

Report on
Difference between Islamic banking and Conventional
banking system: EXIM Bank limited

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LETTER OF TRANSMITTAL

7th November ,2012

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Sub: Submission of internship report.

Dear Sir,

With due respect and great pleasure I submit my Internship report on **“Difference between Islamic and Conventional banking system”** and for your kind consideration. This job is assigned to me to fulfill the partial requirement of BBA program.

The report contains a comprehensive study on the difference between conventional and Islamic bank in different spare of works. It was a great pleasure for me to have the opportunity to work on the above mentioned subject. This report is based on the activities of EXIM bank limited.

Would you please kindly accept my paper and oblige me thereby.

Thank you very much for your kind co-operation.

Sincerely yours,

Sunjun Aman

ID:07204015

BRAC Business School

BRAC University

Acknowledgment

At first I would like to express my gratitude to almighty Allah who has given me the opportunity to go through the total process of internship and to write a report in this regard.

I am very much grateful to the executive of EXIM who extended their wholehearted cooperation during my internship period. I would like to extend my gratitude to Mr. Md. Solaiman Mridha (Manager) Mr. Sheik Ishreug Osman (AVP) for guiding me throughout my internship process. I am thankful to Mr. Sayeedur Rahman Chowdhury, Mrs. Sharmin Jahan, Mrs. Israt Jahan, Keya madam, Juwel sir & Monir sir for giving me the valuable information about my topic.

I would like to acknowledge my deepest gratitude to the honorable supervisor Mr. Shawkat Kamal, associate professors Department of Business Administrative BRAC University Bangladesh who has given me suggestions regarding the writing of the report and to go through the process, which has become an excellent way of understanding the topic of my internship.

Last but not the least, I express my overall gratitude to my department, which provided me the chance to be familiar with the real organizational environment, and practically experiencing the procedure practiced at EXIM Bank Limited.

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Executive summary:

A Bank is an economic institution whose main aim is to earn profit through exchange of money & credit instruments. It is a service oriented as well as profits oriented organization.

The internship report has been prepared on “difference between Islamic banking and conventional banking”. As EXIM bank was a conventional bank later become a Islamic bank it is easy for me to find the difference between the Islamic banking system and conventional banking system.

EXIM Bank Limited was introduced in Bangladesh as a banking company under the Company Act 1913 & commenced operation on 2nd June 1999 as a conventional bank. Later in 2004 they became Islamic bank which actually works under the shariah rules. Shariah rules basically follow the partnership based banking. As in Islam interest is prohibited that's why Shariah rule introduces profit sharing system.

The motto of Islamic banking is profit sharing and loss bearing. The main objective of Islamic banking is as same as conventional banking system which is profit making. To follow the shariah system Islamic banks actually follow certain terms which is known as Mudharabah, Wadiah, Musharakah, Murabahah, Ijar.

Exim bank actually divides their whole work into 2 parts which is General banking & investment. In this report I try to show that how the Islamic banking system differ from conventional banking system. Where in conventional bank we get fixed amount of interest which is also known as RIBA, there in Islamic bank we get a certain share of banks total profit.

Chapter: one

Introduction:

This report focuses on the difference between Islamic banking and conventional banking. There are several Islamic banks in Bangladesh. For specific and detailed analysis and comparison for this report I choose EXIM bank Bangladesh LTD which was a conventional bank at past now become an Islamic bank.

Objective of the report:

The main objective of this report is to find the difference between Islamic banking and conventional banking. I tried to find out what are the difference between an Islamic bank and a conventional bank. What are the different approach /terminology they follow. I also tries know about the Islamic shariah terminology which is backbone of the Islamic economics. The secondary objective is to know how EXIM bank Bangladesh LTD operating their daily work.

Limitation:

This report lacks a little information due to some limitation. Although I have obtained wholehearted cooperation from employee of EXIM Bank but they were extremely busy. So they were not able to give me much time, as they and I would like. Besides, total duration of internship is not sufficient to give me more than a superficial idea of the functioning of the various departments. Bank policy was not disclosing some data and information for obvious reasons. That's why this report lacks some information. Because of the limitation of information some assumption was made. So there may be some personal mistake in the report.

Chapter: Two

Methodology:

As three months internship is mandatory for completion of my BBA program, I work for EXIM bank as an intern. I collect all the information from my supervisors in my three months of internship. At first I went to Mr. Sheikh Shreouq Osman, he introduces me to the bank and their stuff and tells me to work in account opening section. I work at account opening desk under Mr. Monir, he gives me a clear idea of necessary papers and rules to open any sort of account. Then I worked at bills and clearing Section under Keya Madam and Sharmin Madam. There I came to know about the demand draft, clearing of cheques. Then I work in investment section under Mr. Jewel and Mr. Sayeed, they actually show me the actual difference of Islamic banking and conventional banking. They also show me how Islamic banks' investments are different from conventional banks. They give me a clear idea of profit and interest. They also introduce me to their products. Then I work in foreign remittance section under Shapon Sir. He showed me how to actually maintain the letter of credit, foreign customers etc. As cash section is a very sensitive section to work that's why intern people in cash section is beyond bank's policy. That's why I did not get the chance to work there. But Mr. Shapon also gave me a brief of cash section. In this way we collect all the necessary information needed for my internship report.

Chapter: Three

History

Bank:

Bank is actually is a financial institution which actually receives money from the surplus unit and lends that money to the deficit unit of the society. There is more than one possible origin of word “bank”. The word bank comes from the French word banque, Italian word banca, German word banc..All of this word means bench or counter. Benches were used as desks by Florentine bankers, who used to make their transactions covered by green tablecloths. Another possible origin may be from Sanskrit words 'byaya' (expense) and 'onka' (calculation) = byaya+onka .

The first bank of the world was established in Italy. The Bardi and Peruzzi families established lots branches of bank in many other parts of Europe. The most famous Italian banks was the Medici Bank which owned by Giovanni di Bicci de' Medici in 1397. , Banco di San Giorgio (Bank of St. George), is the earliest known state deposit bank, was founded in 1407 at Genoa, Italy.

Islamic banking:

Islamic banking is guided by Islamic law which is known as Shariah principles. In particular, Islamic law prohibits the collection and payment of interest, which is known as RIBA. Generally, Islamic law also prohibits trading in financial risk (which is seen as a form of gambling) that are considered unlawful, or Haraam.

The Islamic capitalism were developed between the eighth and twelfth centuries. Gold dinar was the base of monetary system of that economy. Mirza Basheer-ud-Din Mahmood Ahmad is known as the father of modern Islamic economics. he describe it in detail in his books Nizame Nau in 1942. In his book he proposed a banking system based on “Mudarabah” which is known as profit and loss sharing. Bank Melli Iran is the largest Islamic bank of the world.

Overview EXIM bank Bangladesh Ltd:

The full form EXIM bank is Export Import Bank of Bangladesh Limited. The Bank started commercial banking operations effective from August 03, 1999 as a conventional bank. Later it converted its Banking Operations into Islamic Banking based on Islamic Shariah from traditional banking operation in July 01, 2004 after obtaining approval from Bangladesh Bank. They have a strong shariah board to maintain the proper Islamic banking system which consist 11 learned muftis, reputed economist and bankers of the country lead by Professor Maulana Mohammad Salah Uddin. Late Mr. Shahjahan Kabir was the founder chairman of this bank.

Export Import Bank of Bangladesh Limited is a public listed scheduled bank categorized in private sector and established under the ambit of Bank Companies Act, 1991 and Incorporated as a public limited company under the Companies Act, 1994 on June 02. Now it has 67 branches all over Bangladesh. Soon they are planning to open 5 more branches in Comilla, Coxsbazar, Chittagong and Dhaka.

During the span of time the Bank has been widely acclaimed by the business community, from small entrepreneurs to large traders and industrial conglomerates, including the top rated corporate borrowers for forward- looking business outlook and innovative financing solutions. In 30th June 2009, EXIM bank open exchange house in London, United Kingdom in order to deliver remittance services to the NRB's living and working there. It is the first private bank to do that. They use the world renowned core banking software TEMENOS T24 to provide best IT service to their valued customers.

With a few of the Company's activities and program on the basis of Islamic Shariah, within this period of time it has been able to create an image of responsibility for itself and has earned significant reputation in the country's banking sector. Within an operative period as eight years, the bank has arrived at a strong financial and business position by expanding its market share compared to its contemporaries and to some extent to the 2nd even 1st generation banks of private sector.

Shariah Board

The Board of directors has formed a Shariah Supervisory Board for the Bank. Their duty is to monitor the entire Bank's transactional procedures, & assuring its Shariah compliancy. This board consists of the following members headed by the chairman The tasks of the Shariah supervisor in summary is replying to queries of the Bank's administration, staff members, shareholders, depositors, & customers, follow up with the Shariah auditors and provide them with guidance, submitting reports & remarks to the Fatwa & Shariah Supervision Board and the administration, participating in the Bank's training programs, participating in the supervision over the Allqtisad AllIslami magazine, & handling the duty of being the General Secretary of the Board.

Members of Shariah Council:

EXIM Bank has also made a significant contribution to the national economy under the member of the Shariah council are leading business personalities and reputed industrialists of the country headed by Professor Maulana Mohammad Salah Uddin, Khatib, Baitul Mukarram National Mosque. Other members are:

Maulana Mohammad Sadequl Islam

Members

[Imam & Khatib, Mohakhali DOHS Jame Masjid]

Hafez Maulana Mufti Mohammad
Khairullah

Members

Professor H. M. Shahidul Islam
Barakaty

Members

[Director, Southeast University]

Pesh Imam & Khatib Moulana Md.
Abdur Razzaque

Members

[Chief Mufti, Jamia Ambarshah Al-Islamiah,
Karwan Bazar]

Mr. Md. Abdul Mannan

Members

[Vice Chairman, EXIM Bank]

Mr. Md. Fahim Zaman Pathan

Members

[Director, EXIM Bank]

Mr. A.K.M Nurul Fazal Bulbul

Members

[Director, EXIM Bank]

Mr. Zubayer Kabir

Members

[Director, EXIM Bank]

Mr. Mohammad Omar Farooque Bhuiyan

Members

[Director, EXIM Bank]

Dr. Mohammed Haider Ali Miah

Members

[Managing Director, EXIM Bank]

Chapter: four

Profit VS interest:

To know Islamic banking at first we have to realize the difference between profit and interest. Where conventional bank gives certain percentage of interest to its depositors there Islamic bank share certain percentage of its profit to its depositors. Interest is known as **RIBA** which is completely forbidden (**Haraam**) is Islamic terminology. **Riba** means excess increase or addition. According to Islamic Shariah terminology, **riba** is any excess compensation without due consideration of time value of money. In our country interest is set at the beginning of the year by conventional bank and it is fixed if any economic disaster does not happened. But on the other hand profit is completely different from the interest. Bank invests its depositor's money as their fund to a business and earns profit, than share some percentage of this earned profit to the depositors. Profit is also set at the beginning of the years but it is not fixed as interest is. It may change if bank earn more and less. It depends on bank efficiency. Islamic bank in Bangladesh also give the percentage of their profit at the beginning of the year as per as Bangladesh bank rules. But sometimes it changes its percentage due to their profit making efficiency. This is actual difference between the profit and interest.

Principles of Islamic banking:

Export Import Bank of Bangladesh Limited is the 1st bank in Bangladesh who has converted all of its operations of conventional banking into shariah-based banking since July/2004. We offer banking services for Muslims and non-Muslims alike allowing our customers choice and flexibility in their savings and investments. Our products are approved by our Shariah Board comprising of veteran Muslim scholars of our country who are expert in all matters of Islamic finance.

The motto of Islamic banking is profit sharing and loss bearing. The main objective of Islamic banking is as same as conventional banking system which is profit making. Bank always try to make money for the banking institute by lending out capital. As interest (riba) is forbidden in Islamic rules on transactions which is known as *Fiqh al-Muamalat* that is why islamic banking system always follow the sharing of profit and loss. There are certain names of these terms. Which is *Mudharabah, Wadiah, Musharakah, Murabahah, Ijar*. Here is some detail information about these terms given below:

Mudharabah:

It is actually the profit sharing rule. Here bank gives loan to its customers to invest in his business. If the customer gains profit the bank will take certain percentage of their profit. But if the customer has loss in his business the bank will also share his loss.

Wadiah:

It is actually safekeeping of depositors' money. In *Wadiah*, a bank is acted as a keeper and trustee of funds. A person deposits his funds in the bank and the bank guarantees refund of the entire amount of the deposit when the depositor demands it. The depositor gets certain profit as the bank use his money as its fund.

Musharakah:

Musharakah is known as joint venture. Here the bank as its customer agrees to contribute in a business and share all the net profit and loss together. This concept is basically used for investment projects, letters of credit, and the purchase of real estate or property.

Murabahah:

This concept refers to the sale of goods at a price, which includes a profit margin agreed to by both parties. This all is done by an agreement which is known as Musawamah. Here the bank buy the product or services on behalf of its customers add certain percentage of profit in it than sale the product to its customer. The products remain as mortgage till the final payment of the installment.

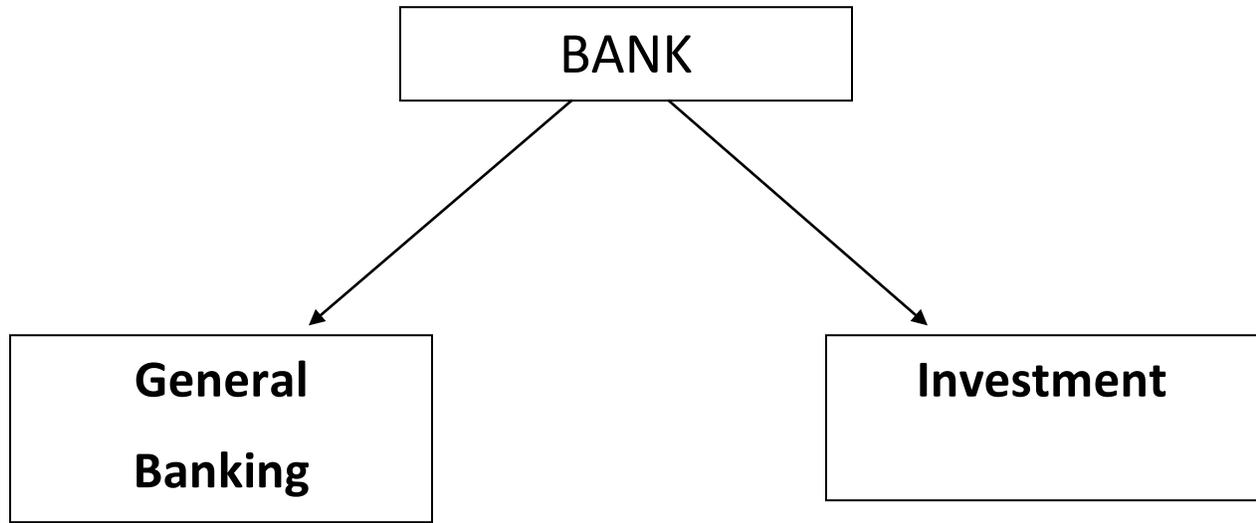
Ijar:

Ijar means lease, rent and wage. Here bank sale the benefit of use a product or service to its customers on a fixed price and installment payments. Under this concept, the Bank makes available the use of service of asset/equipments such as plant, office automation, motor vehicle for a fixed period and price to its customers.

Chapter: Five

EXIM bank divides their whole work into 2 parts. They are:

- ✓ General banking
- ✓ Investment



General Banking:

Bangladesh is one of the less development countries. So the economic development of the country depends largely on the activity of commercial banks. So I need to emphasis whether these commercial banks are effectively and honestly performing their functions, assign their duties, and responsibilities.

In this respect I need to know the general banking function of those Banks as well as the EXIM Bank Limited, is to provide the general banking service.

The general banking department does the most important and basic works of the bank. All other department is linked with this department. It also pays a vital role in deposit mobilization

of the branch. EXIM Bank provides different types of accounts, locker facilities and special types of saving scheme under general banking. For proper functioning and excellent customer service this department is divided into various sections namely as follows:

1. Deposit Section.
2. Account Opening Section.
3. Cash Section.
4. Bills and Clearing Section.
5. Remittance Section.
6. FDR Section.
7. Accounts Section.

Deposit:

Deposit is one of the principal sources of fund for investment of commercial banks and investment of deposit is the main stream of revenue in banking business.

Types of deposits:

The deposits that are accepted by EXIM Bank is as like as other banks. Deposits can be classified into 2 types:

- Demand deposits.
- Time deposits.

Demand Deposits:

In terms of demand deposits depositors can deposit and withdraw their money any time as like they want to do. EXIM Bank Bangladesh LTD accepts demand deposit through the opening of:

- Current account.
- Saving account.
- Call deposit scheme

Current account:

In EXIM bank, it is known as AL-WADIAH current account. The main feature of this account is depositors can deposit and withdraw any amount of their deposits any time as much time they wanted to do. Bank will not provide any kind of profit to this account. Bank has the rights to use the deposits of this account. This is specially designed for the business people. Normally EXIM bank opens this account in the name of organization. Bank has the rights close any account if it has zero balance or inactive more than 1 year.

Difference:

In conventional banking system it is known as current account. Some conventional bank give interest to these account. Some conventional bank also opens this account in personal name of their customer.

Savings account:

There are 2 types of savings account in EXIM bank Bangladesh LTD. They are

- ✓ MUDARABA savings deposits
- ✓ MUDARABA short term deposits

MUDARABA savings deposits:

The main feature of this account is depositors can deposit any amount of their deposits as much time they wanted to do but in terms withdrawn there is some barriers. No depositor can withdraw more than 5 lacs in a week or more than twice in a day. Bank provides small amount of profit to this account. Bank has the rights to use the deposits of this account. This is specially designed for the mass people. Normally EXIM bank opens this account not only in the name of individual but also in the name of any organization. Bank has the rights close any account if it has zero balance or inactive more than 2 years.

MUDARABA short term deposits:

It is special type of savings account. Here depositor opens this account for a short period of time and gain profit. Bank provides profit for the deposits. The profit rate is more than Mudaraba savings deposit. Bank has the rights close any account if it has zero balance or inactive more than 2 years.

Difference:

In conventional banking system it is known as savings account. Some conventional bank gives interest to this account. Conventional bank opens this account only in name of individuals.

Call deposit scheme

Call deposit scheme is special kind of deposit scheme where depositors pay certain amount of deposit every month for a specific period of time. Then after maturity depositor get benefit with his deposited amount of money at a time. Here depositor deposit money several times but they can withdraw their money for once after the maturity date. There two kind of product for deposit scheme in EXIM bank. They are:

- ✓ MUDARABA Hajj Scheme
- ✓ MUDARABA monthly savings scheme
- ✓ MUDABARA Education savings scheme

MUDARABA monthly savings scheme:

Any adult person having sound mind can open one or more account in the same name at the same branch. The maturity of this account is 5, 8, 10, and 12 years. 80% loan can be taken after completion one year of maturity. Deposit must be given within the 1st ten day of the month. Charge is taken by bank for late submission of deposit.

MUDARABA Hajj Scheme:

It is specially designed for hajj. It is actually same as MUDARABA monthly savings scheme but there is a bit difference. Here EXIM bank asks his client when they want to do their hajj. Then they assume the cost of hajj for that particular year and then they set the installment. Suppose two clients want to do their hajj in 2012 and 2013 respectively. Then they have to pay the installment like below:

Term	Monthly installment for 2012	Amount payable for 2012	Monthly installment for 2013	Amount payable for 2013
20 years	Tk. 863.00	Tk. 840000.00	Tk. 1090	Tk.890000.00
15 years	1205.00	628000.00	1521	666000.00
10 years	1850.00	468000.00	2336	496000.00
8 years	2325.00	417000.00	2935	442000.00
5 years	3725.00	351000.00	4703	372000.00

Education Savings Scheme:

The most gratifying experience for parents are proper education of their children. Educational expense is rapidly increasing and therefore appropriate planning needs to be done by all parents. EXIM Bank offers customer 'Education Savings Scheme' to assist customer in financial planning well ahead in time for customers children's higher education. Deposit of Tk. 25,000/-

and multiples there of at a time will be accepted under the scheme. The instrument shall be issued for 7 years, 10 years, 15 years, 20 years term. The deposit is payable at maturity with benefit either in lumpsum or on monthly basis as education allowance for 6 (six) years starting after the completion of respective term.

Difference:

In conventional banking system it is known as deposits pension scheme account. Conventional bank gives interest to this account. That's why conventional bank can ensure the actual amount to be paid to their customers. There is no product specially designed for hajj in conventional banking system because interest income is prohibited (HARAAM) in Islam.

Time Deposits:

A deposit which is payable at a fixed date or after a period of notice is a time deposit. EXIM Bank accepts time deposits through fixed deposit receipt (FDR), short time deposit (STD) etc. While accepting these deposits, a contract is executed between the bank and the customer. This contract will be a valid one only when both the parties are competent to enter into contracts. As account initiates the fundamental relationship and since the Banker has to deal with different kinds of persons with different legal status, EXIM Bank officials remain very much careful about the competency of the customer. In term of term deposits their product name is:

- ✓ MUDARABA term deposit receipt account
- ✓ MUDARABA super savings scheme
- ✓ MUDARABA multiplus savings scheme
- ✓ MUDARABA monthly income scheme

MUDARABA term deposit receipt account:

The main feature of this account is depositor can deposit and withdrawn only for one time in this account. The profit rate is much higher in terms of this account which is 12.5 % (as per as Bangladesh Bank order). Any adult person (jointly or individually) having at least tk. 10000 can open this account. One or more account can be opened in the same name at the same branch. Depositor must have the savings account to open this account in EXIM bank. Depositor can take 80% of their deposits as a loan and pay it in installments or whole at a time.

Difference:

In conventional banking system it is known as fixed deposits. As like other accounts conventional bank gives interest to this account. To open this account in conventional bank one individual needs at least taka 50000. There is no need for saving account or current account to open this kind of account in conventional banking system.

MUDARABA super savings scheme:

Any adult person (jointly or individually) having at least tk. 50000 or multiple of its can open this account. One or more account can be opened in the same name at the same branch. Depositor must have the savings account to open this account in EXIM bank. Tenure of this account is six years. The main feature of this account is bank will double or close to double its depositors money in maturity of this account. Depositor can take 80% of their deposits as a loan and pay it in installments or whole at a time.

Difference:

It is known as double scheme in conventional banks. Where EXIM bank do not ensure that they will doubled their depositors money there conventional bank ensure their customer to double their money. As the interest rate is fixed that's why conventional bank can do that.

MUDARABA multiplus savings scheme:

Any adult person (jointly or individually) having at least tk. 50000 or multiple of its can open this account. One or more account can be opened in the same name at the same branch. Depositor must have the savings account to open this account in EXIM bank. Tenure of this account is ten years. The main feature of this account is bank will triple or close to triple his depositors money in maturity of this account. Depositor can take 80% of their deposits as a loan and pay it installments or whole at a time.

Difference:

It is known as triple scheme in conventional banks. Where EXIM bank do not ensure that they will triple their depositors money there conventional bank ensure their customer to triple their money. As the interest rate is fixed that's why conventional bank can do that.

MUDARABA monthly income scheme:

Exim bank designed this product for those who has a lots of idol money or need monthly fixed income. The main feature of this account, here bank promise to give same amount of profit every month to its customers. Any adult person (jointly or individually) having at least TK.50000 can open this account one or more account can be open in one name. Monthly benefit of different amount of this account is given below:

Amount of deposits (TK)	Monthly expected benefit (provisional)
50000/-	500/-
100000/-	1000/-
200000/-	2000/-
500000/-	5000/-

1000000/-	10000/-
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Difference:

It is known as monthly income scheme in conventional banks. Where in EXIM bank monthly benefit is not fixed there conventional bank ensure their customer to give certain amount of money every month against their customers deposit. As the interest rate is fixed that's why conventional bank can do that.

Account Opening Section:

Deposits are the life blood of a bank which is invested in a bank through opening an account. This section deals with opening of different types of accounts. It is also deals with issuing of checkbooks and different deposits books to the different accounts openers.

Procedure for Opening of Accounts:

Before opening of a currents or savings account, the following formalities must be complete by the customer:

- Submit application on the prescribed form.
- Furnishing photographs-2 (two) copies.
- Introduction by an account holder.
- Putting specimen signature in the specimen card.
- Mandate if necessary.

After fulfilling above formalities, opens an account for the client and provide the customer with a pay-in-slip book and a checkbook in case of savings account and current accounts.

Cash Section:

The cash section of EXIM Bank deals with all types of negotiable instrument, cash and other instruments treated as sensitive section of the bank. It includes the vault that is used as the beyond this time; the excess cash is then transferred to Bangladesh Bank. This section perform the following functions:

Cash Packing:

After the banking hour cash is packed according to the denomination. Notes are counted and packed in bundles and stamped with initial.

Allocation of Currency:

Before starting the banking hour all tellers give requisition of money through 'Teller cash proof sheet'. The head teller writes the number of the packet denomination wise in 'Reserve sheet' at the end of the day; all the notes remained are recorded in the sheet.

Bills and clearing section:

For safety and security in financial transaction people use financial instruments like DD, PO, Cheque etc. Commercial Banks duty is to collect these financial instruments on behalf of their customer. This process that the Banks use is known as clearing and collection.

The mail function of this section is to collect instruments on behalf of the customers through Bangladesh Bank, clearing house, outward bills for collection (OBC), inward bills for collection (IBC).

Upon the receipts of the instruments this section examines the following things:

- ❖ Whether the paying bank within the Dhaka city.
- ❖ Whether the paying bank outside the Dhaka city.
- ❖ Whether the paying bank is their own bank.

Outward Bills for Collection (OBC):

Collection of bills, which is beyond the clearing range and collected through OBC mechanism.

Inward Bills for Collection (IBC):

Collection of bills, which EXIM Bank does as an agent is called collection through IBC mechanism.

Remittance Section:

Banks have a wide range network of branches all over the country and offer various kinds of remittance facilities to the public. Telegraphic transfer, mail transfer travelers cheque, and drafts and cheque can do remittance. There are two steps of remittance:

Inland Remittance:

When one banks sends these T.T., M.T., T.C. or cheque to another bank then it will be called inland remittance.

Foreign Remittance:

When a bank got this T.T, M.T, T.C and cheque from outside bank, which is not situated in the home country than it will be called foreign remittance.

Types of Remittance:

- Between banks and non banks customer.
- Between banks in the same country.
- Between banks in the different centers.
- Between banks and central bank in the same country.
- Between central bank of different customers.

The main instruments used by EXIM Bank of remittance of funds are:

- Payment order (PO).
- Demand Draft (DD).
- Telegraphic Transfer (TT).

Payment Order (PO):

It is process of money transfer from payer to payee within a certain clearing area through banking channel. A person can purchase payment order in different modes such as pay order by cash, pay order by cheque.

EXIM Bank charges different amount of commission on the basis of payment order amount. The bank charges for pay order are given in the following chart:

Demand Draft (DD):

It is an instrument containing an unconditional order of one bank office to pay a certain amount of money to the named person or order the amount therein n demand. DD is very much popular instrument for remitting money from one corner of money to another. Commission for DD is 0.15% of the principal amount.

Foreign Exchange division

Foreign Exchange Department:

One of the largest businesses carried out by the commercial bank is foreign trading. The trade among various countries falls for close link between the parties dealing in trade. The situation calls for expertise in the field of foreign operations. The bank, which provides such operation, is referred to as rendering international banking operation. Mainly transactions with overseas countries are respects of import; export and foreign remittance come under the preview of foreign exchange transactions. International trade demands a flow of goods from seller to buyer and of payment from buyer to seller. In this case the bank plays a vital role to bridge between the buyer and seller.

Foreign exchange department of EXIM Bank is one of the most important departments of all departments. This department handles various types of activities by three separate sections:

1. Import section.
2. Export section.
3. Foreign remittance section.

Import Section:

The function of this section is mainly to deal with various components such as :

- ✓ Letter of credit
- ✓ Payment against document (PAD)
- ✓ Payment against trust receipt (PTR)
- ✓ Loan against imported merchandise (LIM).

Export section:

The function of this section is mainly to deal with various components such as:

- ✓ Export L C
- ✓ Loan against exported merchandise

Foreign remittance section:

This section deals with foreign currency. This section actually sells and buys the foreign currency against the taka. EXIM Bank has authorized dealership. Different branches of EXIM Bank such as Motijheel Branch, Panthapath, Malibagh Branch etc. are providing the foreign remittance services to its customers. There are two types of remittance.

- Inward remittance
- Outward remittance

Difference:

There is no such difference in terms of foreign exchange division between Islamic banking and conventional banking.

Chapter: Six

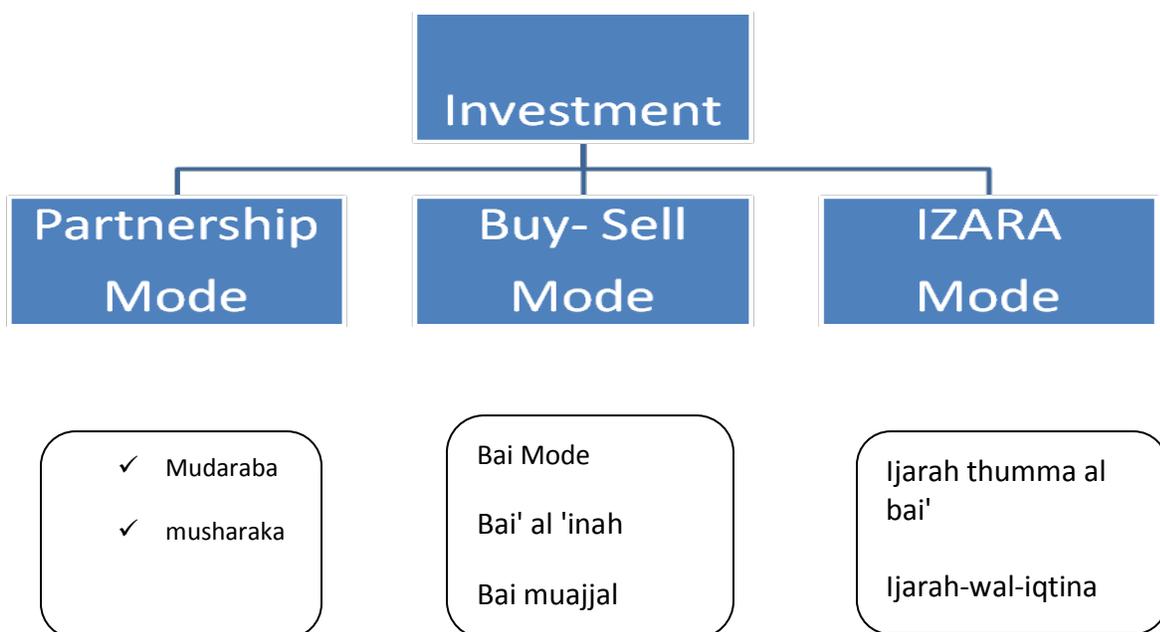
Investment section:

This section is also known as credit section. It is an essential part of any banks revenue. As EXIM bank is an Islamic bank they do not charge any type of interest in terms of their loan customer. They try to follow the Islamic rule which is known shariah in islam. Now I m going to give a brief idea about their credit system/ loan system.

EXIM bank Bangladesh LTD. actually divided their loan product into 3 parts. This is known as follow:

- ✓ Partnership mode
- ✓ Buy- sell mode
- ✓ Izara mode

There are certain terms under these modes. This is given in the next graph below:



Partnership mode:

In this mode EXIM bank tries to do business in partnership with their clients. There are 2 types of product offered by EXIM bank in partnership mode. They are:

- ✓ Mudabara
- ✓ Musharaka

Mudabara:

Mudabara loan system means profit sharing and loss bearing. In this mode EXIM bank give loan to its client for business and take share of the profit gain by their client. For example a company takes loan for its business from EXIM bank. Bank will give them a certain time to make profit. After making profit bank will take certain percentage of its profit as a feedback of their loan. If the company fails to gain profit bank will give them more time to regain it. If the company fails again then the bank will share the companies' loss as the agreement of Mudaraba loan system.

Since 2006 EXIM bank stopped the Mudaraba loan system as they have bad experience over it. After becoming Islamic bank from conventional bank they had gave loan in this system to 25 companies. Only 2 of them show small amount of profit. Others show loss to their projects. It is big loss for EXIM bank. That's why they stopped it later.

Musharaka:

This is actually joint venture system. In this loan system bank made an agreement of joint venture with their client, do businesses, and share profit and loss. Suppose a company need a financier of its project. If they go to EXIM bank and then bank approve the project and invest in it. Here bank and its client becomes partner to a project. Bank and its client will share all its profit and loss as ratio. This is often used in investment projects, letters of credit, and the purchase or real estate or property. Many real estate companies are taking this sort of loan to avoid the interest which is prohibited (haraam) in Islam.

Buy- Sell mode:

In this mode bank actually become the middle man to its client. Here bank buys the required product ordered by its client and sells it to its client in higher price. There are 3 products in terms bye- sell mode. They are:

- ✓ Bai salam.
- ✓ Bai' al 'inah
- ✓ Bai muajjal

Bai salam:

Bai salam means a contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. Here client negotiate with bank to made advance payment to its seller of his required product.. Exim bank sells it to his client in higher price. Various garments use these terms to operate their business

Difference:

In conventional banking system is known as letter of credit (LC). Here bank change a fixed interest rate to their client rather than sell it in higher price.

Bai' al 'inah:

Bai' al inah is a financing facility with the underlying buy and sell transactions between the bank and the customer. The bank buys an asset from the customer on spot basis. The price paid by the bank constitutes the disbursement under the facility. Subsequently the asset is sold to the customer on a deferred-payment basis and the price is payable in installments. Suppose I had a land and I need loan against it. Exim bank will buy the land from me and give me the money. I will pay a higher price for my land and buy it back from the bank but this time I will buy my land in installments. In the mean time I can use my land as like as I wanted to use it.

Difference:

In conventional banking system it is known as property mortgage loan. Here bank will charge fix amount of interest. But in Islamic banking system they will sell it in much higher price than they bought from me.

Bai muajjal:

Bai means bank earns profit margin and muajjal means credit sale. It is a contract in which to pay the price of the commodity at a future date in a lump sum or in installments. Suppose here a client choose a product from a shop. Then apply for loan in EXIM bank I bank thinks that everything is ok than they will buy the desired product of that customer from that particular shop and sell that product to that customer in higher price. The client will receive the product and pay the money in installments. Basically EXIM bank use term of loan in term of car loan, consumer loan etc.

IZARA mode:

Ijar means lease, rent and wage. Here bank sale the benefit of use a product or service to its customers on a fixed price and installment payments. Under this concept, the Bank makes available the use of service of asset/equipments such as plant, office automation, motor vehicle for a fixed period and price to its customers. There are 2types of product in Izara mode in EXIM bank. They are:

- ✓ Ijarah thumma al bai
- ✓ Ijarah-wal-iqtina

Ijarah thumma al bai:

It is known as hire purchase client enterr into contracts with bank to form a complete lease/ buyback transaction. The first contract is an *Ijarah* that outlines the terms for leasing or renting over a fixed period, and the second contract is a *Bai* that triggers a sale or purchase once the term of the *Ijarah* is complete. For example, in a car financing facility, a customer enters into the first contract and leases the car from the bank at an agreed amount over a specific period. When the lease period expires, the second contract comes into effect, which enables the customer to purchase the car at an agreed to price.

Difference:

There is no such product in conventional banking system.

Ijarah-wal-iqtina:

A contract under which EXIM bank provide equipment, building, or other assets to the client. In return EXIM bank receives rent from its client. Here ownership of the product belongs to the bank. At the end of the lease period ownership of the product will be transferred to the client. And client will pay the agreed amount in the agreement to the bank.

Difference:

There is some product like that in conventional banking system. Here they charge the market price at the end of lease period but EXIM bank only takes the amount which is written in the agreement.

Chapter: Seven

Conclusion:

Now a day's Islamic banking is becoming more popular day by day as more people want to lead their life in terms of Islamic rule. Exim bank is doing excellent job in terms of Islamic banking system. But in my point of view people do not have the clear idea about the difference between interest and profit as banks do not promote this in their marketing strategy. As Islamic banking becoming more popular to the people of Muslim countries, many multinational bank like HSBC, Standard chartered bank now a day's open Islamic banking section (like AMANAH) in their bank. Even many conventional banks in Bangladesh have already open Islamic banking section. It is become new marketing strategy for banks to attract new customer.

EXIM Bank is playing a leading role in economic development of the country along with maintaining standard level of services. It understands the needs of the customers and thus it understands the needs of the nation. EXIM bank and its contribution to the economy of Bangladesh along with high level of corporate social responsibility are providing it a way to move forward in faster than other banks in the country.

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