

# **Internship Report**

**On**

**Islami Bank Bangladesh Ltd.**



**I n s p i r i n g   E x c e l l e n c e**

**General Banking & Investment Modes**  
**Of**  
**Islami Bank Bangladesh Ltd.**

**Submitted to:**

**Asheka Mahboob**

**Lecturer**

**Faculty member of BBS**

**BRAC University**

**Submitted by:**

**Maisha Roushan**

**ID No. – 10204023**

**Student of BBS**

**BRAC University**

**Internship report submitted in partial fulfillment of the requirement**  
**For the degree of Bachelor of Business Administration**

**Date of Submission: 11<sup>th</sup> June, 2015**

## Letter of Transmittal

11<sup>th</sup> June, 2015

Asheka Mahboob

Lecturer,

BRAC Business School,

BRAC University

**Subject: Submission of Internship report on General Banking & Investment Mechanisms of IBBL.**

Dear Ma'am,

I would like to thank you for giving me chance to prepare the Internship report on this topic, "General Banking & Investment Mechanisms of Islami Bank Bangladesh Limited". I have prepared the report highlighting the different schemes under General Banking & Investment & analyze it from business, financial & prospective point of view. I have tried my best to make the report excellent and gather relevant information for preparing a complete report. Without the proper guidance of you, it was not possible for me to prepare the report.

I hope you will asses my report considering the limitations and mistakes of the study, and sincerely believe you will find the study very interesting and informative.

Thank you.

Sincerely yours,

Maisha Roushan

ID: 10204023

BRAC Business School

BRAC University

## Acknowledgement

First of all, I want to express my special gratitude to Almighty Allah for giving me the opportunity & strength to complete the report on time.

I am deeply indebted to a large number of people for their kind suggestion and cooperation. I would like to give special thank you to my Academic supervisor Asheka Mahboob Mam, who was very kind to supervise, instruct and direct me to complete my Internship report.

I would like to thank the Course Director Md. Osman Gani SVP & Director (Training) and coordinator Dr. Saleh Matin, PO & FM, IBTRA; for giving me the opportunity to know about IBBL, support & direction to make this report. I profoundly grateful to Md. Abdul Hamid Miah VP, Mahmuda Sultana AVP, Investment in charge, Md. Gias Uddin Operation in charge of GB and Md. Sayeed Saad PO, Investment Head of Islami Bank, Panthapath Branch for their supervision, guidance and cooperation.

This report, with all the interpretation on practical orientation in bank with the function and mechanism in the field of banking activity, would not be possible without help and cooperation of the officers engaged in the Panthapath branch of IBBL. They have willingly supplied all the practical knowledge and interpretation for making this report so convenient with the purpose of our BBA program. The acknowledgement is made especially to Md. Abdul Hamid Miah, Md. Gias Uddin and Dr. Saleh Matin as well as the authors, researchers and articles writer whose books, reports, thesis papers and journals that have helped me to prepare my internship report.

## Acronyms:

BB:	Bangladesh Bank
IBBL:	Islami Bank Bangladesh Ltd.
IBTRA:	Islami Bank Training and Research Academy
GB:	General Banking
KYC:	Know Your Customer
BEFTN:	Bangladesh Electronic Fund Transfer System
OBC:	Outward Bill Collection
SME:	Small Medium Enterprise
HDS:	Household Durable Scheme
RDS:	Rural Development Scheme
UPDS:	Urban Poor Development Scheme
MTDR:	Mudaraba Term Deposit Receipt
HPSM:	Higher Purchase Shirkatul Meelk
RR:	Rate of Return
MI:	Micro-investment
ME:	Micro-enterprise

## Table of Content

Contents	Page Numbers
<b>The Organization:</b> Introduction	<b>1</b>
History	<b>2</b>
Product/Service offerings	<b>6 – 8</b>
Organizational Hierarchy	<b>9</b>
<b>Job at IBBL:</b> Description of the Job	<b>10</b>
Specific Responsibility of the Job	<b>10 - 13</b>
Different Aspects of Job Performance	<b>14</b>
Critical Observation & Recommendation	<b>14 - 15</b>
<b>Project:</b> Summary	<b>16</b>
Description of the Project	<b>16 – 18</b>
Investment Modes & Mechanism	<b>20 - 42</b>
<b>Findings &amp; Analysis</b>	<b>43 – 51</b>
Recommendation & Conclusion	<b>52 - 54</b>
Appendix & References	<b>55 - 56</b>

## **Executive Summary:**

This report is prepared as requirement of the BBA program of BRAC University. This focus on two month working experiences in Panthapath Branch, Dhaka. I tried my best to provide a clear idea about general banking activities & investment operational strategies of IBBL. The philosophy of Islami Banks is to establish as egalitarian society based on principle of Social justice and equity through CSR (Corporate Social Responsibility) and to fulfill this motive IBBL launch RDS, UPDS. They try to continuously promote these sections and discourage luxurious consumer investment products. As because of IBBL is an Islamic Bank based on ISLAMIC SHARIAH.

In this Report I highlighted my findings through the chapters. First Chapter is introductory part of my study; the second part is focus on IBBL's history and corporate profile that is organizational overview as the study required. Third Chapter describes my job part at IBBL; forth chapter is the short summary about the project.

In this report, I have shown 5 years graphical presentation on number of investment, amount of investment, total recovery, total outstanding and profit. It can properly express the actual situation of IBBL's consumer investment. The percentage of recovery of investment of IBBL is nearly 90 to 95% because bank considers strongly the entrepreneurs efficiency and integrity as well as five C's, which are- capacity, character, capital, condition, and collateral. From the last 2 years, IBBL's investment is progressing in a greater extent. Investment of the bank increased to taka 16362.58 million till 2014. Overall investment of IBBL up to 31st December 2014 is 305841 million, of which invests under Bai-Murabaha mode 57.92%, Bai-Muajjal mode 5.20%, Bai-Salam 1.15%, Higher Purchase under Shirkatul Meelk (HPSM) 29.12%, & Musharakah mode 3.13%, Mudaraba mode 0.74%, Quard 1.83%, Foreign Bill Purchase (FBP) 0.91%. This increased investment growth of the bank is due to the thrust given to promote investment for effective utilization of depositors' fund.

Final part of my report shows the future development planning and welfare program of IBBL on RDS and UPDS analysis. At the end of the report is my Findings and Recommendation, I provide my findings and conclusion on overall consumer investment of Islami Bank Bangladesh Ltd. and evaluating performance of my study.

# Part 1

# The Organization



## 1.0 Introduction

Banking plays an important role in the economy of any country. In Bangladesh Muslim holds the majority of the population. Though, no Islamic banking but only traditional banking system was developed here till 1983. However, interest is absolutely prohibited in Islam. The main aim of traditional banking is to earn profit by borrowing and lending money in exchange of interest. As a result there is an unfair competition among the bankers and among the customers. The people of this country are profoundly committed to Islamic way of life as enshrined in the holy Qur'an and the Sunnah. Naturally, it remains deep in their hearts to fashion and design their economic lives in accordance with the precepts of Islam.

The establishment of Islami Bank Bangladesh Limited on March 13, 1983, is the true reflection of this inner urge of its people, which started functioning with erect from March 30, 1983. Now, a question may arise- 'what is Islami Banking?' According to **OIC**- "Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations."

This bank is the first of its kind in South-East Asia. It is committed to conduct all banking and investment activities on the basis of interest free profit-loss sharing system. In doing so, it has unveiled a new horizon and ushered in a new silver lining of hope towards materializing a long cherished dream of the people of Bangladesh for doing their banking transactions in line with what is prescribed by Islam. With the active co-operation and participation of Islamic development bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and the gulf countries, Islami Bank Bangladesh Limited has by now earned the unique position of a leading private commercial bank in Bangladesh.

## **1.1 History of Islami Bank in Bangladesh**

In the late seventies and early eighties, Muslim countries were awoken by the emergence of Islami Bank which provided interest free banking facilities. There are currently more than 614 interest free institutions all over the world. Today Islami Bank not only operates in almost all Muslim countries, but have extended their wings to the western world to serve both Muslim and non Muslim customers. In case of Islami Banking, the establishment of Mitghamar Local Savings Bank in 1963 is said to be a milestone for modern Islami Banking.

In 1974, Bangladesh signed the Charter of Islamic Development Bank and committed itself to reorganise its economic and financial system as per Islamic Shariah. In 1978, Bangladesh recommended in Islamic Foreign Minister Conference in Senegal towards systematic efforts to Islamic Banking. In 1980, Foreign Minister Conference in Pakistan where Bangladesh Foreign Minister Prof. Shamsul Hoq, proposed for taking steps for Islamic Banking. Further, Bangladesh Bank sent representation abroad to study Islamic Banking System.

In 1981, President of the Peoples Republic of Bangladesh addressed the 3rd Islamic Summit Conference held at Makkah and Taif suggested, "The Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce. "In 1982, IDB visited Bangladesh for study. They found contributions done by Islamic Economics Research Bureau (IERB) and Bangladesh Islamic Bankers Association (BIBA); they mobilized the seminars, public opinion through symposia & workshop. Professional activities reinforced by Muslim Businessman Society (now reorganized as Industrialists and Businessman Association). The body mobilized mainly equity capital for emerging Islamic Bank. Finally, in 1983 Islami Bank Bangladesh Limited (IBBL) came out to take the challenge of doing banking business.

Islami Bank Bangladesh Limited (IBBL) is considered to be the first interest free bank in Southeast Asia. It was incorporated on 13-03-1983 as a Public Company with limited liability under the companies Act 1913. The bank began operations on March 30<sup>th</sup>, 1983, with major share by the foreign entrepreneurs. IBBL is a joint venture multinational Bank with 63.92% of equity being contributed by the Islamic Development Bank and financial institutions. The total number of branches in 2012 stood at 276. Now the authorized capital of the bank is Tk. 20,000 million and Paid up capital is Tk. 10007.71 million.

## **Mission:**

- To establish Islami banking through the introduction of a welfare oriented banking system.
- To ensure equity and justice in the field of all economic activities.
- To achieve balance growth and equitable development through diversified investment operations particularly in the priority sectors and less developed areas of the country.
- To encourage socio-economic uplift and financial services to the low-income community particularly in the rural area.

## **Vision:**

Vision of IBBL is always strived to achieve superior financial performance, be considered a leading Islamic Bank by reputation and performance as well as-

- To establish and maintain the modern banking technologies, to ensure soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professionals, working for the benefit of the people, based upon accountability, transparency and integrity in order to ensure stability of financial system.
- To encourage savings in the form of direct investment.
- To encourage investment particularly in projects which are more likely lead to higher employment.

## **Objectives of Islamic Bank**

The primary objective of establishing Islamic Bank all over the world is to promote, foster and develop the application of Islamic principles in the business sector. More specifically, the objectives of Islamic bank when viewed in the context of its role in the economy are listed as following:

- To offer contemporary financial services in conformity with Islamic Shariah;
- To contribute towards economic development and prosperity within the principles of Islamic justice
- Optimum allocation of scarce financial resources; and
- To help ensure equitable distribution of income.

### **Strategic Objectives:**

- To ensure customers' satisfaction.
- To ensure welfare oriented banking.
- To establish a set of managerial succession and adopting technological changes to ensure successful development of an Islamic Bank as a stable financial institution.
- To prioritize the clients' welfare.
- To emerge as a healthier & stronger bank at the top of the banking sector and continue stable positions in ratings, based on the volume of quality assets.
- To ensure diversification by Sector, Size, Economic purpose & geographical location wise Investment and expansion need based Retail and SME/Women entrepreneur financing.
- To invest in the thrust and priority sectors of the economy.
- To strive hard to become an employer of choice and nurturing & developing talent in a performance-driven culture.
- To pay more importance in human resources as well as financial capital.
- To ensure lucrative career path, attractive facilities and excellent working environment.

- To ensure zero tolerance on negligence in compliance issues both Shariah and regulatory issues.
- To train & develop human resources continuously & provide adequate logistics to satisfy customers' need.
- To be excellent in serving the cause of least developed community and area.
- To motivate team members to take the ownership of every job.
- To ensure development of devoted and satisfied human resources.
- To encourage sound and pro-active future generation.
- To achieve global standard.
- To strengthen corporate culture.
- To ensure Corporate Social Responsibilities (CSR) through all activities.
- To promote using solar energy and green banking culture and ecological balancing.

## **Core Values**

- Trust in Almighty Allah
- Strict observance of Islamic Shariah
- Highest standard of Honesty, Integrity & Morale
- Welfare Banking
- Equity and Justice
- Environmental Consciousness
- Personalized Service
- Adoption of Changed Technology
- Proper Delegation, Transparency & Accountability

## 1.3 Products and Services:

Under products and services Islami Bank Bangladesh Ltd. has below categories:

### 1. DEPOSIT SCHEMES:

- Al-Wadiah Current Account (AWCA)
- Mudaraba Savings Account (MSA)
- Mudaraba Term Deposit Account (MTDR)
- Mudaraba Special Notice Account (MSNA)
- Mudaraba Hajj Savings Account (MHSA)
- Mudaraba Special Savings (Pension) Account (MSSA)
- Mudaraba Savings Bond (MSB)
- Mudaraba Monthly Profit Deposit Account (MMPDA)
- Mudaraba Mahr Savings Account (MMSA)
- Mudaraba Waqf Cash Deposit Account (MWCDA)
- Mudaraba NRB Savings Bond (MNSB) Account
- Mudaraba Foreign Currency Deposit Account (MFCD)
- Students Mudaraba Savings Account (SMSA)
- Mudaraba Farmers Savings Account (MFSA)

### 2. Investment Modes:

#### □ BAI- Modes

- Bai-Murabaha
- Bai-Istijrar
- Bai-Muajjal
- Bai Salam
- Istishna
- Bai-Asharf

□ **SHARE- Modes**

- Mudaraba
- Musharakah

□ **IJARA-Modes**

- Hire Purchase under Shirkatul Meelk (**HPSM**)

Under this mode Bank may supply implements/ equipment/goods on rental basis. The ownership of the implements/equipment/goods will be with the Bank and the client jointly and the portion of the client will remain to the Bank as mortgage until the closure of the investment account, but the client will be authorized to possess the equipment for certain period. The client, after completion of the installments, will be the owner of the implements/ equipment/goods.

### **3. INVESTMNET SCHEME**

- Household Durables Scheme (HDS)
- Investment Scheme for Doctors (ISD)
- Transport Investment Scheme (TIS)
- Car Investment Scheme (CIS)
- Small Business Investment Scheme (SBIS)
- Micro Industries Investment Scheme (MIIS)
- Agricultural Implement Investment Scheme (AIIS)
- Real Estate Investment Program (REIP)
- Real Estate Investment (Commercial & Working Capital)
- Agricultural Investment of IBBL
- NRB (Non Resident Bangladeshi) Entrepreneurs Investment Scheme (NEIS)
- Women Entrepreneurs Investment Scheme (WEIS)

#### **4. RURAL DEVELOPMENT SCHEME**

#### **5. FOREIGN EXCHANGE BUSINESS SERVICES**

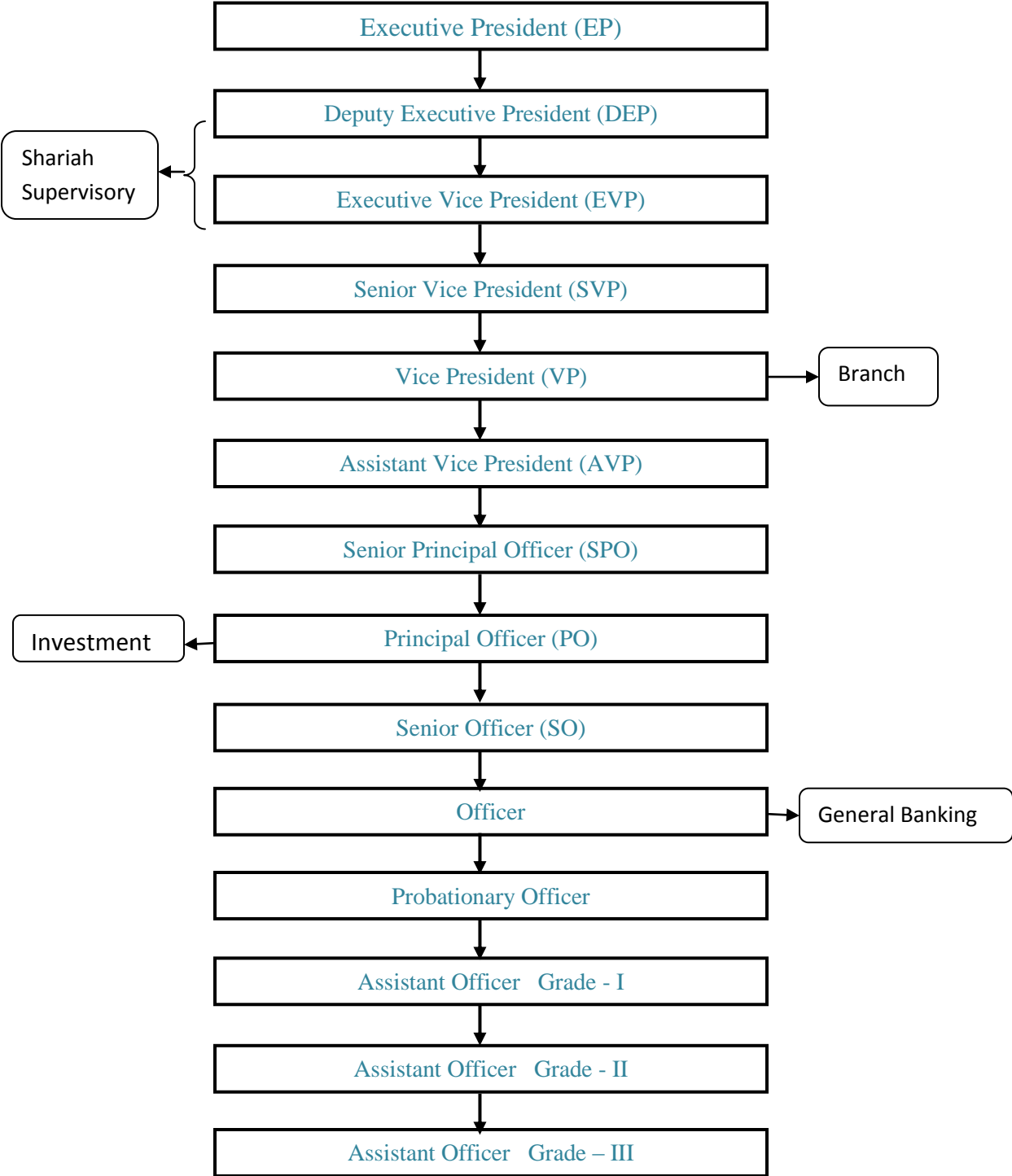
##### **❖ Special Services:**

➤ Locker Services

➤ ATM Services



**1.4 Organizational Structure:**



**Part 2**

**Job at IBBL**

## **2.0 Place of Internship**

I have done my internship program in Islami Bank Bangladesh Ltd. at Panthapath Branch. My internship program duration was of total 55 days, which was decided by Islami Bank Training and Research Academy (IBTRA). First 10 days I have done theoretical class in IBTRA, where I got to learn about the difference between Profit & Interest, Islamic Shariah and difference between an Islamic bank and conventional banks. Then I went to the Panthapath Branch for practical experience with 45 days where I have learned about Islamic banking & financial system.

### **Panthapath Branch**

I have worked 45 days out of 55 days in this branch according to office order provided by IBTRA. In this branch, there were 28 employees and three interns, including me. This branch is one of the busiest among other Branches. All of the employees were very cooperative with me. I was working under several sections of General Banking & Investment. My onsite supervisor was operational manager MD Gias Uddin and branch supervisor was VP Abul Hamid Miah I got a lot of information & gather experience about IBBL as well as interest free banking system.

## **2.1 Description of Job**

In the Panthapath branch of the bank, I have to perform a variety in different departments. Though I have done my major in HR and minor in Marketing, I had to work in all sections of the bank.

## **2.2 Specific Responsibilities of the Job**

### **Before joining in the branch:**

Before joining in the branch, I had Ten days training in the Islami Bank Training and Research about Islami banking and functions of Islami Bank. All the interns had to give an exam there upon what we have learned.

## **After joining in the branch:**

Later when I joined the branch, I had to perform the duties assigned by the Supervisor and the other officers according to the office order. First, I worked in different General Banking sections and then in the Investment department.

## **Functions of General Banking**

The operations of General Banking are:

- Reception & Information Section
- Accounts Opening Section
- Cash Section
- Clearing Section
- Remittance Section
- Dispatch Section
- Issue and payment of DD, TT and PO
- Maintenance of safe deposit lockers
- Maintenance of internal accounts of the bank
- Reconciliation Section

During my 45 days in the branch under different sections, my work experiences are summarized here-

### **Accounts opening and Information Section**

I have worked three days in this section. This section is one of the busiest sections in this branch. First of all, we the interns got to know about the various types of accounts for instance- Student account, MSA account, Current account and the essentials to open an account. This is because, when a new client enters into the banking system, to opening new account, they need information. Lot of customers arrive and try to collect information for account opening as well as about the products and facilities offered by the bank.

Clients want to know the balance of their accounts by coming to this branch personally or by phone. They come to collect bank statement or to change- address, sign, want to transfer their account to another branch or sometimes to close their accounts. I provided information about the account opening requirements to the clients, like- they need to bring two copies passport size photo, National ID, introducer signature and nominee's photo to open an account. I also helped the clients to update their account information required by Bangladesh Bank. For the bank KYC of a client is very important.

While working in this section I became introducer to many student and MSA accounts. However, I did not get the opportunity to open current account, because of its complexity and I am not a current account holder. In this section, I got the chance to interact with the customers more and asked them question about the bank and the employees.

### **Clearing Section**

In this section I have also worked for three days. The main responsibility was to receive several cheques from clients. I also attached seal in the front and the back side of the cheque for clearing. My task was to ensure account number, account holder name, the accuracy of amount written in figures & words are properly stated in cheques and check if there was any over-writing anywhere in amount or date. After confirming these cheques were sent clearing. I was not responsible for the clearing entry into the computer & completing other tasks.

Herein, I also learned about the Inward & Outward clearing, Regular & High value cheque and terms such as- BEFTN, OBC, and CPS House.

### **Telegraphic Transfer (TT), Pay Order (PO) & Demand Draft (DD) Section**

When I was in this section, I learned to write debit voucher. If any telegraphic transfer order came, I prepared debit voucher for it. In where I enter the name, account number, TT number and dates are correctly printed on the TT Voucher. Hence I make sure the signature of two officers and lastly send this voucher to the computer department. In this section, PO & DD leaf,

where I ensured name of the organization, drawer branch, date & amount of money and signature of two officers.

### **Foreign Remittance Section**

In this section, I have worked for two days. First, I got to know about of money transfer mediums, country code and PINs. Here I got to learn about how clients can withdraw money from the bank sometimes without having an account in the respected bank or deposit money coming from abroad. To receive money sent from abroad the clients need the original NID and a photocopy of the NID. Withdrawing money is not very difficult and it is very popular service provided by the bank.

### **Investment Section**

I worked total 10 days in this section. IBBL is one of the most profitable banking organizations in Bangladesh since the last few years due to the unique investment process of the bank. I had the privilege to gain knowledge of the mechanisms of Islamic investment. What are the different modes of investment, why customers choose this particular bank for investment, how the bank selects their customers for investment, the documents and paper-works need to complete the procedure all these stuff I learned practically. The project part reflects the knowledge of my learning.

## **2.4 Different Aspects of Job Performance**

I had to take ten days training and give examination before joining in the branch. After joining in the branch I have to perform different works according to the orders of the manager and the senior principal officer. I have to study different client's files and discuss different investment related issues like the process of taking and giving investments, choosing the targeted customers, calculating the portion of profit and installment amount, documents needed to execute the investment etc. with the supervisor. I have to help the clients to open account in account opening desk. I did the data entry and other computer related work. I took the requisition for ATM card and check books. However, I never got a change to work in the Cash section but I watched how they work.

Last but not the least, based on our theoretical exam and performance at the branch IBTRA did an evaluation. We also had to submit a report to them, about what we have learned and gave a presentation. According to the evaluation they awarded the interns in different categories. Fortunately, my group and I got the best report award.

## **2.5 Critical Observations and Recommendations**

While working in the bank, I noticed that the customers are satisfied with the overall bank's service and facilities. They are also getting new products and services like student account, Internet-banking. Although, I have some recommendations, according to my observation are-

- First of all, the bank does not have a strong database system to store customers' information. They should build up a stronger backup system. As it is a financial institution, missing of data caused by backup failure may turn out a huge loss.
- The bank can make clear picture of the difference between interest and profit to the customers practicing different religion.

- They can use more easy and understandable words instead of different Islamic terms that they are using in their bank currently; especially for the non-Muslim customers.
- Panthapath branch does not provide SME banking service. There was always confusion among the customers if it's a SME bank or not. They authority should pay heed to this matter.
- As an intern, I felt that we should get more opportunity to learn about different software and calculating investment related stuffs, like- Risk analysis. In my opinion we lagged behind in this fact.

Finally, I want to say that, I got a real life experience while working the bank. I also understood the necessity of the Islami banking system in our country. It was a pleasure working there.



# Part 3

# Project

### **3.0 Summary**

As my report is based on Investment of IBBL so here I tried to show investment analysis on that particular investment practice of IBBL through my findings. I tried to find out the reasons of preferring this bank by customers, how it is helpful to our economy and our country. Here, I also tried to find out the current situation through trend analysis of last 5 years of this bank and the future prospected area under consumer investment. For collecting this information, I took interview of a few officers of the bank and also took the help of different documents related to bank. This report shows the financial performance of Islami bank and conventional bank, the picture of current situation in consumer investment of IBBL, and the future prospect in this area.

### **3.1 OBJECTIVE OF THE PROJECT**

- To know the consumer investment process of IBBL.
- To know the comparison of Islami bank and conventional bank
- To know the current situation of IBBL through trend analysis
- To identify the position of consumer investment among other investments in IBBL.
- To identify the future prospect of IBBL in consumer investment.

### **3.2 METHODOLOGY**

#### **Data collection:**

Different data and information are collected from various sources, such as primary and secondary which is given below-

#### **Primary sources of data:**

- Personal inspection
- Questionnaire/interview to Officers and clients
- Work experience at different desk of the Bank

## **Secondary Sources of Data**

- Financial report of IBBL
- Internet
- Brochure/ Books
- Bank Documents

## **Data analysis:**

I have analyzed and shown the collected data into tables and charts. Compared and commented based on it.

## **3.3 Scope**

Mode of investment is much talked in the financial literature of economic development. This topic includes a vast area of financial literature. However, this present study helped to understand this and covers the modes of investment procedures of Islamic Bank. This study is confined to only this bank than other conventional banks.

## **3.4 Limitations**

- The major limitation faced in preparing this report was the sensitivity of the data. As it is a highly competitive market, if the margin information released to other competitors, it may have a negative impact on their business. Resultantly, in some cases management were reluctant to give some specific data.
- Confidentiality of data was another important barrier that confronted during the conduct of this study.
- Every organization has their own secrecy that not revealed to others. While collecting data on IBBL, personnel did not disclose enough information for the sake of confidentiality of the organization.

- Rush hours and business was another reason that acts as an obstacle while gathering data.
- The depth of the analysis has been limited to the extent of information collected from different sources.
- In many case, up to date information not published.

### 3.5 Investment

Various Islamic financial institutions, especially in Islamic countries offer various types of investment products that are free of Riba or interest. An Islamic investment fund is usually one in which a number of people pool their money and the money is in turn invested in an Islamic legal manner. Definition of investment funds by the **Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI)** is- "Funds are investment vehicles, which are financially independent of the institutions that establish them. Funds take the form of equal participating shares/units, which represent the shareholders'/unit holders' share of the assets, and entitlement to profits or losses. The funds are managed on the basis of either Mudaraba or agency contract."

Investment is the action of deploying funds with the intention and expectation that they will earn a positive return for the owner (Brokington 1986, p.68). When resources are used for purchasing fixed and current assets in a production process or for a trading purpose, then it can be termed as real investment. On the other hand, the purchase of a legal right to receive income in the form of capital gains or dividends would be indicative of financial investments.

### **3.6 Objectives and Principles of Investment**

The objectives and principles of investment operations of the Bank are:

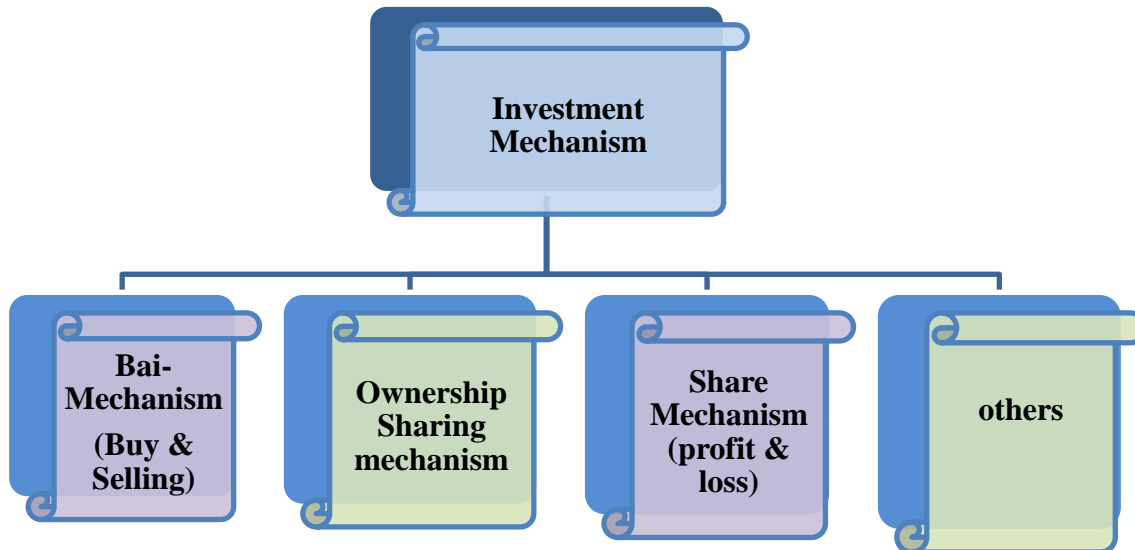
- To invest fund strictly in accordance with the principles of Islamic Shariah.
- To diversify its investment portfolio by the size of investment, by sectors (public & private), by economic purpose, by securities and by geographical area including industrial, commercial, and agriculture.
- To ensure mutual benefit both for the bank and the investment-client by professional appraisal of investment proposals, judicious sanction of investment, close and constant supervision and monitoring thereof.
- To make investment keeping the socio-economic requirement of the country in view.
- To increase the number of potential investors by making participatory and productive investment.
- To finance various development schemes for poverty alleviation, income and employment generation with a view to accelerating sustainable socio-economic growth and uplift of the society.
- To invest in the form of goods and commodities rather than give out cash money to the investment clients.

**Part 4**

**Investment**

### 3.7 Investment Modes & Mechanism of IBBL

IBBL invests its money in various sectors of the economy through different modes permitted by Shari'ah and Bangladesh Government. The modes of investment are as follows:



**Figure: Different investment mechanisms**

#### **Bai- Mechanism**

##### **Bai-Murabaha**

##### **Meaning & Definition:**

The terms 'Bai-Murabaha' have derived from Arabic words Bai and Ribhun. The word Bai means purchase and sale and the words 'Ribhun' means an agreed upon profit. Bai Murabaha means sale on agreed upon profit.

Bai-Murabaha may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods permissible under Islamic Shariah and the Law of the land to the buyer at a cost plus an agreed upon profit payable today or on some date in the future in lump-sum or by installments. The profit may be either a fixed sum or based on a percentage of the price of the goods. There are different types of Murabaha as given below:

## **Types of Murabaha**

In respect of dealing parties Bai-Murabaha may be of two types-

- **Ordinary Bai-Murabaha:**

Only two parties participate in this contract.

- **Bai –Murabaha on order and promise:**

There are three parties in Bai-Murabaha on order and promise. Mostly it is for commercial use.

## **Important features:**

- It is permissible to take cash/collateral security to guarantee the implementation of the promise or to indemnify any losses that may result.
- The bank sells the goods at a price above the cost to obtain a profit. The sale price that is charged by the bank is agreed upon in the Bai-Murabaha. The profit can be stated in terms of a flat dollar amount or on a percentage of the purchase price. If a percentage is used, the percentage shall never be expressed in terms of time, in order to avoid confusion that the price is a form of interest (Riba), which is not allowed.
- The price agreed to in the agreement is binding on both parties.
- It is permissible for the bank to contract with a third party to buy and receive the goods on its behalf. This agreement must be a separate contract.



## **Steps of Bai-Murabaha Practiced by Islami Bank:**

- **Submission of proposal from the client**
- **Signing a promise by the client to purchase**
- **The first sale contract**
- **Singing of Murabaha Sale Contract**
- **Delivery and receipt the commodity**

## **Bai-Muajjal (Deferred Sale)**

### **Meaning & Definition:**

The terms “Bai” and “Muajjal” have been derived from Arabic words ‘Bai’ and ‘Ajjal’. The word Bai means purchase and sale and the word ‘Ajjal’ means a fixed time or a fixed period. “Bai-Muajjal” means sale for which payment is made at a future fixed date or within a fixed period. In short, it is a sale on Credit.

The Bai-Muajjal may be defined as a contract between a Buyer and a seller under which the seller sells certain specific goods (permissible under Shariah and law of the country), to the Buyer at an agreed fixed price payable at a certain fixed future date in lump sum amount or within a fixed period by fixed installments. The seller may also sell the goods purchased by him as per order and specification of the buyer.

Bai –Muajjal is treated as a contract between the bank and the client under which the bank sells to the client certain specific goods, purchased as per order and specification of the client at an agreed price payable with in a fixed future date in lump sum or by fixed installments.

Thus it is a credit sale of goods by which ownership of the goods is transferred by the bank to the client but the payment of sale price by the client is deferred for fixed period.

## **Important features:**

- It is permissible and in most cases, the client will approach the bank with an offer to purchase a specific good through a Bai-Muajjal agreement.
- It is permissible to make the promise binding upon the client to purchase the goods from the bank.
- It is also permissible to document the debt resulting from Bai-Muajjal by a Guarantor, or a mortgage or both, like any other debt.
- Mortgage/Guarantee/Cash security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.
- All goods purchased on behalf of a Bai-Muajjal agreement are the responsibility of the bank until they are delivered to the client.
- The bank must deliver the goods to the client at the time and place specified in the contract.
- The bank may sell the goods at a higher price than the purchase price to earn profit.
- The price is fixed at the time of the agreement and cannot be altered.
- The bank is not required to disclose the profit made on the transaction.

## **Bai- Salam**

### **Meaning & Definition:**

The terms “Bai” and “Salam” have been derived from Arabic words. The words “Bai” means “sale and purchase” and the word “Salam” means “Advance”. “Bai-Salam” means advance sale and purchase.

It is a sale in which an advance payment is made by the buyer, but the delivery is delayed to an agreed date. In the Bai-Salam, a financial transaction happens in advance in cash as a price of commodity whose delivery will be in a future date. It means deferred is the commodity sold

(debt in kind) and price of the commodity described is to be Bai-Salam, a financial transaction happens in advance in cash as a price of commodity described is to be paid immediately in advance.

### **Important features:**

- Generally, industrial and agricultural products are purchased\ sold in advance under Bai-Salam mode of investment to infuse finance so that product is not hankered due to shortage fund/cash.
- It is permissible to obtain collateral security from the seller client to secure the investment from any hazards via non-supply/ partial supply of commodity/product(s), supply of low quality commodity /product(s).
- It is also permissible to obtain Mortgage and/or Personal Guarantee from a third party as security before the signing of the Agreement or at the time to signing the Agreement.
- The seller client may be made agent of the Bank to sell the goods delivered to the Bank by her provided a separate agency agreement is executed between the bank and the client.

### **Practical steps of the Salam Sale:**

- **Cash sale or Sale on Credit**
- **Delivery and Receipt of the Commodity on the Specific due Date:** There are several options for delivery available to the bank-
  - i. The bank may receive the commodity and resell it to another party for cash or credit.
  - ii. The bank may authorize the seller to find another buyer for the commodity.
  - iii. The bank may direct the seller to deliver the commodity directly to a third party with whom the bank has entered into another agreement.
- **The Sale Contract between bank and client**

### **Rules of Bai-Salam:**

- It is a condition that the commodity known by both parties to the agreement.
- The quality of the commodity is monitored closely, as very little variation from specifications in the contract is allowable. The commodity is deliverable on the due date. If there is uncertainty about the ability to deliver the commodity at the due date, a Salam transaction is impermissible.
- It is permissible to draw a Salam sale contract for a total to be delivered increments on different specified future dates.
- It is a condition that the commodity is a liability debt. The seller is obliged to deliver the commodity when it is due, according to the specifications stipulated in the contract, whether or not his firm produces the commodity or obtained from other firms.
- Salam sales are impermissible on existing commodities because damage and deterioration cannot be assured before delivery on the due date.

### **Bai- Istishna**

#### **Definition:**

Istishna is a contract between a manufacturer/seller and a buyer under which the manufacturer/seller sells specific product(s) after having manufactured, permissible under Islamic Shariah and Law of the Country after having manufactured at an agreed price payable in advance or by go downs within a fixed period or on/within a fixed future date on the basis of the order placed by the buyer.

#### **Features of Istishna:**

Istishna is an exceptional mode of investment allowed by Islamic Shariah in which product(s) can be sold without having the same in existence. In the product(s) are ready for sale. Istishna is not allowed in Shariah. Then the sale may be done either in Bai-Murabaha or Bai-Muajjal mode of investment. In this mode, deliveries of goods are deferred and payment of price may also be deferred.

- It facilitates the manufacturer sometimes to get the price of the goods in advance, which he may use as capital for producing the goods.
- It gives the buyer opportunity to pay the price in some future dates or by go downs.
- Istishna is specially practiced in manufacturing and industrial sectors; however, it can be practiced in agricultural and constructions sectors also.

## Ownership Mechanism

### Hire purchase (Ijarah)

The term Ijarah has been derived from the Arabic words ‘Air’ and ‘Uirat’ which means consideration, return, wages or rent. This is really the exchange value or consideration, return, wages, rent of service of an asset. Ijarah has been defined as a contract between two parties, the Hiree and Hirer where the Hirer enjoys or reaps a specific service or benefit against a specified consideration or rent from the asset owned by the Hiree.

#### Element of Ijarah:

**The Hire:** the individual or organization hires/rents out the property of service is called the Hiree.

**The Hirer:** the individual of organization hires / takes the hire of the property or service against the consideration.

**The Rent:** the consideration either in monetary terms or in kinds fixing quantity of goods/money to be paid against the benefit of the asset or service of the asset is called the rent

## **Hire Purchase under Shirkatul Meelk (HPSM)**

Shirkatul means partnership Shirkatul Meelk means share in ownership. When two or more persons supply equity, purchase an asset, own the same jointly, and share the benefit as per agreement and bear the loss in proportion to their respective equity, the contract is called Shirkatul Meelk contract.

Hire Purchase under Shirkatul Meelk made both the bank and the client supply equity in equal or unequal proportion for purchase of an asset like land, building, machinery, transport etc. Purchase the asset with that equity money, own the same jointly; share the benefit as per agreement and bear the loss in proportion to their respective equity. The share part or portion of the asset owned by the bank is hired out to the client partner for a fixed rent per unit of time for a fixed period. Lastly the bank sells and transfers the ownership of its share/ part/ portion to the client against payment of price fixed for that part either gradually part by part or in lump sum within the hire period or after the expiring of the hire agreement.

### **Stages of Hire Purchase under Shirkatul Meelk-**

Hire Purchase under Shirkatul Meelk agreement has got three stages:

- Purchase under joint ownership
- Hire and
- Sale and transfer of ownership to the other partner Hirer.

### **Rules of HPSM:**

It is a condition that the asset to be hired must not be a fungible one which cannot be used more than once or in other words the asset must be a non-fungible one which can be utilized more than once or the service of which can be separated from the asset itself.

- It is a condition that the subject of the contract must actually and legally be attainable. The Hirer shall ensure that he will make use of the asset as per provisions of the Agreement.

- The hire contract is permissible only when the asset and the benefit derived from it is within the category as per Islamic Shariah.
- It is permissible to advance, defer or install the rental in accordance with the agreement as well as to make the Hirer to bear the cost of ordinary routine maintenance, because this cost is normally known and can be considered as part of the rental.
- If the hired asset is damaged or destroyed by the act of Allah and if the Hiree offers a substitute with the same specifications agreed upon in the hire contract the contract does not terminate.
- Under HPSM agreement, both the Hire and the Hirer must pay their respective equity as agreed upon to purchase the demised asset under joint ownership.

## **Share Mechanism**

### **Mudaraba**

#### **Definition:**

It refers to a contract between two parties in which one party supplies capital to the other party for the carrying on of some trade on the condition that the resulting profits are distributed in a mutually agreed proportion while all loss is borne by the provider of the capital. Mudaraba is also known as Qurad and Muqaradah.

Mudaraba is a contract of those who have capital with those who have expertise where the first party provides capital and other party provides the expertise with the purpose of earning “halal” (Lawful) profit which will be devised between them in ration agreed upon. This mode serves the business interest of the capital owner and the Mudarib (agent).

#### **Steps of Mudaraba:**

- **The Results of Mudaraba**
- **Payment of Mudaraba Capital**
- **Distribution of wealth resulting from Mudaraba**

### **Rules of Mudaraba:**

It is a condition in Mudaraba that the capital be specific in nature. In other words, the amount of capital must be known at the inception of the contract. The purpose of this rule is to ensure that there is no uncertainty about the amount of capital and thus, no uncertainty about the division of profits.

It is also included in the condition that, capital must be in the form of currency in circulation. However, merchandise can be contributed, so long as both parties to the business arrangement agree upon its value. The capital of the Mudaraba must be delivered to the Mudarib. It is permissible for the Mudarib to hire an assistant to perform difficult work that he is unable to perform on his own.

### **Musharakah (Partnership)**

#### **Meaning and definition:**

The word Musharakah is derived from the Arabic word Sharikh meaning partnership. Islamic jurists point out that the legality and permissibility of Musharakah is based on the injunctions of the Holy Quran's, Sunnah, and Ijma (consensus) of the scholars. It may be noted that Islamic Banks are inclined to use various forms of Shariakt-al-Inan because of its built on flexibility. At an Islamic bank, a typical Musharakah transaction may be conducted on the following manner.

One two or more entrepreneurs approach an Islamic Bank for the finance required for a project. The bank along with other partners provides complete finance. All partners, including the bank have the right to participate in the project. They can also waive this right. The profits are to be distributed according to an agreed ratio, which need not be the same as the different partners have provided the finance for the project Musharakah may be of two types:

- Permanent and
- Diminishing Musharakah
  
- **Permanent Musharakah:**



The contributions of the partners under this mode may be equal or unequal ratios of capital to establish a new income-generating project or to participate in an established one, whereby each participant owns a share in the capital structure permanently and deserves his share of the profit income. In this case the bank participates in the equity of a company and receives an annual share of the profits on a pre-rate basis. The period of termination of the contract is not specified. This financing technique is also referred to as continued Musharakah.

- **Diminishing partnership:**

Diminishing Musharakah is an intention from the very beginning not to stay in and continue the partnership up to the liquidation of the company. The Islamic bank can give the other partner the right to purchase portion of the bank on the ownership [the form for full payment at a time or by installment basis as per agreement with the partners (the client)].

The bank participates as a financial partner, in full or in part, in a project with a given income forecast. An agreement is signed by the partner and the bank through which the bank receives a share of the profit as a partner. However, the agreement also provides payment of a portion of the net income of the net income of the project as repayment of the principal financed by the bank. The partner is entitled to keep the rest.

The bank gradually can relinquish share to the partner, in exchange the partner pays the price to the bank periodically during a reasonable period to be agreed upon. After the discharge, the bank withdraws its claims from the firm and it becomes the property of the partner. Decreasing partnership is a mode innovated by the Islamic banks. It differs from the partnership. Those are mentioned below.

### **3.8 Investment Process of IBBL:**

Generally a bank takes certain steps to deliver its proposed investment to the client. But the process takes deep analysis. Because banks invest depositors fund, not banks' own fund. If the bank fails to meet depositors demand, then it must collapse. So, each bank should take strong concentration on investment proposal. However, Islami Bank Bangladesh Limited (IBBL) makes its investment decision through successfully passing the following crucial steps:

#### **1. Selection of the client:**

First of all, client approaches to any of the branches of Islami Bank Bangladesh Limited (IBBL). Then, he talks with the manager or respective officer (Investment).

Secondly, bank considers five C's of the client. After successful completion of the discussion between the client and the bank, bank selects the client for its proposed investment. It is to be noted that the client/customer must agree with the bank's rules & regulations before availing investment. Generally, bank analyses the following **five C's** of the client:

- **Character**
- **Capacity**
- **Capital**
- **Collateral**
- **Condition**

#### **2. Application stage**

At this stage, the bank will collect necessary information about the prospective client. For this reason, bank informs the prospective client to provide and/or fill duly respective information which is crucial for the initiation of investment proposal. Generally, here, all the required documents for taking investment have to prepare by the client himself. Documents that are necessary for getting investment of IBBL are prescribed here:

- i. Trade License photocopy (for proprietorship);

- ii. Abridged pro forma income statement;
- iii. Attested copy of partnership deed (for partnership business);
- iv. Prior three (03) years' audited balance sheet (for joint stock company);
- v. Attested copy of the Memorandum of Association (MOA) & Articles of Association (AOA) for the joint stock company;
- vi. Attested copy of the Tax Identification Number (TIN)- including final assessment;
- vii. Tenders of the proposed assets (in case of HPSM);
- viii. Detailed summary of the sundry debtors and creditors (including both time & schedule);
- ix. Summary of the personal movable & immovable assets; and others.

### **3. Appraisal stage:**

At this stage, the bank evaluates the client and his/her business. It is the most important stage. This is because; bank usually goes for sanctioning the proposed investment limit/proposal on the basis of this stage. If anything goes wrong here, the bank suddenly stops to make payment of investment.

In order to appraise the client, Islami Bank Bangladesh Limited (IBBL) provides a standard F-167B Form (Appraisal Report) to the client for gathering all the information. The original copy of the appraisal report is enclosed in the appendix chapter. However, the following contents are presented from that appraisal report:

- Company's/Client's Information.
- Owner's Information.
- List of Partners/Directors.
- Purpose of Investment/Facilities.
- Details of Proposed Facilities/Investment.
- Break up of Present Outstanding.
- Other Liabilities of the Client/Group.
- Previous Banker's Information.
- Details of Sister/Allied Concerns.
- Allied Deposit as on.
- Business/Industry Analysis.

- Relationship Analysis.
- Asset-Liability position of the client as per Audited Balance Sheet.
- Working Capital Assessment.
- Risk Grade.
- Particulars of the go down for storing MPI/Murabaha goods.
- Insurance Coverage.
- Audit Observation.
- Security Analysis.

#### **4. Sanctioning stage**

At this stage, the bank officially approves the investment proposal of the respective client. In this case client receives bank's sanction letter. Islami Bank Bangladesh Limited (IBBL)'s sanction letter contains the following elements:

- **Investment Limit in million.**
- **Mode & amount of investment.**
- **Purpose of investment.**
- **Period of investment.**
- **Rate of return.**
- **Securities:**

**Primary-** Stock of goods is the primary security.

- LC/Bills: Related Documents.
- Murabaha Post Investment (MPI)/Bai-Murabaha: Pledge of MPI/Bai-Murabaha goods.
- MPI/Bai-Bai Murabaha-TR: Lien on goods to be released.

**Cash/Goods-**

- Bai-Murabaha: 25% cash security on cost price to be subsequently converted to goods security.
- TR (Trust Receipt): Without cash security.

**Collateral:** Immovable properties.

## **Cash/Goods security**

In allowing Murabaha investment and amount of cash security is generally realized from the client (amount depends on the nature of goods, creditworthiness of the client, collateral security obtained etc.) which is converted to goods security after purchase of goods purchased out of bank's investment and client's cash security is pledged to the bank, kept under bank's custody before its delivery to the client on payment.

**Example:** If, for a Murabaha investment cash security is fixed at 25% Bank's investment stands at 75% on the total goods purchased. For example, if cost of total goods purchased is Tk.100000 Bank's investment will be Tk.75000 and client's cash security will be Tk.25000.

## **5. Document stage:**

At this stage, usually the bank analyses whether required documents are in order. In the documentation stage, Islami Bank Bangladesh Limited (IBBL) checks the following documents of the client:

- Tax Payment Certificate.
- Stock Report.
- Trade License (renewal).
- VAT certificate
- Liability statement from different parties.
- Receivable from different clients.
- Other assets statement.
- Three (03) years net income & business transactions.
- Performance report with the bank.
- Account Statement Form of the bank.
- Valuation Certificate
  - Particulars of the Proposal.
  - Particulars of the Mortgagor.
  - Particulars of the Properties.
- Outstanding liability position of the bank.
- CIB (Credit Information Bureau) Report.

## **6. Disbursement stage:**

At this stage, bank decides to pay out money. Here, the client gets his/her desired fund or goods. It is to be noted that before disbursement a “site plan” showing the exact location of each mortgage property needs to be physically verified.

## **7. Monitoring and recovery stage:**

At this final stage of investment processing of the Islami Bank Bangladesh Limited (IBBL), bank will contact with the client continually, for example- bank can obtain monthly stock report from the client in case of micro investment. Here, the bank will keep his eye on over the investment taker. If needed, bank will physically verify the client’s operations. Also if bank feels that anything is going wrong then it tries to recover its investment fund from the client.

## **Welfare Investment Schemes of IBBL:**

The prominent features of the investment policy of Islami Bank Bangladesh Limited are to invest on the basis of profit and loss sharing system in accordance with the tenets and principles of Islamic Shariah. Profit earning is not the only motive and objective of the bank’s investment policy rather emphasis is given in attaining social good and in creation employment opportunities.

The objectives of these schemes are to raise the standard of living of low-income group, development of human resources, and creation of awareness for self employment.

## Household Durable Scheme:

- **Objective:** To increase standard of living and quality of life of the fixed income group by extending them investment facilities to purchase household articles.
- **Target Group:** Permanent Officials of Govt. / Semi-Govt. / Autonomous Body / Corporations / Banks & FIs / Defense Forces / Madrasa / School / College / University Teachers / Businessmen / House owners of Metropolitan & other District Head Quarters / Professionals (Doctors / Engineers / Lawyers etc.) / Existing clients / Wage Earners / University / Medical Students / Officials of renowned Private Firms.
- **Nature of Goods/ Items:** Electronics & electrical goods, Motor cycle / Bi-cycle, Furniture / Fixtures, Ornaments, Instruments / Equipments for Medical & Engineering students etc.
- **Mode of Investment:** Bai-Muajjal / HPSM (item wise).
- **Period of Investment:** Maximum 3-years
- **Rate of Return:** 16.00% or rate to be determined by the Bank from time to time.
- **Amount of Investment:** For All Metropolitan Cities Tk.0.30 million  
For Districts & Municipalities Tk.0.20 million  
Others Tk.0.10 million
- **Bank's Participation:** 30% or as per Guideline of Bangladesh Bank
- **Age of Clients:** Service holders : 3-yrs unexpired service
- **Security:** HDS Goods + PG + Spouse / Guardian Guarantee + Employer Certificate / Marking lien on MSS / MTDR (if applicable).

## Investment Schemes for Doctor:

- **Objective:**
  - To help unemployed qualified doctors to go for self-employment
  - To provide latest medical equipments to specialist doctors to extend modern Medicare facilities throughout the country.
- **Target Group:** Doctors (MBBS), Dentist (BDS), Homeopath, Unani, Ayurved Doctors
- **Mode of Investment:** Bai-Muajjal/ HPSM
- **Period of Investment:** Maximum 5-years
- **Rate of Return:** 14.00% or rate to be determined by the Bank from time to time.
- **Amount of Investment:** For All Metropolitan Cities : Tk.1.50 million  
**For Districts:** Tk.1.00 million For Thana / Municipalities: Tk.0.70 million
- **Bank's Participation:** 90% (for new doctors) & 80% (for specialized doctors).

- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### Transport Investment Scheme (TIS):

- **Objective:**
  - To ease the existing transportation problem.
  - To ensure speedy economic growth and development of the country particularly the expansion of trade, commerce & industry.
- **Target Group:** Persons, businessmen, firms having proven experience in transport business, Official/Commercial use by the business firms & industries, established clinic & hospitals etc.
- **Nature of Goods / Items :** Bus, Truck, Minibus, Double Decker, Private Car, Micro Bus, Jeep, Auto Rickshaw, Pick up Van, Human Hauler, Baku, Vessel etc.
- **Mode of Investment:** Bai-Muajjal/ HPSM.
- **Period of Investment:** 3 to 5 years.
- **Rate of Return:** 14.00% or rate to be determined by the Bank from time to time.
- **Bank's Participation:** 60% to 70% depending on vehicle type.
- **Security:** Hypothecation on purchased Vehicle, Immovable Properties, Marking lien on TDR / MSS, Personal Guarantee(s).
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### Car Investment Scheme (CIS):

- **Objective:**
  - To help a section of the officials, business houses and business executives and established professionals for movement in discharging their duties and responsibilities punctually and efficiently.
- **Target Group:** Permanent officials, teachers, businessmen, house owners, professionals, existing clients of IBBL, wage earners etc.
- **Nature of Goods / Items:** Reconditioned / Brand new Private Car / Micro / Jeep / Auto Rickshaw etc.
- **Mode of Investment:** Hire Purchase under Shirkatul Meelk (HPSM).
- **Period of Investment:** Maximum 4-years for reconditioned car and 5-years for brand new cars.



- **Rate of Return:** 16.00% or rate to be determined by the Bank from time to time.
- **Amount of Investment:** Tk.2.00 million for reconditioned and Tk.3.00 million for brand new car.
- **Bank's Participation:** 30% or as per Bangladesh Bank Guideline.
- Age of Clients: Minimum 21 years, Maximum 65 years.
- Security: Mudaraba TR on purchased vehicle, personal / corporate guarantee.
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### Small Business Investment Scheme (SBIS):

- **Target Group:** Jobless young people/ small traders/ small & cottage industries/ service sector with a valid trade license.
- **Nature of Goods / Items:** Dairy, beef fattening, fishery, poultry & live stock farming, workshop, tailoring, garments sweetmeat, grocery, stationery, electrical and electronics, shoes, cloths, laundry, small restaurant etc.
- **Mode of Investment:** Bai- Muajjal/ HPSM
- **Period of Investment:** Maximum 1-year in Bai-Muajjal & Maximum 2-years in HPSM.
- **Rate of Return:** 15.00% or rate to be determined by the Bank from time to time.
- **For All Metropolitan Cities:** Tk.50 million.
- **Bank's Participation:** 80% of the cost price.
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### Micro Industries Investment Scheme (MIIS):

- **Objective:**
  - To create potential entrepreneurs
  - Diversification of Bank investment port-folio.
- **Target Group:** Engineering Diploma/ Degree holders.
- **Nature of Goods / Items:** Food & agriculture / plastic & rubber/ forestry & furniture / dairy product processing / engineering/ leather / chemicals / textiles / recycling / service electrical accessories / paper product / handicrafts industries / computer technology industries /manufacturing of garments / sewing and other machines for tailoring etc.
- **Mode of Investment:** Bai- Muajjal/ HPSM
- **Period of Investment:** Maximum 1-year for Bai-Murabaha & Maximum 3 years for HPSM (excluding gestation period).

- **Rate of Return:** 13.50% or rate to be determined by the Bank from time to time.
- **Amount of Investment:** For All Metropolitan cities : Up to Tk.1.50 million;  
**For Districts & Municipalities:** Up to Tk.1.00 million;  
**Others:** Up to Tk.0.50 million  
**Note:** Fixed invest should not cross 50% of sanctioned amount.
- **Bank's Participation:** 80% of the cost price.
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### **Agriculture Implement Investment Scheme (AIIS):**

- **Objective**
  - To provide power tillers, power pumps, shallow tube wells, thresher machines etc. on easy terms to unemployed rural youths for self-employment.
  - To the farmers to help augment production in agriculture sector.
- **Target Group:** Educated or uneducated farmers & persons or youths.
- **Nature of Goods / Items**
- Power Tiller / Power pump / Deep / Shallow tube well / Thresher machine / Combined harvester / Tractor / Rice transplanted / USG making Machine / Drum Seeder / Agro processing machinery & equipments etc.
- **Mode of Investment:** Bai- Muajjal/ HPSM
- **Amount of Investment:** Maximum Tk. 0.30 million.
- **Period of Investment:** Maximum 1-year for Bai-Muajjal & Maximum 2-years for HPSM.
- **Rate of Return:** 15.00% or rate to be determined by the Bank from time to time.
- **Bank's Participation:** 80% of the cost price.
- **Security:** Hypothecation on machinery, immovable properties above Tk.0.10 million, Personal Guarantee(s), MSS / TDR etc.
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

## **Real Estate Investment Program (REIP):**

- **Objective:**
  - To ease the housing problem in the urban areas.
  - To make arrangement for comfortable accommodation of the fixed income group.
- **Target Group:** Land lords, service holders, businessmen, professionals, expatriates etc.
- **Nature of Goods / Items:** Construction of building, purchase of flats / readymade building, extension / renovation of house, installation of lift, generator, substation etc.
- **Mode of Investment:** Bai-Muajjal / HPSM
- **Period of Investment:** Maximum 15-years
- **Rate of Return:** 15.00% or rate to be determined by the Bank from time to time.
- **Amount of Investment :**
  - a) For Construction, up to 60% but not to exceed Tk.10.00 million
  - b) For purchase of Flat / Apartment up to 50% but not to exceed Tk.7.50 million.
  - c) For purchase of Ready-made House, up to 50% but not to exceed Tk. 10.00 million.
- **Bank's Participation :** 60% for construction & 50% of cost price for purchasing flat (but not exceeding Tk.7.50 million)
- **Security:** Registered mortgage on land / building / flat, Personal Guarantee(s), MSS / TDR as additional security etc.
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

## **Agricultural Investment of IBBL:**

- **Objective:**
  - To extend the investment facility to the Share Cropper, Small & Marginal farmers & underdeveloped caste of the society;
  - To achieve self sufficiency in the food;
  - To motivate the farmers to produce the most popular & high yielding variety;
  - To extend the investment facility to the multipurpose sector & sub sector of Agriculture;
  - To assist the farmers to use the modern technology in the Agriculture.

- **Target Group:** Permanent resident of the concerned area, share cropper, farmers.
- **Nature of Goods / Items:** Three core sectors, which are Crops, Fisheries & Livestock.
- **Mode of Investment:** Bai Murabaha, Bai Muajjal, Mudaraba, Musharakah
- **Period of Investment:** 6 months to 5 years
- **Rate of Return:**
  - I. 10.50% for Crop Cultivation
  - II. 11.00% for others.
- **Amount of Investment:** 0.50 lack to 10.00 lack
- **Bank's Participation:** Depends on sector and investment nature
- **How to Apply:** Application Form shall have to be collected from nearest Branch of Islami Bank Bangladesh Ltd.

### **Urban Poor Development Scheme (UPDS):**

As Islami Bank Bangladesh Limited established with a view to develop welfare oriented banking system and to ensure equity and justice in the field of all economic activities, the Board of Directors in its emergent meeting held on 19.02.2012 approved a new Scheme under the name & style of “**Urban Poor Development Scheme (UPDS)**”. The Scheme will have major two types of activities like financial activities as well as social activities (in the areas of education, health, environment etc.).Financial activities will be divided into two parts:

- Investment on income generating activities for marginal poor from Bank fund.
- Investment on income generating activities for hardcore poor from charity like Zakat, Sadaqa of any other charity fund like cash waqf of the Bank at no cost or at low rate of profit.
- **Objectives**
  - To alleviate urban poverty through Investment in income generating activities
  - To improve the livelihood of urban poor specially the slum dwellers
  - To improve the Health, sanitation & education status of urban poor

- Help to improve the environment of the poor
- Reduce the level of crime & violence

### **CSR Activities of IBBL**

Islami Bank Bangladesh Ltd. a first generation private commercial bank of the country to set up with the noble objective of discharging social responsibility by creating employment opportunities and ensuring healthy working environment and financial securities. IBBL operates various welfare activities directly and through Islamic Bank Foundation (IBF). Besides, IBBL has devised several special deposit and investment products for the less fortunate segment of the country as part of its CSR activities.

Social responsibilities of Islami Bank foundation are income generation, service to the distressed, promotion of people oriented mass education system IBBL awards scholarships among the meritorious wards of the bank officials and the meritorious students of Banking & Finance Department of Dhaka University, Chittagong University and Manarat International University. , extension of health and Medicare facilities , development of culture , art literature, science, technology and sports assisting in research and propagation of Islamic ideology , creation of facilities for productive self employment through human resources Development, help to disaster, relief and rehabilitation Management.

# Part 5

## Findings & Analysis

## Findings:

To prepare this report, I tried to find out the effect of employees' performance, turnover rate as well as number of customers response & satisfaction towards service on investment performance of Islami Bank Bangladesh Limited, reveals the following majors findings.

1. The deposit collection of IBBL has increased over the year but the growth rate has fluctuated as well due to many customers had closed their accounts.
2. The investment of IBBL has increased over the years in different sectors but the growth rate is low compare to that.
3. Only the number of Muslim customers increasing not other non-Muslim customers of the bank
4. The investment of IBBL is maximum in the industrial sector and minimum in the transport sector. They also invest in other sectors like commercial, real state, agriculture etc.
5. IBBL investments more under Bai mechanism in terms of total investment and got the income from this sector in 2014.
6. Income from Share mechanism is increasing over the year. Though, IBBL invested low amount in share mechanism.
7. NPL ratio of IBBL has increased over the last four years. Yet, NPL ratio of IBBL is lower than industry average.

## SWOT ANALYSIS OF IBBL:

SWOT Analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organisation to identify how to evaluate its performance and scan the macro environment, which in turn would help the organisation to navigate in the turbulent ocean of competition. The SOWT analysis of IBBL is presented here:

### Strength

- **Adequate finance:** Islami Bank Bangladesh Ltd. has adequate finance. That's why they need not to borrow money from Bangladesh Bank or any other financial institution.
- **More funds for investment:** For adequate financial ability, they can provide more investment to the clients.
- **Honest and Reliable Employees:** All most every employee of Islami Bank is honest and reliable. They are always devoted themselves to the works for better customer service. They have minimum corruption report.

The turnover rate of the employees' is less than other organization and they are very dedicated towards the organization.

- IBBL has vast years of experience since its establishment.
- The bank has already achieved a good will among the clients.

### Weakness

- **HR:** IBBL have lacks well-trained human resource in some area.
- **Marketing:** IBBL have lacks aggressive advertising
- **Supervising Projects:** The procedure of credit facility is less supervises comparing to other banks.
- **Employee Management:** Employees are not posted in the right at the right time in some areas.
- Absence of structured marketing and credit policy



## **Opportunities**

- Emergence of i-banking will open more scope for IBBL.
- IBBL can introduce more innovative and modern customer service.
- Many branches can be open in remote location.
- IBBL can recruit experienced, efficient and knowledgeable work force as it offers good working environment.
- High chances to collaborate with the foreign/ international banks.

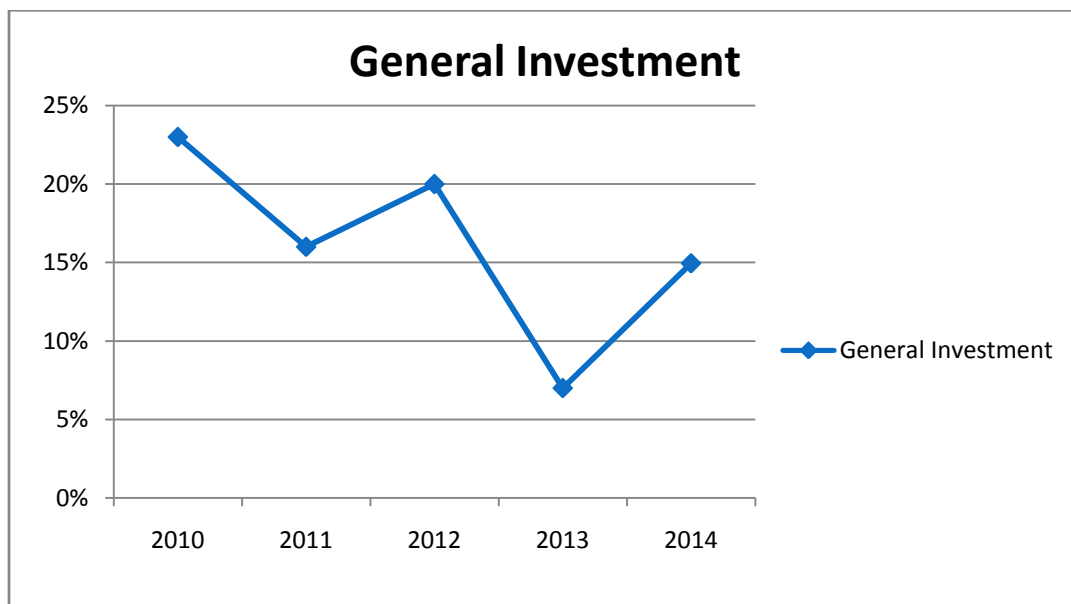
## **Threats**

- The worldwide trend of mergers and acquisition in financial institutions can cause problems.
- Frequent taka devaluation and foreign exchange rate fluctuation is problem.
- Many new banks are coming in the scenario with new service.
- Local competitors can capture huge market share by offering similar products.
- The rules and regulations of Bangladesh are not favorable for Islami Bank. Therefore, they have to face various problems to operate their activities according to Islami Shariah.

## Analysis: Overall Investment Scenario of IBBL

Investment operation of IBBL is very crucial, like any other banks as the greatest share of the total revenue is generated from it. Maximum risk cannot avert from this sector, so the prudence of success depends on the portfolio analysis.

The general Investment position in percentage of IBBL is given below-



**Figure:** Growth Rate of IBBL's Investment

In this graph it is shown that, the overall Investment growth rate was minimum in the year 2013 due to different reasons, like- political unrest, and share-market fluctuation. However, the Investment rate is increasing in 2014 than the previous years, but the Growth rate is not up to satisfactory level. By diversifying the Investment sector properly IBBL can gain higher Growth rate I profit margin.

## Year wise deposit of IBBL:

Deposit is the “life blood” of a bank. Bank has given utmost importance in mobilization of deposits introducing a few popular and innovative schemes. Bank collects deposit at lower profit and makes investment at a higher profit. Therefore, in analyzing the investment activities of IBBL is important to know the deposit performance of the bank.

**Table 5: Year wise Deposit of IBBL**

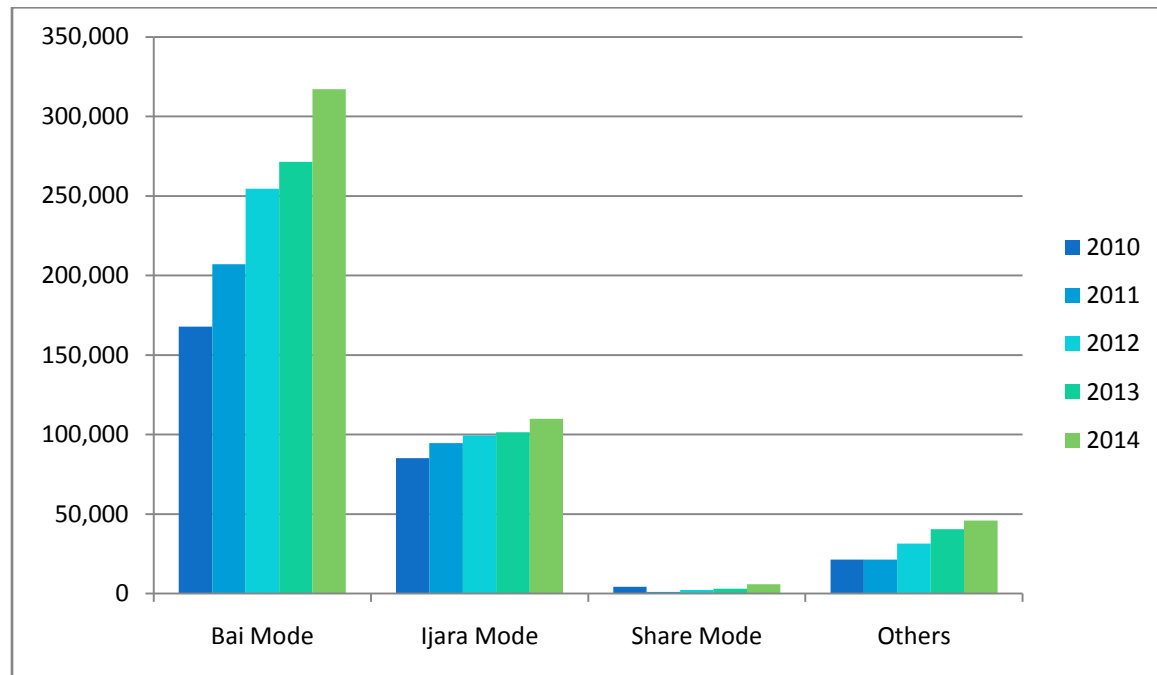
Year	2010	2011	2012	2013	2014
No. of Depositors	4591463	4939502	6004731	7031297	8538969
Account Increased	229567	348039	1065227	1026566	1507672
Growth	5%	8%	16.2%	17%	19.68%

### **Interpretation:**

The chart shows an upward trend in total depositors of Islami Bank Bangladesh Limited from 2010 to 2014. From 2010 to 2014 the total depositors of IBBL have increased. In 2010 the total depositors were 4591463 taka but in 2014 the depositors were 8538969 taka. It was possible due to the superior customer service delivery at the branch level and expansion of branches in the urban areas.

## Mode-wise Investment

While working in the bank I analyzed past 5 years Investment report and I found out that in every Mode the investment of IBBL is increasing each year and in year 2014 it is the highest.

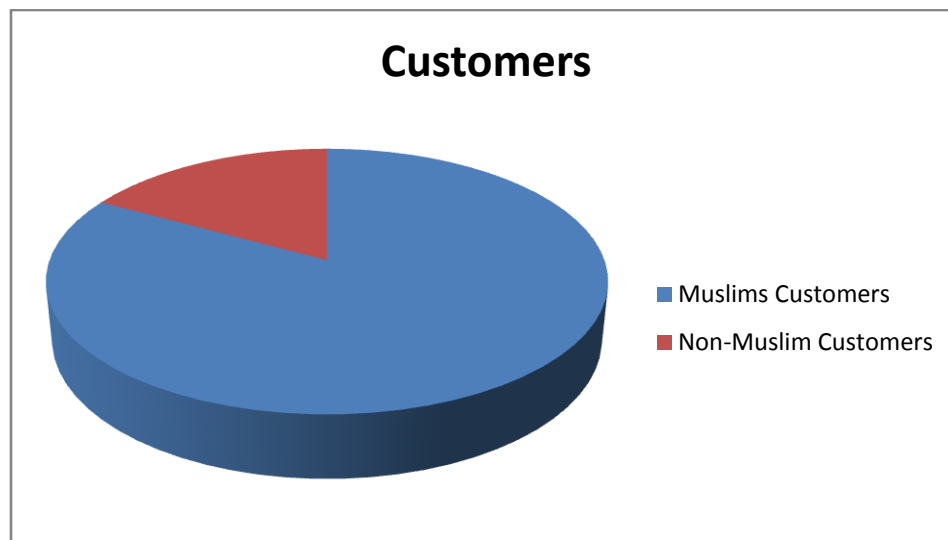


**Figure:** Mode-wise Investment of IBBL in last 5 years

From the above graph, we can easily understand that, in every mode of investment IBBL is achieving success in the year 2014. The trend of investment is increasing from the previous year to the next, which is a very positive sign for the investment department of the bank. However, it is clear from the graph that IBBL is concentrating more in Bai mode investment than other modes. Nevertheless, they should concentrate on the other Modes as well; especially in the Share mode, because it has more prospective for high return in profit margin.

## Diversified Customers in IBBL

There is a stereotyping about Islami bank that is- as the bank's name is 'Islami' so the banking system is only for the Muslim people. While working in the bank, I found out that there were a limited number of non-Muslim customers among thousands of Muslim customers. In the database of customers there were only 17 customers who were from different religion. During my internship period I only met with 5 or 6 customers of different religious view. Moreover, it felt like they did not feel comfortable while in the bank.

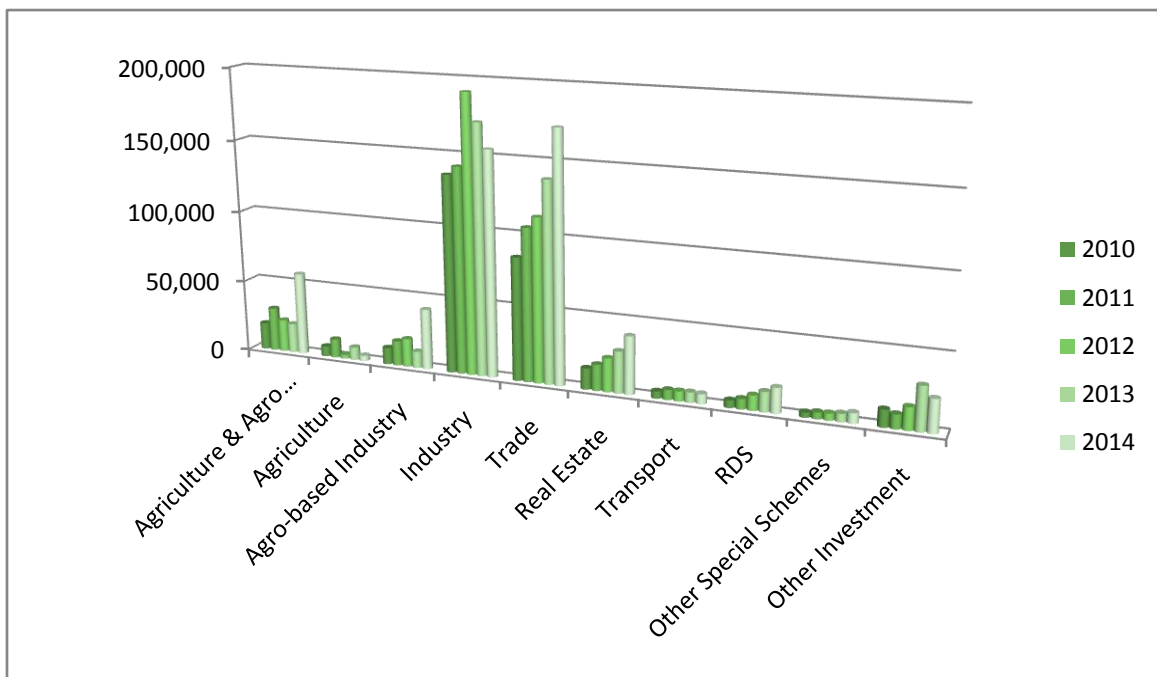


**Figure:** Customer Ratio based on religion

It is a big opportunity for the bank to diversify their customers. This is because; from my non-Muslim friends and internet I got to learn that Riba or Interest is only prohibited in Islam but also in other religion. So, if IBBL understands the potential market and take initiative then they can expand their activity not only in Bangladesh but also abroad more and more. England already stated that they want to be the HUB of Islami Banking in Europe and want collaborate with other Islami Banks. If Islami Bank can seize this opportunity than it will help to increase the profitability of the bank.

## Economic Purpose-wise Investment

IBBL has invested its mobilized deposits through investment portfolio accordance with the principles of Islamic Shariah. By diversifying its investment in different sector, IBBL is earning profit which they are sharing between the shareholders, client and employees. To ensure the mutual benefit of both bank and investment client it is very impotent to appraise the investment proposals and portfolio analysis.



**Figure:** Last 5 years Economic purpose-wise investment

The Economic purpose-wise investment of IBBL is stable to some sectors and fluctuating to others. In the Industry sector, the percentage of investment was high in 2013 where it decreased to in 2014. Again, in Real Estate sector, the percentage was lower in 2013 where it increased to higher percentage in 2014. In other sectors such as transport, RDS and Special Schemes the investment rate is almost same and not tend to increase in 2013 and 2014.

**Part 6**

**Recommendation**

**&**

**Conclusion**

## Recommendation

Though Islami Bank Bangladesh Ltd. (IBBL) is performing well but it has some crucial areas to improve which are prescribed below:

1. It is a modern banking era. Each and every commercial bank is properly utilizing technological innovations. So, IBBL needs to utilize more modern technologies to keep pace with the changing time.
2. The bank can consider employing more female employees in the branch, especially in the investment sector to attract more female customers.
3. The bank need to open more ATM booths in different places as it has a huge number of customers.
4. Most of the people of our country have a bad impression about IBBL's operation regarding indirect generation of interest, which means no difference between conventional banking & IBBL, because people have no proper knowledge about activities of IBBL as well as its mechanism. It should improve through various seminar and Islamic discussion.
5. The bank should diversify their investment into different modes such as Bai- Salam, Bai- Muajjal, SME, instead of concentrating on Bai- Murabaha and HPSM investment mode.
6. To fulfill the vision of mass banking IBBL should grants investment portfolio to new entrepreneurs.
7. IBBL have to promote its distributional efficiency from all dimensions together with profitability.



8. The bank should reduce its classified investment more by maintaining investment carefully in safe sector & choosing most credit worthy borrower.
9. The authority of IBBL should introduce exert pressure on Government bodies to run properly and sufficient application of Islami banking laws in Bangladesh.
10. IBBL should make its investment schemes more attractive for availing high-return projects.
11. IBBL should consider utilization of rural potentials from both efficiency and equity grounds in the context of the present-day socio-economic conditions of Bangladesh. Strong commitments and stepping up through experiment and implementation of innovative ideas are the appropriate ways to do that.
12. IBBL bank should give more emphasis on their marketing effort & take promotional activities to get a broad geographic coverage.
13. The authority of IBBL should introduce more innovation & modern customer service through appointment of a customer relationship officer at branch level.
14. IBBL should appoint a sufficient number of women employees to deal women entrepreneurs and professional to understand their need and thus create demand for investment.
15. Legal frame work and government rules regarding Islamic Banking should more flexible.

## **Conclusion**

Islam is a complete code of life where the detailed regulation for maintaining a proper economic life is given. Therefore Islami Bank Bangladesh Ltd. (IBBL) is trying to establish the maximum welfare of the society by maintaining the principles of Islamic Shariah which is based on Quran and Sunnah. Both Islam and Bangladesh bank discouraged luxurious lifestyle. Therefore, in terms of consumer investment IBBL also discourages luxurious lifestyle, and always tries to give investment only to those consumers who really need it. As a result, at a time it reduces the extensive usage of luxurious products and also upgrades the lifestyle of society by serving the deserved people.

Islami Bank Bangladesh Ltd. is the pioneer of the welfare activities in Bangladesh. It is emphasize equally in developing the rural areas of the country. The special feature of the Investment Policy of the Bank is to invest on the basis of profit-loss sharing system in accordance with the tenets and principles of Islamic Shariah. Earning of profit is not the only motive and objective of the Bank's Investment Policy rather emphasis is given in attaining social goal and objective in creating employment opportunities.

Having been considered the pro-efficiency character of Islamic banking and its beneficial impacts on the economy, government policy in Muslim countries should be in favor of transforming conventional banking system into Islamic banking.

## Appendix

### **Questionnaire to the employees:**

1. How long you are working in this bank?
2. Why did you choose your career in Islami Bank?
3. How it benefits the organization by providing good customer services?
4. Do you Take Customer Feedback on a regular Basis?
5. In which section of the banking system needs to change or improve?

### **Questionnaire to the Customers:**

1. Why did you choose this bank at the first place?
2. 'Interest free banking'- is this the main reason or there is anything else to open an account here?
3. Are you satisfied with the service?
4. This bank claims that, they are based on Islamic Shariah. How much do you understand the Islamic law and interested to know about it?
5. Do you have other accounts in this Bank?
6. Do you suggest others to take service of this bank? If Yes, then why?
7. Where/any particular service do you think the bank can improve?

## References

1. Internship Program For University Students by IBTRA
2. “Text Book on Islamic Banking” Published By- Islamic Economics Research Bureau, 2<sup>nd</sup> Edition, November, 2008.
3. “Islami Banking” Written By- A.A.M Habibur Rahman (Senior Vice President), IBBL, 3<sup>rd</sup> Edition, January, 2008.
4. Md. Habibur Rahman, “Different Investment Modes of IBBL & Difference with that of Conventional Banking”. DMD, CIW, IBBL, Dhaka.
5. Dr. Mahmood Ahmed, “Different between Islamic & Conventional Banking.” EVP & Director (Training)
6. Md. Nurul Islam, “Different Investment Modes & Schemes of Head Office Complex Branch” Investment in-charge, IBBL, Head Office Complex Branch.
7. Riba in Islam and Other Religions, [www.slideshare.net/ZulqarnaynShehzadAwa/riba-interests-prohibition-in-islam-and-other-religions](http://www.slideshare.net/ZulqarnaynShehzadAwa/riba-interests-prohibition-in-islam-and-other-religions) (May 9, 2015)
8. Riba in Different Religions, [www.slideshare.net/Sono26/prohibition-of-interestriba-in-different-religions](http://www.slideshare.net/Sono26/prohibition-of-interestriba-in-different-religions) (May 9, 2015)