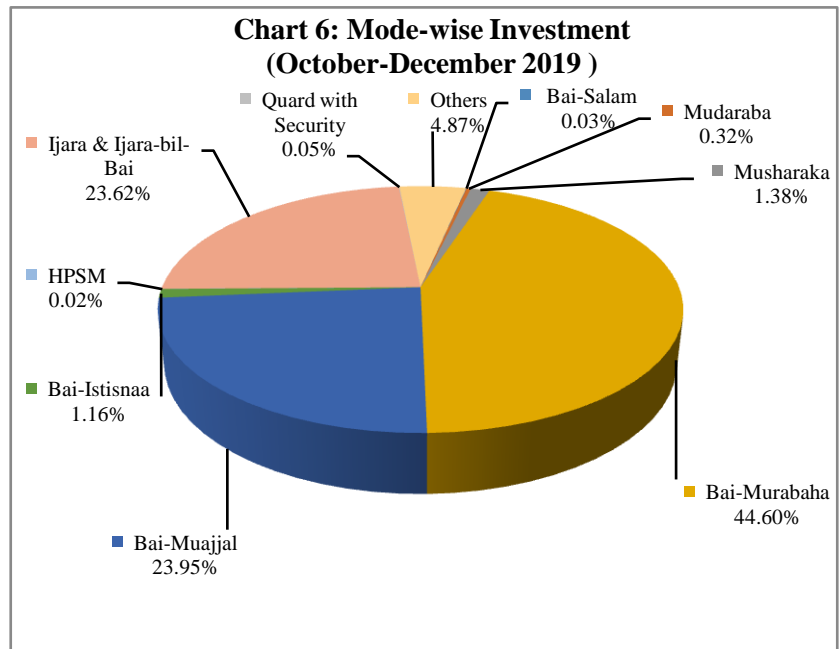
Sector-wise Investments

Analyzing the sector-wise investment, investment in the Trade and Commerce sector (34.04%) was found to be the highest among all sectors (Chart-5) at the end of December, 2019. The next position was occupied by Working capital for Industry sector which stood at 29.84% followed by Large Industry (12.62%), CMSM (Cottage, Micro, Small and Medium Industries), (7.39%), Construction (7.18%), Consumer Finance (2.34%), Agriculture, Fishing and Forestry (1.88%), Transport (1.53%), Poverty alleviation and others (2.13%), and other institutional loan (1.06%).



Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investments was made through Bai-Murabaha mode (44.60%) at the end December 2019, [Chart-6] followed by Bai-Muajjal (23.95%), Ijara & Ijara-bil-Bai (23.62%), Others (4.87%), Musharaka (1.38%), Bai-Istisnaa (1.16%), Mudaraba (0.32%) Quard with Security (0.05%), Bai-Salam (0.03%), and HPSM (0.02%).



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 2019 quarter, investments in agricultural sector made by Islamic banking industry reached BDT 11043.94 million which was higher by BDT 2287.75 million than the previous quarter and higher by BDT 8232.22 million compared to the same quarter of the preceding year. The share of total agricultural investment of Islamic banks accounted for 2.57% 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:

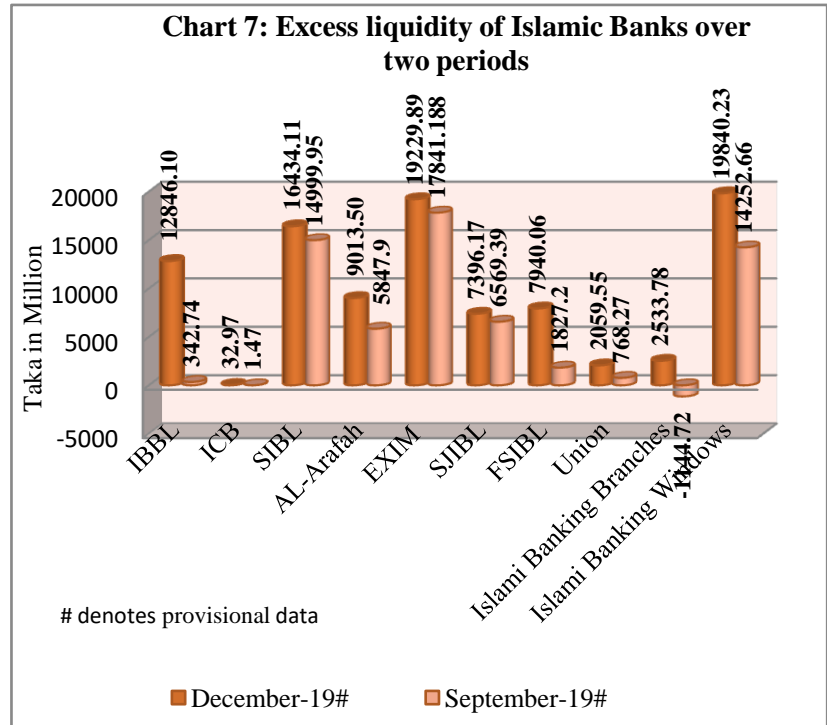
Table-3: Summary of Investments in Agricultural Sector (BDT In Million)

Details	Total Investment of Banks		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-19#	988912.85	4271386.90	15397.22	11043.94	71.73	11343.44	28346.76	2289.19	14697.34
September-19#	370376.13	672878.48	7470.07	8756.19	117.22	9135.92	35301.25	9757.62	20689.37
December-18#	33663.34	68561.38	666.67	2811.72	421.76	2526.05	3466.26	936.58	1309.76
Quarterly Changes	618536.72	3598508.42	7927.15	2287.75	11226.22	19210.84	-33012.07	4939.71	-5992.03
Annual Changes	955249.51	4202825.52	14730.55	8232.22	10921.69	25820.70	-1177.07	13760.76	13387.57

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Liquidity Situation

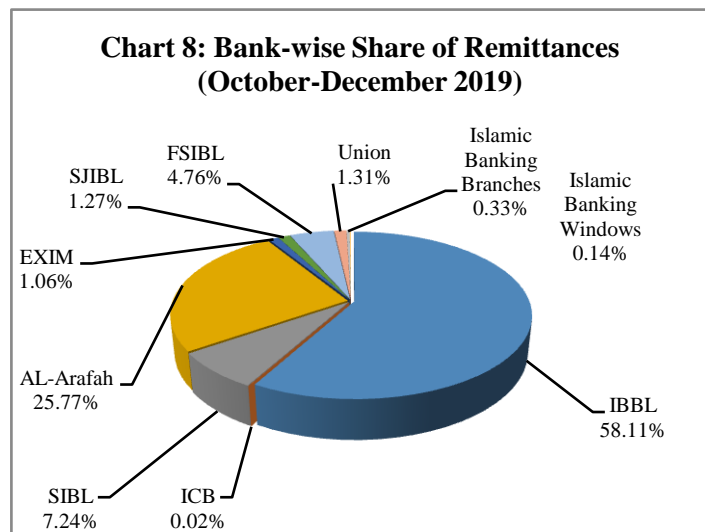
Excess Liquidity of Islamic banking industry stood at BDT 97326.36 million at the end of December 2019, which was higher by BDT 36020.31 million (58.75%) and BDT 32084.26 million (49.18%) compared to end September, 2019 and the end of same month of last year respectively. The excess liquidity of 8 Islamic banks, Islamic banking branches of conventional banks and Islamic banking windows of conventional banks stood at BDT 75795.05 million, BDT 2533.78 million and BDT 19840.23 million respectively. Summary of liquidity situation in the Islamic Banking sector is shown in Chart-7.



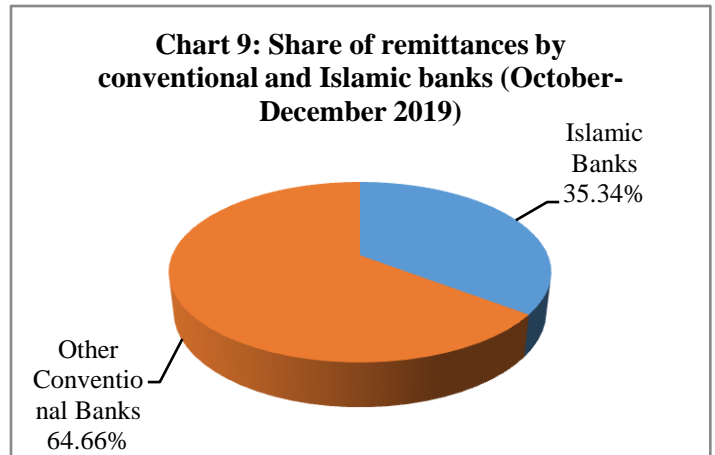
Remittances Mobilized by the Islamic Banking Sector

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 146324.97 million during October-December 2019 quarter, which was higher by BDT 27700.84 million or 23.35% and BDT 15566.90 million or 11.91% compared to the September quarter of 2019 and the December quarter of the 2018 year respectively.

Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (58.11%) in respect of remittance collection during October-December 2019. The other Islamic banks and their shares of collected remittances were Al-Arafah Islami Bank Ltd. (25.77%), Social Islami Bank Ltd (7.24%), First Security Islami Bank Ltd (4.76%), Union Bank Ltd (1.31%), Shahjalal Islami Bank (1.27%), EXIM Bank Ltd. (1.06%), Islamic banking branches of conventional banks (0.33%), Islamic banking windows (0.14%) and ICB Islamic Bank (0.02%) [Chart-8].



The Islamic banking industry accounted for 35.34% 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 October-December 2019 quarter had been recorded at BDT 641.22 million which was BDT 1030.71 million in July-September quarter of 2019 and BDT 626.77 million in October-December quarter of 2018. The lion's share of the CSR fund was spent on education sector during the quarter under report.

Expansion of Branches

The number of Branches of Islamic banking sector including Islamic branches/windows of conventional commercial banks reached 1380 at the end of the quarter under review which was 1301 during the previous quarter and 1241 during the same quarter of the last year. At the end of October-December 2019 quarter, 8 full-fledged Islamic banks had 1273 branches, 9 conventional commercial banks had 19 Islamic banking branches and 8 conventional banks had 88 Islamic banking windows. The share of total bank branches of Islamic banks among all scheduled banks accounted for 13.05% at the end of the quarter under review.

Table 4: Number of Bank Branches of Islamic Banks (October-December 2019)

Name of the Bank		Urban	Rural *	Total
1		2	3	4=(2+3)
A)	Full-fledged Islamic Banks	758	515	1273
1	Islami Bank Bangladesh Limited *	240	117	357
2	ICB Islamic Bank Limited	32	1	33
3	Social Islami Bank Limited *	85	76	161
4	Al-Arafah Islami Bank Limited	95	89	184
5	EXIM Bank Limited	70	60	130
6	Shahjalal Islami Bank Limited	71	61	132
7	First Security Islami Bank Limited	122	67	189
8	Union Bank Limited	43	44	87
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	79	9	88
1	Sonali Bank Limited	11	0	11
2	Janata Bank Limited**			0
3	Agrani Bank Limited	15	0	15
4	Pubali Bank Limited	12	0	12
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	17	8	25
D)	Total=A+B+C	855	525	1380

* 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.

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.

Bangladesh Securities and Exchange Commission has already issued the Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019 which would promote Islamic capital market in the country. As Islam prohibits usury, Islamic banks cannot invest in interest-bearing investment bonds existing in the market. So, introduction of Sukuk would smooth liquidity management of Islamic banks as well as government and corporations would use it to raise capital from the market.

The investments made by Islamic banks in ideal Islamic modes like Mudaraba and Musharaka are at a minimal level (only 1.44% 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 may also increase investments in microfinance programs towards poverty alleviation.

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.