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## Islami Bank: Bangladesh's Most-Watched Bankers



*“This bank is the most compliant bank in the country, according to the central bank,” says Islami CEO Mohammad Abdul Mannan. Credit: M. Yousuf Tushar for Forbes*

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Around 5 p.m. on a June weekday, men in tunics and loose pants, the traditional outfit in Bengali Asia, kneel on the floor of a Dhaka bank branch, their foreheads touching the ground. Others in Western-style shirts and trousers join them. It was time for evening

prayers at Islami Bank Bangladesh. Such a ritual right in the lobby reflects the special character of the institution, even if piety has proved to be a double-edged distinction.

Islami Bank is the largest and most profitable bank, and by all accounts one of the best-performing companies, in Bangladesh. Since its inception in 1983 it has grown threefold every five years. It has 10.7 million depositors, 27% of Bangladeshi remittances and 23% of the small and medium enterprises market. Assets, at \$9.3 billion, make it nearly the size of, say, AlliedBank in Pakistan or Asia Commercial Bank in Vietnam.

Bangladesh itself has shown economic strength in recent years, and Islami Bank has tapped into what is called the country's "Two Rs" approach: ready-made garments and remittances from workers abroad.

Helping with industrialization in a labor-intensive sector has generated employment even as millions of migrant workers send wages back home—either way, new customers to be had. Small firms that the bank embraced have remained clients as they grow and go into other sectors like steel and power. It notably pushes to help women entrepreneurs.

Despite its success, the bank has been dogged in recent years by suspicion that it has been used by, or even helped fund, Islamic terrorists. No intent has been proven, but Islami Bank increasingly seems to be attending to image cleanup and domestic political sensitivities (*see below, "Political Push?"*). Four board directors had to be replaced and a government observer put on, while the number two executive was [shown the door](#) for what the bank says was "non-compliance with a provision of ...Human Resources Policy."

"The regulatory authority has never come with such allegation that Islami Bank was ever engaged in terrorist financing," says Mohammad Abdul Mannan, its managing director and chief executive. In an interview at the company's head office, close to the Dhaka Stock Exchange on a wide street replete with nearly all the top banks in the country, he continues: "This bank is the most compliant bank in the country, according to the central bank. Yes, sometimes some [negative] perception may have [been there], but I feel it is no longer there."

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Without a doubt, funds from the Middle East have been at Islami Bank's core: first the initial investors, later deposits by Bangladeshis, mostly construction and cleanup workers. Mannan, 64, largely built this business for the company. "If you ask me whether I know GCC [Arab Gulf] countries or not, I can tell you, I have visited every village in Saudi Arabia," he says. "Each and every village. I did not see any Saudi citizen who can name villages and areas in his country like me."

The bank dispatched Mannan there in 1995. At the time, “My chairman congratulated me as ambassador of Islami Bank in Saudi Arabia. I thought as ambassador I should have many suits. I [had some] made, and I took a very big suitcase with me,” he recalls with a chuckle. But he got there to find his prospective clients were washing cars, cleaning streets and laying bricks. He packed his suits away. Instead, one night, with a shawarma in hand and a Pepsi to wash it down, he sat on a pavement on the outskirts of Riyadh and offered food and conversation to a handful of his countrymen. They were soon surrounded by a few score, he remembers. He took the address of each person and visited them later.

That was the start. Over the next five years he would spend evenings at the giant village sheds where Bangladeshi laborers repair to eat and sleep after a workday in different desert areas. At each he would find 2,000 to 3,000 potential account holders, preparing for the day when they would return home to small nest eggs. He’d be up all night conducting these meetings. (Even today he doesn’t sleep for more than two or three hours a night, he says.) Mannan says he wrote introductions to open accounts for 70,000 depositors.

Even as it grew, Islami Bank did not venture into businesses that are considered haraam (off-limits), like smoking. The bank finances the import of fertilizers, for instance, but will not finance what’s used to grow tobacco, a big crop in Bangladesh.

Mannan likes to tell of how, on his return from the Mideast, he was assigned to find new corporate clients. He was set on Akij Group, one of the larger Bangladeshi conglomerates, but with origins in making and selling bidis, cheap cigarettes smoked by the poor. Per Mannan, it took him two years of wooing the group away from its longtime bank before it agreed to move all its business to Islami Bank. All, that is, except for the bidi trade, which the bank declined to finance. (Akij didn’t respond to an inquiry.)

Dhaka’s rivalrous banking community respects Islami Bank as a tightly run ship. While most of the 56 banks in the country are plagued by rising nonperforming loans, poor management and operational inefficiency—Islami Bank is one of the few that isn’t, says Fahmida Khatun, research director at the Center for Policy Dialogue, an NGO in the capital that researches the macroeconomy, trade and development policies.

The bank has a rigorous recruitment and training process (10,000 employees are instructed annually on all aspects of banking and Islamic banking), and the churn at the company is low, even though its salaries and bonuses are below what the market offers.

All 15 members of the bank’s management committee have worked there since near its founding. Mannan, who hails from a village near Dhaka, spent his first 15 working years as a journalist in the capital (he remains an active author of history and Islamic-banking books) before joining the bank as its first press officer and working his way up the

business side. “Integrity and honesty are a very costly thing in countries like ours,” he says. “Here people say employees of Islami Bank are honest, committed, dedicated.”



*At Islami women are part of the staff and also a market for business borrowing. Credit: M. Yousuf Tushar for Forbes*

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And the pay? Mannan chuckles. “Islami Bank employees get the required salaries, need fulfillment is there, but we’re not comparing with the market because if you compare with the market, greed will come in.” CEO since 2010, he makes \$105,000 a year.

Sameer Ahmad, founder of RSA Capital, a boutique investment firm that is an Islami Bank shareholder, explains the motivation: “Faith is the key to their success. Some of the most dedicated organizations, like the Salvation Army, are based on faith. So are these guys. Besides having the right strategy, of course.”

In Mannan’s relatively modest office, the most prized item is a wall plaque with an Arabic inscription: “Whenever I go anywhere, I should go as an honest man; and whenever I leave, I leave as an honest man.”

Results slowed for the bank last year, which Mannan attributes to global economic conditions, but have picked up of late, along with Islami Bank’s share price. A fund managed by Franklin Templeton has a 4% stake; the firm won’t comment.

But despite its success, or because of it, Islami Bank still can’t shake the tag of handling potentially tainted money. Born out of desire in Bangladesh to promote sharia-compliant banking, Islami Bank was set up with 70% of its sponsorship from the Mideast (today that

is down to 62%). Early backing came from Saudi's Islamic Development Bank and, more notoriously, the Al-Rajhi Group.

A 2012 U.S. Senate report on HSBC Bank's dirty laundry touched on Islami Bank in passages. It noted HSBC employee e-mail references to servicing Islami, though 37% of that bank's shareholding was with the Al-Rajhi Group, which had been cited in 2002 by U.S. authorities as having a key founder (Sulaiman bin Abdul Azis Al Rajhi) alleged to have funded al Qaeda and Osama bin Laden. (This was later contested in court.)

The Senate report also cited an internal 2006 HSBC finding that the leader of the banned Jamaatul Mujahideen of Bangladesh, Abdur Rahman, had kept an account at Islami Bank. Rahman was sentenced to death and executed in 2007. The same internal HSBC document found that two branches of Islami Bank had engaged in "suspicious transactions" and that the Bangladeshi central bank had urged that 20 bank employees be disciplined for failing to report them. (Islami Bank suspended 5 officers and warned 15 others, but found their mistakes to be inadvertent.)

It's possible some of these old red flags may come under the scanner again as the Sheikh Hasina government cracks down on terrorism, including any and all potential sources of funding for it, in the wake of the brutal slaughter of 20 people, mostly foreigners, when half-a-dozen attackers stormed an upscale restaurant in Dhaka in early July, during Ramadan. The attackers were killed when the army stormed the restaurant—the Holey Artisan Bakery—after at least an 11-hour siege.

Mannan, in his soft-spoken manner, dismisses the concerns raised in the Senate report. "The U.S. [administration] never raised this concern," he says. As for the Saudi and Mideast investors, Mannan is grateful to them. In the early 1980s, Bangladesh was barely a decade from its separation from Pakistan and was hurting for funds. "These institutions came forward to help the Bangladeshi people to start Islamic banking," he says. "The seed money then was not very large. Their shareholding [in Islami Bank] did not create any problem for Islami Bank. They are genuine, bona fide shareholders."

Nonetheless, Mannan is cognizant of the image problem. Now in his last year as CEO—retirement age is 65—he's moving to deal with it. Last year Islami Bank paid \$390,000 to the Podesta Group, a Washington lobbying firm whose cofounder John Podesta is an old Clinton family hand, to be its "legal consultant to clarify the [bank's] position," Mannan says. In January he hired Kroll Associates, the financial forensic and auditing firm, "to do remediation" and adjust perceptions of Islami Bank. Also, Accuity, an Illinois provider of payments and antilaunching software, has been retained to "help us increase operational efficiency and minimize the cost of sanctions and compliance."

Atiur Rahman, Bangladesh's respected central banker until earlier this year, said that in his seven-year tenure scrutiny of Islami Bank's operations he never found a direct link to any terrorism-related activities. But he did see that changes were made to the bank's board. "The government had a suspicion that if the board has only their people, or Islamic people, they might miss some untoward activity. The bank has come out of that shadow now."

If no evidence of wrongdoing has been found, this suasion on a private company bothers NGO research director Khatun. "If external forces try to influence too much in day-to-day activities of a bank, that may not be good for the operations of any bank," she says. "Islami Bank, despite that slur, has been doing quite well."

Mannan denies there's official pressure. "Why should the government target us?" he asks, showing impatience for the first time in his interview. "The government is giving us all support. ...There are some new directors, yes, but during the last 33 years you can see many changes."

In Bangladesh a board director must have a minimum 2% stake. Some of Islami Bank's initial domestic shareholders couldn't maintain that threshold, Mannan says. "We have inducted some independent directors; they are from different professional groups, but very [reputable] people. It's according to the decisions of the board of the bank; it has nothing with other forces."

## **POLITICAL PUSH?**

Reports in local media and among financiers about state pressure on Islami Bank are complicated by the politics of Bangladesh. Prime Minister Sheikh Hasina and her Awami League Party have an archfoe in Begum Khaleda Zia and her Bangladeshi Nationalist Party (BNP). The two women have practically taken turns running the country. In the midst of this is the Jamaat-e-Islami, a conservative Islamic political party that was against independence from Pakistan and has on occasion aligned with the BNP.

Some of Islami Bank's leadership over the years have been closely aligned with the Jamaat-party member Mir Quasem Ali, who was sentenced to death in 2014 for alleged crimes in the 1971 war for separation and was vice chairman of Islami Bank at one point. It's a reason the bank has been on the government's radar.

The decades-old political feuds surfaced again lately as the government, in an effort to arrest radicals who may have been involved in the killings of 38 "blasphemous" activists, bloggers and minorities since 2013, has also reportedly swept up thousands of members of the opposition political parties, including the BNP and the Jamaat. Some of that pressure is expected to ratchet up in the light of the brutal attack on the night of 1 July when half-a-dozen attackers butchered 20 patrons, mostly foreigners, at an upscale restaurant in Dhaka

(within hours of this story going to press). The attackers were killed when the army stormed the restaurant—the Holey Artisan Bakery—after at least an 11 hour siege.

In this environment, no one's speaking on the record about politics being linked to management matters at Islami Bank. Spokesmen for the prime minister's office, the finance ministry and the current central-bank governor decline to comment. —M.B.

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