

Internship report on  
*“Islamic investment modes, Scopes and challenges of Shariah Finance”*

By

***Abu Roman Sayed Shovan***

Student ID: 19104204

**This report is solely submitted to BRAC Business School (BBS) in partial fulfilment of the requirements for the degree of BBA.**

**BRAC Business School (BBS)**

**BRAC University**

© [Submitted on 30<sup>th</sup> February, 2022]. BRAC University

All rights reserved.

## Declaration:

It is hereby declared that:

1. The following internship submitted is my/our own original work for completing my undergraduate at BRAC university.
2. The Following report does not contain previously published contents, except where this is appropriately cited through full and accurate referencing.
3. The following report does not contain any information or relevant objective which has been acknowledged, or submitted, for any other degree or recognition at a college or other institution.
4. I have maneuvered myself to the pools of objectives which are to be included in the report, with guidance of my respective supervisor and co-supervisor.

Student's Full Name & Signature:

---

**Abu Roman Sayed Shovan**

Supervisor's Full Name & Signature:

---

Supervisor Name: **MR. Riyashad Ahmed**

Assistant Professor, BRAC University

Co Supervisor's Full Name & Signature:

---

Co-Supervisor Name: **Mr. Saif Hossain**

Associate professor, BRAC University

## Letter of transmittal

Mr. Riyashad Ahmed

Assistant professor,

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

**Subject: Submission of Internship Report**

Dear Sir,

I would like to draw your attention to the fact that I have completed my internship report on “Islamic investment procedure, Scopes and challenges of Shariah Banking”. The following report is solely based on my findings and understandings, both theoretical concepts and practical exposure of the site.

I cannot thank you enough for the deliberate support and guidance you have provided me through making improvements throughout the report and most importantly allowing me to focus mainly on an independent topic along with Islamic banking operations. I have tried to prepare the report as per your jurisdictions and advices, hope it fits well to your expectations.

Sincerely yours,

---

Abu Roman Sayed Shovan

19104204

BRAC Business School

BRAC University

Date: 5<sup>th</sup> February, 2022

## Acknowledgement

At the very beginning, I express my sincerest gratitude and thankful to The Almighty Allah, for granting this amazing opportunity to work within the financial industry of the country. Besides, I'm thankful to my parents, supervisor, co-supervisor and on-site supervisor for their support, instructions, ideas and guidance which allowed me to use the theoretical concepts from my undergrad journey. In preparing the report, I went through journals, books, different webpages and interviews of bank officials which allowed me to well comprehend the operations and subjective aspect shariah banking.

It's been an absolute pleasure for me to know more about Islamic banking principles and to write about Islamic investment procedure along with the scopes and challenges that the industry faces. The main aim of this report is to let the readers know more about the current situations of Islamic banking in Bangladesh and few suggestions based on the insights gathered, to subside the hindering factors which are negating Islamic banks to be more competitive and efficient like their conventional counterparts.

I wholeheartedly thank **Mr. Riyshad Ahmed**, Associate professor, BRAC university, for his guidance in completing the internship report. Without his guidance and instruction, I would have been unable to complete the report in due time, let alone know more the Islamic finance form a macro perspective. He has surely helped me figure the quirks and features of the industry at whole from a macro perspective. I have tried to level best to align myself with the instructions he have purveyed.

I would like to thank **Mr. Safi Hossain**, assistant professor and BBA program director at BRAC university, for being there with his expertism and knowledge. Moreover, I would love to take the time and thank **Mr. Fattah Bin Kader**, Senior principal officer and Investment in-charge of EXIM BANK, Jubilee road branch, who have supervised me with immense knowledge about Islamic banking and finance. Last but not the least, I shall be always grateful to all the official, staffs and the branch manager for their cordial support. The internship program would have been futile without their support and assistance of every individual, at whole.

Finally, I'm also thankful to BRAC Business school and OSCAR officials for making my internship placement seamless and I do acknowledge the wonderful coordination's they had throughout the internship program.

## Executive summery

This report is written as a part of completion of the BBA program. This paper aims to scrutinize and provide a brief idea about Islamic investment procedures and the challenges and scopes of the Islamic/ Shariah based banking faces from both national and global perspective. One of the objectives of the paper is to address the differences between conventional banking and Islamic banking, focusing mainly on the current status and future potential of Islamic finance and banking, comparing Bangladesh along with other Muslim majority counties, thriving in Islamic finance.

This interim report includes the financial performance of EXIM banks, depicting the overall performance of EXIM bank as an Islamic bank. Exim Bank was incorporated as a public limited company on 2<sup>nd</sup> June, 1999 under the company Act of 1991. It started it operations from 3<sup>rd</sup> August, 1999 with the name “Bengal Export Import Bank Limited”, which was later change to “Export Import Bank of Bangladesh Limited”. From July 2004, with the consent of the central bank, EXIM Bank migrated to shariah based Banking from conventional banking.

The first chapter provides all the relevant information about the internship program. It details about on-site supervisor’s information, duties and responsibilities, shared knowledge gathered during the period, which are briefly described. Besides, it also covers how the on-site responsibilities have benefited me and my contribution to the company. Moreover, the difficulties and problems during the program, followed by some recommendations.

The second chapter focuses on organizational aspect, detailing mission, vision, overview of the company, leadership style, organizational practices and culture of the company, financial performances, organizational hierarchy and so on.

Lastly, the Third chapter describes the different Islamic investment modes based on Islamic tenets, and how Islamic finance tends to be different from conventional banking at the core. Based on various secondary sources, I tried to portray the current status of Islamic finance within the banking industry along with the challenges and scopes of Islamic finance form macro and micro perspective. Based on the factors that’s negating the overall efficiency and effectiveness of Islamic financial institutions, I have made some recommendations which might be well fitting to the current challenges.

## Table of Contents

Declaration: .....	2
Letter of transmittal .....	3
Acknowledgement .....	4
Executive summery .....	5
Chapter 1: Overview of Internship.....	9
1.1 Student Information .....	9
1.2 Internship Information .....	9
1.2.1 Period, Company Name, Department/Division, Address .....	9
1.2.2 Internship Company Supervisor's Information: Name and Position .....	10
1.2.3 Job Scope – Job Description/Duties/Responsibilities .....	10
1.3 Internship Outcomes: .....	10
1.3.1 Student's contribution to the company .....	10
1.3.2 Benefits to the student .....	10
1.3.3 Problems/Difficulties.....	11
1.3.4 Recommendations (For future interns) .....	11
Chapter 2: Organization Part .....	13
2.1 Introduction .....	13
Exim at a glance .....	14
2.2 overview of the company .....	15
2.2.1 Bank's Current Situation .....	15
2.2.2 The main activities.....	15
2.2.3 The mission .....	15

2.2.4 Vision .....	16
2.2.5 The Bank's Motto .....	16
2.2.6 The bank's objectives .....	16
2.2.7 EXIM's Corporate culture.....	16
2.2.8 Offshore Banking Unit .....	17
2.2.9 EXIM Bank's Product and services: .....	17
2.2.10 EXIM's Management Structure .....	19
2.2.11 Financial performance analysis:.....	20
Capital Adequacy:.....	20
Asset Quality .....	21
Management efficiency: .....	22
Earning capacity: .....	23
Liquidity management:.....	24
Chapter 3: Project Part .....	25
3.1 Introduction .....	25
3.1.1 Background/Literature Review .....	26
3.1.1.1 History of Islamic banking.....	26
3.1.1.2 Difference between conventional and Islamic bank. ....	27
3.1.1.3 Islamic Investment mode:.....	28
List of investment modes: .....	28
3.1.2 Objective(s) .....	34
3.1.3 Significance .....	34
3.2 Methodology.....	34
3.3 Findings and Analysis.....	35
3.3.1 Islamic Banking in Bangladesh .....	35

<i>Current status of Islamic Banking in Bangladesh from Global perspective</i> .....	35
<i>Current status of Islamic Banking in Bangladesh from Country perspective</i> .....	36
<i>Islamic Bank's Market share</i> .....	36
3.3.2 Challenges encountered by Islamic Finance In bangladesh .....	37
3.3.3 Scopes for Islamic Finance in Bangladesh .....	39
3.4 Conclusions .....	42

## Chapter 1: Overview of Internship

### 1.1 Student Information

I am Abu Roman Sayed Shovan and my BRACU student ID is 19104204. I have been pursuing my BBA from BRAC Business school with major at finance and minor at E-business. currently, I am doing an internship at EXIM Bank, jubilee road branch.

### 1.2 Internship Information

After completing all courses of BBA program from BBS, I was assigned to a three-month internship program. It did take me some time to place myself into the finance industry as an intern. Started off my internship journey on 17<sup>th</sup> November at Exim Bank, jubilee road branch, chottogram.

For the first few weeks, I was assigned to General banking, where my main task was to fill in account opening forms and writing cheques on behalf of customers. There, I got to know more about the necessary documents needed for account opening, how to extract customer information from their saving's form and fill in any schemes, DPS and FDR upon their request. Later I was assigned to investment department where I have spent most of my internship period. From sorting and making investment to clients, following up and recovery of funds are major responsibilities of the department. Besides, checking on ICRRS (Internal Credit risk rating system) and CIB (Credit Information Bureau), preparing proposal, creating charge to mortgage execution, all are crucial functions of Investment Department. I was able to witness how funds were being channeled to most credit worthy clients. Here, I got to know how the overall operations of investment are proceeded along with the consent of Head office and in hand with third party such as lawyer for legal advices, valuation companies that evaluates proposed assets for mortgage and many more. Besides, I did develop a better understanding about the inter and intra banking transfer methods and instruction which all banks use for settling their obligations.

I really enjoyed my time here and the exposer of banking system have imparted a great deal of knowledge. The internship has developed me as an individual, and gave me a proper understating of Exim Bank's culture and practices as a Shariah based bank.

#### 1.2.1 Period, Company Name, Department/Division, Address

17<sup>th</sup> November 2021 – 17<sup>th</sup> February 2022, Exim Bank, jubilee Road branch, Chottogram.

## 1.2.2 Internship Company Supervisor's Information: Name and Position

On-site Supervisor Name- Fattah Bin Kader

Designation- Senior Principal Officer (investment In-charge)

Location- Jubilee Road, Chottogram.

## 1.2.3 Job Scope – Job Description/Duties/Responsibilities

Throughout the Internship tenure, I had been able to know more about banking operations from the banker's perspective. During this period, I have maneuvered to all the departments to know more about their individual operations and how all departments come along to address their clients appropriately.

During the first 2 weeks, I was assigned to GB (General Banking), which includes account opening, Account closing and Cheque delivery. After weeks into the programs, I was assigned to investment departments to know more about the procedure and each function to investments. From preparing investment proposals to disbursing investments to clients, follow up and recovery of investments all are crucial tasks, done by the officials of investments. In investment dept, I had the opportunity to go through and contribute to preparing investment proposals.

## 1.3 Internship Outcomes:

### 1.3.1 Student's contribution to the company

- Providing an overview for the company.
- Assessing and interpreting bank's financial performance over the years.
- Insinuating to catering potential schemes and products for next generations, inclining more towards individual investment.
- Making recommendations to the company.

### 1.3.2 Benefits to the student

The internship has surely educated me more about how banking industry functions, in general. I have known much of Islamic product and services and how the subtle difference between shariah law and conventional banking leads to two completely opposing banking ideologies. While Islamic banking eyes to social equality with earning profit as partners,

conventional bank aims to maximize profit. Working in the office was quite enjoyable as all the employees and officials were amicable with proper professionalism.

I have known much about clearing, and how officials use BACH (Bangladesh Automated Clearing house) window of Bangladesh Bank, to make intra and inter banking transactions. I have developed a better perception about NPSB, RTGS and BEFTN and others as [payment methods and instructions](#)<sup>1</sup>. Personally, I can surely use the payment methods and instructions depending on my needs and convenience. EXIM Bank eyes to contribute much towards trade and commerce rather than making personal investments, contributing much to the economy at whole.

Lastly, having a coordination among all the departments was the real challenge as per me. As all operations correlate with each other, all departments have to align well enough for a smoother customer experience. Besides, the corporate culture inspires all the officials and the respective clients to build and maintain a cooperative relationship among themselves to advance towards efficient financial solutions. In a nutshell, it promotes coordination's at all levels of administrative system.

### 1.3.3 Problems/Difficulties

Few problems that I have encountered throughout my journey as an intern are as follows-

- Since the program had a tenure of 3 months, time constrains is a notable obstacle.
- As the banking operations and functions are complex it was quite hard for me to scrutinize and well organize the relevant information's.
- Unstructured internship program.
- Limited access to relevant information due to confidentiality and corporate obligations.
- Not being supervised accordingly during the rush hours.
- Asking for relevant information throughout the program and being redirected to financial figures from the annual report.
- Another critical issue confronted amid the planning of this report was the conflicting clarification of a single subject by different employee.

### 1.3.4 Recommendations (For future interns)

Here are few recommendations based on the challenges I have come across, are as follows:

---

<sup>1</sup> All Payment methods and instructions are extracted from [Bangladesh Bank's Official Website](#)

- Well-organized internship program with allocated time to each department.
- To bring more out of interns, officials should set some responsibilities/Tasks related to banking operations giving firsthand experience to interns.
- Providing relevant information, which are important to preparing the internship report.
- ID should be provided to inters to make them feel included in the niche rather than their interim task of report completion.
- Allowing inters to deal with clients which would encourage them to contribute much to the company.

## Chapter 2: Organization Part

### 2.1 Introduction

Exim Bank was incorporated as a public limited company on 2nd June, 1999 under the company Act of 1991, under the leadership of late Shahjahan Kabir, founding chairman Originator Chairman who had a long dream of establishing a commercial bank which would contribute to the socio-economic advancement of the country. He had a great deal of experience as a banker. Shahjahan Kabir, the founding chairman along with other highly qualified entrepreneurs and businessman came together to materialize and establish the Exim bank. Each of the entrepreneurs and businessman had proved themselves in their respective field of business with their endeavor, intelligence and great entrepreneurial skill. among them Mr. Nazrul Hasan Mazumder is notable, who was a business tycoon in the garments business in Bangladesh and later became the Honorable chairman after the demise of the founding chairman. He is also the chairman of BAB (Bangladesh Associations of Banks). Under the leadership of Nazmul hasan BAB has risen as a successful forum for exchanging views on problems which are being faced by the banking sector of the country. Formulating policies and guidelines is an important mean of addressing such problems.

Exim started its banking operations from 3<sup>rd</sup> august, 1999. Exim bank started its journey with the name “Bengal Export Import Bank Limited”, which was later change to “Export Import Bank of Bangladesh Limited”. Besides, Two notable figures, Mr. Alamgir Kabir, FCA as consultant and MR. Mohammed Lakiot ullah as the Managing Director has been involved with the banks inceptions has been very crucial. Capitalizing on long term involvement in the banking industry, the bank has earned a secured and distinctive position in the banking industry, in terms of performance, well executed and sound administrative system, growth and management efficiency. The authorized paid-up capital was BDT 350.00 Crore and BDT 171.375 crore respectively. Later in July 2004 under the leadership of Mr. Lakiot ullah, Exim bank migrated to fully shariah based banking operations from conventional banking operations for some lawful limitations.

In 2006, after Mr. lakiot ullah left after 7 glorious year, Mr. Kazi Mashiur Rahman has been appointed as the MD for the following 5 years. Under his leadership, the bank has integrated with world renowned core banking software [TEMENOS](#), making the banking operations more transparent and efficient with in the management and officials. <sup>2</sup>

---

<sup>2</sup> EXIM Bank is using the T24 Islamic Banking solution, provided by Temenos which is as of now a recognized world pioneer the banking niche with over 700 establishments in over 125 nations, and more than 40 establishments for Islamic Banking.

## Exim at a glance

Established on	1999
Incorporated	June 2 <sup>nd</sup> , 1999
Started Operations	August 3 <sup>rd</sup> , 1999
Conversion to Islamic banking	1 <sup>st</sup> July, 2004
Listing with DSE and CSE	September 2006
Founding Chairman	Mr. Shahjahan Kabir
Current Chairman	Mr. Nazrul Islam Mazumder
MD and CEO	Dr. Mohammed Haider Ali Miah
CFO	Mr. Md. Humayun Kabir
Head of internal Audit	Mr. Shah Mr. Abdul Bari
Number of share holders	61848
Number of branches	131
Employees	2910
Authorized capital	BDT 20,000.00 Million
Paid-up-capital	BDT 14,122.51 million
Subsidiaries	<ul style="list-style-type: none"> <li>• EXIM exchange company (UK And Canada)</li> <li>• EXIM Islamic investment Ltd.</li> <li>• EXIM finance Ltd. (HK)</li> </ul>

3

---

<sup>3</sup> The information has been provided as per [Annual report -2020](#)

## 2.2 overview of the company

### 2.2.1 Bank's Current Situation

Exim Bank was established as a conventional bank on 1999, which was later converted into shariah based banking from 1<sup>st</sup> July, 2004. It is providing financial service through 131 branches throughout the country. As of 2020, even after the adverse effect due to pandemic Exim bank experienced massive growth on certain products such as Bai-Muzzal, Bai-Murabaha, Bai-Salam, Izara Bill-Baia respectively. Moreover, compare to 2019, Exim experienced a 11.0989% increase in their total deposits. Besides, their Investment also increased by 14.45% in 2020 compare to 2019. However, import business dropped by 11.44% and export business dropped by 5.49% in 2020 compare to 2019, due to the corona virus pandemic.

### 2.2.2 The main activities

The main banking activities includes a wide variety of financial product and services, both personal lending and commercial banking, facilitating mainly import and export business and cash management, collecting deposits, etc. Exim Bank mainly focuses on the corporate client, providing capital for operations, renovation, working capital or any investment related to any business permissible under **Shariah law**. One of the notable cultures to note is that, the management is keen towards commercial lending's more than personal lending.

### 2.2.3 The mission

Exim Bank's missions are mentioned below:

- Equal and fair distribution of wealth within the society.
- Contributing to the national economy.
- Ensure sustainable growth for the shareholders and bank owners.
- Providing quality financial product and services-based complying with Islamic tenets.
- Maintaining sound Capital Base.
- Incorporating with upgraded technologies for more professional and modernized banking environment.
- Fulfilling corporate social commitments.
- To keep up corporate and commerce ethics and straightforwardness at all dimensions.<sup>4</sup>

---

<sup>4</sup> [Mission, Vision, Objectives and corporate culture](#) has been extracted from EXIM Bank's Official website.

## 2.2.4 Vision

The essence of the bank's vision is "Together Towards Tomorrow". EXIM solely believes in togetherness with their clients in general, towards the road to development and growth, maintain a perfect harmony through Islamic product and services. To maintain and achieve their desired goal keeping their client's best interest in mind, they thrive to comply with Islamic shariah. EXIM believes that, they can amplify the advantages of Islamic economy to individuals integrated with technology-driven modern banking system upholding Islamic values and the Banks envision itself a perfect fit of that kind with in the banking industry.

## 2.2.5 The Bank's Motto

"Together Towards Tomorrow"

## 2.2.6 The bank's objectives

Few of EXIM's objective are as follows:

- Providing quality Islamic product and services.
- Facilitating financial services in Import and export.
- Achieving and maintain transparency and ethical business practice.
- Efficient and effective customer services at all dimension.
- Depicting team spirit and professionalism.
- Introducing Innovative product and services for changing market need.
- Maintaining harmonious relationship among management, employees and clients.

## 2.2.7 EXIM's Corporate culture

In any organizations, organizational culture is an essential and vital component of a business as it has the ability to bind the organizational members of all levels, identifying obstacle and barriers to achieving company goals and objectives through developing an approach to overcome sets of challenges. EXIM bank's corp. The culture and values of the bank have been demonstrated as a source of competitive advantage, and acting as a key component to set up the relationship between the bank and employees and, in turn, between our representatives and our clients. This culture and encourages clients and representative to join and remain connected with the bank.

Exim has been able to Improve the overall organizational performance through enhancing individual performance based on their talents and aims to filling the best fit personal to the higher vacancies within the org. to ensure the best use of resource and achieve overall organizational efficiency. Such corporate culture and values aim to promote harmonious relationship within ecology.

## 2.2.8 Offshore Banking Unit

Off-shore bank is a bank regulated under international banking license. It can be a viable option for any bank to conduct international transactions which includes non-resident foreign currency denominated assets and liabilities, meanwhile benefiting from low to no tax, and potential of great return on investment. With growing customer demand as of 2020, EXIM is operating three banking units at Motijheel Branch (Dhaka), Agrabad Branch (Chittogram) and Gulshan Branch (Dhaka), financing against UPSC “Usance payable at sight” LC’s of authorized dealer branch, under Musharhaka and Ijara Bill Bai investment. In the year 2020, these units were able to bag a total profit of BDT 24,99,61,690.00.

## 2.2.9 EXIM Bank’s Product and services:

### ***Deposit Products:***

- i) *Al- Wadeeah* Current Deposit
- ii) *Mudaraba* - Savings Deposit
  - Special Notice Deposit (MSND)
  - Cash Waqf Deposit
  - Term Deposit
  - Monthly Savings Deposit Scheme
  - Senior Monthly Savings Deposit Scheme
  - Senior Monthly Benefit Deposit Scheme
  - Femina Monthly Savings Scheme
  - Femina Monthly Benefit Deposit Scheme
  - Su-Grehini Monthly Savings Deposit Scheme
  - Su-Grehini Monthly Benefit Deposit Scheme
  - Monthly Income Deposit Scheme
  - Multiplus Savings Deposit Scheme
  - Super Savings Deposit Scheme
  - Hajj Deposit Scheme
  - Denmohor/Marriage Deposit Scheme
  - Student Savings Deposit Account
  - Monthly Student Savings Deposit Scheme
  - Deposit Scheme
  - Millionaire Deposit Scheme
- iii) *Exim Ruhama*
- iv) *Exim Ziadah*
- v) *Exim Krishi*
- vi) *Exim Shwapno*

- vii) Exim *Shefa*
- viii) Exim *Probashi*- Monthly saving scheme
  - Monthly Benefit Scheme

### ***Investment products:***

- i) *Bai-Muazzal* – Hypo, WO, Share, FO, PC, Export, Agriculture, LDBP local, MDB
- ii) *Bai- Murabaha* – Pledge, Import bill (MIB), Post import (MPI), Trust receipt (MTR)
- iii) Visa Islamic Investment Card – Local, international
- iv) *Bai-As-Sarf* – FDBP, FBP
- v) *Bai-Salam*
- vi) *Bai-Istina*
- vii) *Izara-Bil-Baia* – Machinery, HB, Factory, transport, NBFi, Syndication, Abalamba, Agriculture, Car schemes, EHBI, Sahayak, Bahan, Abasan, Others
- viii) *Izara* (Lease finance)- Mach, HB, Transport
- ix) HPSM- Machinery, Real Estate, Transport
- x) *Quard*- General, Against MTDR
- xi) *Musharaka* Doc. Bills
- xii) Exim Muktijoddha Abashan Scheme
- xiii) Exim Farmer
- xiv) Exim Probashi Abasan

### ***Other Financial products and Services:***

- i) ATM and CDM Services
- ii) Internet Banking
- iii) SMS banking
- iv) POS (Point of sale)
- v) Internet Payment Gateway
- vi) Call center services
- vii) Exim- Hajj Card
  - Travel Card
  - Remittance Card
  - Gift Card
  - Prepaid Card
  - Debit Card
  - Wallet<sup>5</sup>

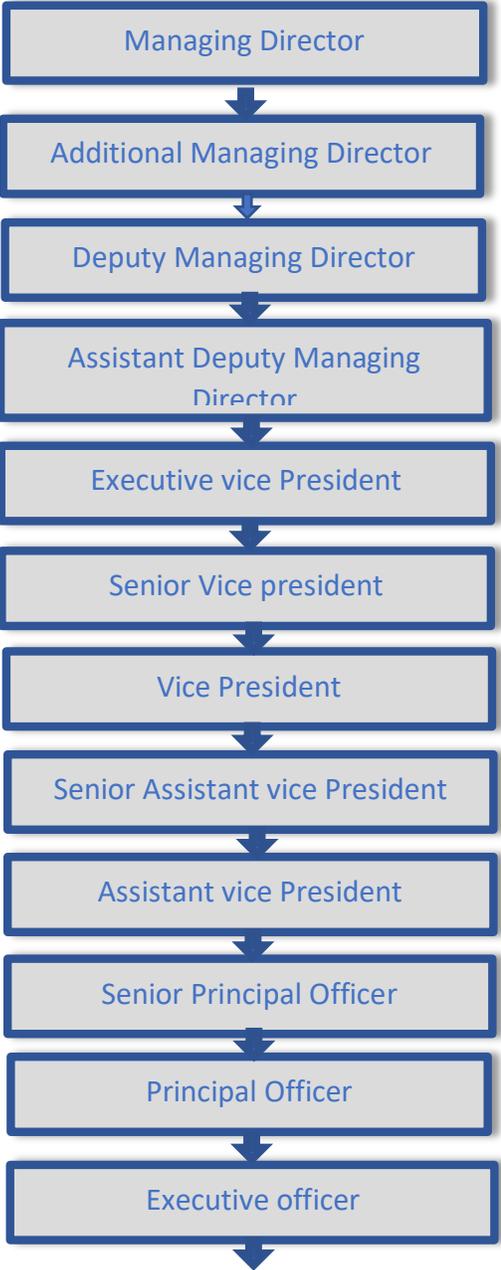
---

<sup>5</sup> All product and services of Exim Bank, As of [Annual Report 2020](#)

### 2.2.10 EXIM's Management Structure

Sound and transparent management structure is very crucial for the success of any organization, EXIM is no exception. Since its inception, all the successors have been able to solidify the bank's holding and progress towards their objective as a whole. This can be easily illustrated by scrutinizing the financial performance of the bank over the years, in the following chapter.

The organogram of EXIM bank is given below:





### 2.2.11 Financial performance analysis:

To assess the financial soundness and operating performance of Exim Bank we are using the CAMEL Rating tool. It provides meaningful and concise information about the condition of the bank. Basically, it is used as a supervisory tool to identify any problem of a bank within the banking industry. It consists of Capital adequacy, Asset quality, Management efficiency, Earnings and lastly liquidity. To assess the financial soundness of Exim bank I'm considering and comparing the year 2019 and 2020.

#### Capital Adequacy:

$$1. \text{ Capital Adequacy ratio (CAR)} = \frac{\text{Total capital (Tire I+Tire II)}}{\text{Risk Weighted Assets}}$$

$$\text{CAR}_{2019} = \frac{40,843.93}{325,501.68} = 12.54$$

$$\text{CAR}_{2020} = \frac{42,921.28}{323,413.72} = 13.27$$

**Interpretation:** Higher CAR ratio indicates bank's inner strength of the bank to withstand any losses. It also indicates that if the bank is being conservative and not utilizing full potential of the deposited capital. We see, in the pandemic year, the bank maintained a higher CAR compare to 2019. As per Bangladesh guidelines, the minimum CAR to be maintained by any bank is 10%.

$$2. \text{ Debt to Equity Ratio} = \frac{\text{Total liabilities}}{\text{Shareholders equity}}$$

$$\text{Debt to Equity ratio}_{2019} = \frac{403,830.04}{29,187.94} = 13.83$$

$$\text{Debt to Equity ratio}_{2020} = \frac{454,259.25}{30,591.52} = 14.84$$

**Interpretation:** It measures a firm financial leverage. It depicts how much of debt and equity is being used to finance banks assets. Higher Debt to ratio means less protection to creditor's deposits on the other hand Lower Debt to equity ratio is considered to be better. As we can see, Debt to equity ratio has increased from 13.83 to 14.84 in the pandemic year.

## Asset Quality

$$1. \text{ Non-Performing investment ratio} = \frac{\text{non performing investment (Classified)}}{\text{Total investment}}$$

$$\text{Non-Performing Investment ratio}_{2019} = \frac{14,881,494,225}{328,910,778,149} = 4.52\%$$

$$\text{Non-Performing Investments ratio}_{2020} = \frac{15,018,125,670}{382,584,041,885} = 3.92\%$$

**Interpretation:** Higher NPL which is Non-performing Investments for Islamic banks, insinuates to the percentage of investments which are being default. Higher NPL ratio affects bank's profitability, so bank tries to keep the ratio as low as possible. Here, We can see that, Exim bank maintained a lower NPL in the pandemic year 2020 which is 3.92, lower comparative to the previous year.

$$2. \text{ Total Investment ratio} = \frac{\text{Total Investment}}{\text{Total assets}}$$

$$\text{Total Investment ratio}_{2019} = \frac{328,910,778,149}{431,940,838,546} = 76.14\%$$

$$\text{Total Investment ratio}_{2020} = \frac{382,584,041,885}{484,743,509,683} = 78.92\%$$

**Interpretation:** Higher total investment ratio (Total loan ratio for conventional bank) means higher exposure to credit risk for the bank. As per the year 2020, Exim had higher total investment ratio compare to the previous year.

$$3. \text{ Allowance for Investment loss ratio} = \frac{\text{Allowance for Investment loss (Total provision)}}{\text{Total investment}}$$

$$\text{Allowance for Investment loss ratio}_{2019} = \frac{1,994,784,751}{328,910,778,149} = 0.60\%$$

$$\text{Allowance for Investment loss ratio}_{2020} = \frac{1,043,201,343}{382,584,041,885} = 0.27\%$$

**Interpretation:** Adequate amount of allowance for loan loss is better for any bank in general. Usually, Exim bank maintain 1% of total deposit as allowance for bad loans. However, we can see that Exim had been able to keep the figure well under 1%, specifically keeping the percentage to 0.27 for the year 2020.

Management efficiency:

$$1. \text{ Total advance to total deposit} = \frac{\text{total Advance}}{\text{Total deposit}}$$

$$\text{Total advance to total deposit}_{2019} = \frac{14,376,620,590}{355,816,519,689} = 0.0404$$

$$\text{Total advance to total deposit}_{2020} = \frac{10,335,620,646}{395,308,335,825} = 0.0287$$

**Interpretation:** Total advances to deposit ratio is widely used to evaluate the efficiency and capability of bank management. Usually, higher the ratio the better a bank performs. However, we can see that the ratio subsided in year 2020 compare to the previous year.

$$2. \text{ Business per employee} = \frac{\text{Total revenue}}{\text{Number of employee}}$$

$$\text{Business per employee}_{2019} = \frac{37,399,810,901 \text{ tk}}{2962} = 12626539.805 \text{ TK}$$

$$\text{Business per employee}_{2020} = \frac{36,425,778,675 \text{ tk}}{2917} = 12487411.270 \text{ TK}$$

**Interpretation:** It insinuates on how efficiently the bank manages their employee, at utilizing the deposited funds to generate profit. Higher ratio is desirable for the bank management, meaning higher businesses conducted by the bank employee. Here, Exim bank had been able to maintain a higher business per employee in the following year.

$$3. \text{ Profit per employee} = \frac{\text{Net profit after tax}}{\text{Number of employee}}$$

$$\text{Profit per employee}_{2019} = \frac{2,429,899,037}{2,962} = 820,357.54 \text{ TK}$$

$$\text{Profit per employee}_{2020} = \frac{2,785,982,668}{2,917} = 955,084.91 \text{ TK}$$

**Interpretation:** Similar to business per employee, Bank management desires to maintain higher profit per employee. Here, Exim bank had been able to secure a higher profit per employee in 2020 compare to the previous year.

Earning capacity:

$$1. \text{ Return on Assets (ROA)} = \frac{\text{Net profit (Loss)}}{\text{Total assets}}$$

$$\text{Return on Assets (ROA)}_{2019} = \frac{2,429,899,037}{431,940,838,546} = 0.56\%$$

$$\text{Return on Assets (ROA)}_{2020} = \frac{2,785,982,668}{484,743,509,683} = 0.58\%$$

**Interpretation:** ROA is used to evaluate how efficiently the firm's management is using its assets to generate profit. Bank management aims to maintain a Higher ROA, whereas we can see Exim had been able to maintain a slightly higher ROA for the year 2020 compare to 2019.

$$2. \text{ Return on equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity}}$$

$$\text{Return on equity (ROE)}_{2019} = \frac{2,429,899,037}{29,158,313,164} = 8.33\%$$

$$\text{Return on equity (ROE)}_{2020} = \frac{2,785,982,668}{30,532,044,764} = 9.12\%$$

**Interpretation:** It is used to measure, how much of profit a bank can earn for each dollar invested, meaning the equity of shareholders. Here, we can see that Exim had been able to increase its ROE for the year 2020, at 9.12% compare to previous year which was 8.33%.

$$3. \text{ Net investment margin} = \frac{\text{Investment income} - \text{profit paid}}{\text{Total assets}}$$

$$\text{Net investment margin}_{2019} = \frac{31,969,286,499 - 24,371,306,940}{431,940,838,546} = 1.76\%$$

$$\text{Net investment margin}_{2020} = \frac{31,640,067,220 - 23,287,551,571}{484,743,509,683} = 1.72\%$$

**Interpretations:** It simply measure the difference between profit earned from general investments and profit distributed for the borrowed money adjusted to the bank's assets. Higher ratio is desirable for the bank management. However, Exim NIM had fallen slightly inn 2020 compare to the prior year.

## Liquidity management:

$$1. \text{ Credit deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

$$\text{Credit deposit ratio}_{2019} = \frac{328,910,778,149}{355,816,519,689} = .92$$

$$\text{Credit deposit ratio}_{2020} = \frac{382,584,041,885}{395,308,335,825} = 0.967$$

**Interpretation:** It measure's how much a bank makes investment from the deposited money. Too low meaning the bank is being conservative and missing out on making higher return from the deposited money. On the other hand, too high meaning the bank might not have enough funds to tackle unforeseen fund request, leading to credit crisis. Out of all parameters, Liquidity management is considered to be the most important one. Ideally, banks aim to maintain this within the range of 80%- 90%, however the ratio is much higher in both the years specifically in 2020, at 97% (Approx.)

$$2. \text{ Liquidity ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Liquidity ratio}_{2019} = \frac{431,940,838,546}{402,782,525,382} = 1.072$$

$$\text{Liquidity ratio}_{2020} = \frac{484,743,509,683}{454,211,464,919} = 1.067$$

**Interpretation:** It determines a bank's ability to pay off its short-term liabilities using its current assets. Ideally, ratio higher than 1 means the bank is able to pay off its current liabilities smoothly. Hence Bank tries to keep the ratio higher. Here, the liquidity ratio subsided slightly for the year 2020 compare to the previous year but still the ratio is well enough to maintain its short-term liabilities.

## Chapter 3: Project Part

### 3.1 Introduction

“Islamic Banking” or “shariah-compliant finance” is based on profit and loss sharing principle. Other fundamentals of shariah based banking is prohibition of interest (Riba), and involvement in risky/speculative product (Gharar) and lastly gambling (Maysir). The tenets of Islamic finance are derived from The holy Quran, Sunnah, Hadith, Ijma and qiyas eyeing for proper distribution of wealth within the society and economical welfare. According to Islamic Finance Development report (IFDR) (2021), there are 1595 Islamic financial institutions operating globally holding a massive \$3374 Billion in assets with 14% growth rate in 2020. Besides, it is expected to be at \$4949 Billion by 2025. This impressive and unprecedented growth is back by the emerging and rising Muslim economies. There has been growing demand for interest free banking system and Bangladesh is no different. Though Bangladesh have signed chartered of Islamic Development Bank in the august of 1974, Bangladesh Established its very first Islamic bank, Islamic Bank Bangladesh Limited (IBBL) on 30<sup>th</sup> march, 1983. Globally, Islamic banks are not just appealing to religiously Conscious/sensitive customer, but also individuals who have largely in the financial crisis of 2008. Islamic finance has more potential for further contribution in three dimensions, firstly by promoting innovative financial inclusion, secondly profit and loss sharing principle and lastly its emphasis on asset- backed financing (Kammer et. al,2015).

As of January 2022, there are 10 fully fledged Islamic Bank operating in Bangladesh along with 198 Islamic banking windows and 19 Islamic banking branches of 9 conventional banks serving the banking industry of Bangladesh. All these Islamic banks accounts for a bit more than one-fifth, in terms of total deposit and total credit of banking industry and collecting 30% of total remittance. This figure mentioned above still have the potential to develop further. When it comes to Bank’s profitability, Islamic banks are holding few of the best positions comparing with their counter parts.

Even through Islamic banks holds one- fifth of deposit and credits, it faces a lot of challenges which are yet to be addressed properly. Firstly, there are no dedicated shariah compliant law to govern the Islamic financial institutions. Through each Islamic banks runs their own internal and external audit; absence of a governing body fails to bring the all-Islamic financial institutions under one roof. Due to which Islamic financial institute can channel pool of funds to large project like UAE and Malaysia. Besides, Much of the officials are not well aware of potential and scope of Islamic financial instruments, compare to counties like Malaysia and Indonesia. Bangladesh is far from addressing Non-Muslim populations of the country meanwhile globally, 60% of the Islamic Banking customers are Non-Muslim (Anon, 2017)

In order to attain the full potential of Islamic finance in Bangladesh, relevant and reliable Information's are required for adopting appropriate policies that best fits the current Islamic banking scenario. At first, the challenges and other negating factors to its progress need to be determined and then assess the need for relevant and accurate Islamic instruments for better implementation of the policies.

### 3.1.1 Background/Literature Review

#### 3.1.1.1 History of Islamic banking

Through the concept of Islamic financing has been in existence for millenniums, Shariah based banking started with the establishment of "Mit-Ghamr Savings Bank" in Egypt in 1963. The shariah banking is based on principals and instructions prescribed in The holy Quran, Sunnah, Hadith, Ijma and qiyas. The fundamentals of Shariah financing can be narrowed down to prohibitions of interest (riba), Involvement In risky assets (Gharar), gambling or making speculative investment (Maysir) (Velayutham, 2014). However, the implications of Islamic banking are broader than the above-mentioned narrative. As per IFDR 2021, despite the corona virus pandemic Global Islamic Finance industry had a growth of 14% in 2020 which was 15% in the previous year and managing assets worth \$3.374 Trillion. Besides, with an annual average growth of 8% for the next five-year, Global Islamic finance is expected to expand its assets to \$4.94 trillion.

Globally the demand for Islamic finance is on the rise. Islamic finance is not just limited to GCC (The Cooperation Council), Asia and few African counties. Many western counties are heavily engaging with Shariah compliant product and instruments, after the 2008 financial crisis. As Conventional banks were involved with much riskier assets, Islamic banking seemed to be a safer alternative since the assets are backed. Within Europe, London has positioned itself the hub for shariah compliant financial services in the western world and The UK alone have 5 licensed Islamic banks along with 20 bank offering Islamic product and services (Domot, 2018). Since 2007, the sukuk market has been active in the UK. As of 2015, 57 sukuk had been listed on London stock Exchange with a valuation of \$51 Billion. (Islamic Finance in the UK, 2022). Alongside the UK, sukuk is also available in Luxemburg and on the other hand Switzerland is more focused on takaful (insurance). Since 2015, Germany started off its Islamic finance journey through the Establishment of KT Bank AG. As per IFDR 2020, 66% of the total Islamic finance assets were alone contributed by Iran followed by Saudi Arabia and Malaysia in 2019. Besides, As per their report, Morocco and Nigeria form Africa and Tajikistan from Asia, to be listed as the fastest growing markets Islamic finance.

Bangladesh has been experiencing similar growth with Islamic banking in tandem with economic expansion. Islamic banking started with the establishment of Islamic Bank Bangladesh Ltd. In 1983, being not only the first Islamic bank in Bangladesh but also in Southeast Asia. As of January

2022, there are 10 fully fledged Islamic banks operating in Bangladesh. Besides, 9 conventional banks provide Islamic financial services through 19 Islamic Banking branches along with 198 Islamic banking windows of 14 conventional banks (Islamic Banking cell, 2020). As per Bangladesh Bank's report, deposit growth in the country's banking sector was 13.5% while Islamic banking experienced a growth of 16.67% in the year 2020 (Newage, 2021). However, Bangladesh is far from its potential market capitalizations in terms of Islamic finance due to the challenges it faces, be it form operations, lack of regulations or even untapped customer segments and so on.

### 3.1.1.2 Difference between conventional and Islamic bank.

The fundamental difference between these two banking ideologies is based on the perception of interest rate. While Conventional banking relies fully on interest rate, Interest (Riba) is totally prohibited under shariah law. Besides, the Shariah law also prohibits sales of risky assets (Gharar) and gambling (Maysir). Some of the key differences between conventional and Islamic banks are as follows:

Islamic Bank	Conventional Bank
Based on Shariah law.	Based on capitalistic theory.
Based on profit and loss sharing principle.	Based on Interest rate.
Focused on proper and justified wealth distribution within the society.	Profit maximization is the only concern.
Supervised by shariah board and guidelines by central bank.	Follows conventional banking guidelines set by central bank.
Islamic bank makes investment through buying goods/services for clients.	Conventional bank provides direct loans to clients.
Profit can't be realized before the expiry of agreement.	Conventional bank realizes profit before the expiry of deal.
Provide investment as a partner with a view to share profit/loss.	Act as a lender of funds at predetermined interest rate.
Buying/selling of foreign currency on spot basis, not based on forward agreements.	Conventional bank facilitates both Buying/selling of foreign currencies on sport and forward basis.

Makes investment in business that are approved by Shariah law	No such jurisdiction. So, conventional banks can provide loans to all sorts of businesses.
Theoretically, depositors also bear the risk of loss along with the bank. (Monetary loss for depositor whereas time and “administrative expenditure” loss for bank).	Depositors are not subject to any loss for the loans provided by banks.
Makes investments under various modes prescribed by Islamic tenets.	No such obligations for conventional banks. Provide loans for profit only.
Can't make any speculative investment.	Conventional banks usually involve in speculative business/ activities.
Mandatory to pay zakat.	No such obligations.
Islamic banks are based on one time profit from a particular investment.	Conventional banks are Based on compounding interest rate.

### 3.1.1.3 Islamic Investment mode:

All Islamic product and services can be sorted into 3 broad categories. All these categories align well with all the guidelines and doesn't contradict but corelates with all the Islamic values and tenets. Even through the guidelines are millenniums old but their implications do not fall short for modern-day financing. Even shariah compliant FinTech Startups are on the rises in recent times. These are profit and loss sharing (PLS), non-profit and loss sharing (Non PLS), fee-based services.

#### List of investment modes:

1	Mudaraba
2	Musharaka
3	Bai-Murabaha
4	Bai-Muazzal
5	Bai-Salam
6	Wazariat Bil Wakala (WBW)

7	Istina
8	Hira Purchase
9	Quard E Hasana
10	Izara Bil Bia
11	Leasing
12	Hire Purchase Under Shirkatul Melk- HPSM
13	Murabaha Post Import- MPI
14	Murabaha Pledge
15	Murabaha Trust Receipt
16	Murabaha Import Bill/PAD
17	Muzara
18	Izara Wa Iqtina
19	Istijrar

*Mudaraba*: This is a partnership agreement, where one party provides skill/Labor (Mudarib-working partner) and another party provides capital (Raab-ul-Maal) with a predetermined ratio of sharing profit and loss.

Mudaraba can be classified into 2 categories:

- Al Mudaraba Al Maqayyadah (Restricted Mudaraba): Here, Financer can restrict the only business enterprise for mudarib to invest the fund.
- Al Mudarib Al Mutlaqah (Unrestricted Mudaraba): In this type of mudaraba, the mudarib have the freedom to invest the funds to the business enterprise as per his/her will.

**Investment scope:** Short/long term financing, Project financing, SME setup, LC (Foreign and local), Inter banking lending/borrowing, Certificate of investment (Mudaraba) etc.

### *Musharakah:*

Under Shariah law, it means a joint venture formed to conduct some business, in which profits are shared as per specified ratio and loss are shared according to the ratio of contribution by parties involved.

**Musharakah** can be divided into 2 categories:

- Shirkat-UI-Maal: It refers to partnership of two or more individuals at a particular business.
- Shirkat-UI-Aqd: it means, partnership affected by a mutual contract. Shirkat-UI-Aqd can be further divided into 3 sub categories, namely Shirkat-amwal (Partnership in capital), Shirkat-UI-Amal (Partnership in service), Shirkat-UI-Aujooh (Partnership in good will)

**Investment scope:** Asset financing, Short/Long term financing, import financing, Import bills drawn under import LC, Export financing, Savings A/C, current A/c, term financing etc

### *Bai-Murabaha:*

“Bai” refer to buying and selling contract. It is not a loan rather it is a contract where Islamic Bank purchase commodity on behalf of their client which is to be resell to the client at a markup price. Under such agreement, banks need to disclose the actual cost and profit margin. On other words, Banks buy goods from a third party for their client and makes profit by charging a bit higher to their client. Around, 66% of Islamic Banking investments are made through Murabaha.

**Investment scopes:** Short/Medium/long term financing of raw material, inventory, Machineries, house financing, land financing, shop, Import financing, export financing, etc.

### *Bai-Muazzal*

“Bai” refer to buying and selling contract. It refers to sales on credit, where bank purchases/buys raw material, equipment, commodities etc. for their client as per their request and resell them at a price payable in lump sum or installment at a future date. Possession of the commodities lies with the client and the payment for the goods are deferred to be treated as debt against him. Unlike Bai-Murabaha, banks are not subject to disclosure of cost of goods/commodities to their client. Investment made under Bai-Muazzal are riskier than other modes of investments.

**Investment Scope:** Import financing, Different industrial schemes, investment made to individuals and companies for trading.

#### *Bai-Salam:*

“Bai” refer to buying and selling contract. This mode of investment is used to finance the agricultural sector. Salam refers to advance purchase, where buyer (Bank) makes advance payment (cash payment) to seller (Farmer) with a condition to sell the goods to be delivered/ Supplied within a specified time. A parallel contract known as Parallel salam is also made along with salam contract, refers to buying back the goods from the buyer (Bank) and fulfil the obligations form previous salam contract.

**Investment Scope:** This investment is only viable for the agricultural investment.

#### *Bai-Istisna:*

“Bai” refer to buying and selling contract. Istisna derived from Arabic word “sanaya” which refers to manufacturing and construction. It is a contract between buyer (Bank) and seller (Client), under which the seller pledges to sell specified manufactured goods to be delivered at a future date. Istisna contract comes along with a parallel contract, referring to buying back the manufactured goods from buyer (Bank) at a price higher than the price at which they were sold. The Payment for Istisna can be paid in full or even on installment basis, depending on the agreement of the parties.

**Investment Scope:** House financing, construction finances for building, factory, flat, commercial buildings, bookings of apartments etc.

#### *Wazirat Bil Wakala:*

Wakala Refers to being/ Acting as agent. It is permissible for a bank to act as an agent for the clients and service or provide financial transaction on their behalf. Islamic bank charges their clients for the service provided.

**Investment Scope:** making and collecting payment for customers, Inward and outward bill of collection, L/C opening, acceptance collection of bills, servicing IPO and underwriting etc.

#### *Hire purchase:*

It is an agreement between bank and client, where the bank purchases or invest in equipment and machineries for their client upon agreed rental payments as instalment to be made until the full payment for the machineries or equipment is paid for their usage. In this mode, Ownership remains with the bank and client is the hirer.

**Investment Scope:** Provide investment for industrial machineries and equipment.

#### *Quard E Hasana:*

It refers to Profit free investment to customers. Through from Bank to bank, the practice of such investments differs however some scopes of such investments are providing profit free investments to loyal customers having large deposits in the banks, investments to small producers or manufacturer, farmers who does not qualify for other investment modes with a view to make them solvent and independent

#### *Izara Bil Bia:*

Under this mode, Islamic banks along with their client as per contract invests in assets such as machineries and equipment's, lands, building etc. with a stipulation that client will pay of rent at an agreed rate on bank's outstanding equity along with the principal amount of the equity, with a view to passing the ownership from to client gradually upon repayment of bank's involved equity.

#### *Leasing:*

Through lease contract a firm gets the right to use a particular fixed assets for a specified period of time for which the lessee makes periodical, tax detectable payments to the lessor. Here, the **Lessor** is the owner of the assets and the **lessee** is the receiver of the lease, as in uses the fixed asset.

#### *Hire Purchase under shirkatul Melk (HPSM)*

This mode of investment is basically made up of their modes namely, Izara, Shirkat and Bai. Under this mode, Both bank and client invest together to acquire ownership of property forming partnership between them. The bank leases its portion to the client for period payments with ultimate aim of selling of bank's portion to the client.

Investment scope: financing for transport, Land, machineries, etc.

#### *Murabaha Post Import:*

When the imported merchandise is cleared by the bank due to support emergency or bank may moreover clear the merchandise from the port due to non-retirement of documents by the merchant to maintain a strategic distance from advance financial loss, bank facilitates such importer by charging more margin from the importer in addition to L/C margin with a view to covering custom duty, Sales tax and VAT as this are paid by the bank.

#### *Murabaha Pledge:*

This investment mode is made to bank's most trusted, experienced and renowned importer for retirement of import documents with a view to release the documents under bank's authority,

referring to lock and key under banks authority. The importers are allowed a maximum period of one year to deposit the sales proceeds of imported goods which are under banks control.

#### *Murabaha Trust Receipt (MTR):*

Murabaha Trust Receipt are made to banks most trusted, experienced and renowned importer for retirement of import documents with a view to release the imported goods. Under such agreement, the importers are allowed a maximum period of one year to deposit the sales proceeds of imported goods which are at his control. In conventional banking, such facilities are known as **Trust receipt**.

#### *Murabaha Import Bill (MIB):*

Under This investment mode, bank makes payment against lodgments of transport documents of goods that are imported through L/C. These investments are made for a maximum of 21 days connected to import, which can be liquidated against payment that are generally made by client for retirement of import documents in order to release those goods from custom authority.

#### *Muzara:*

It is a contract between proprietor and cultivator, depending on the contractual agreement the cultivated crops are divided among both parties to an agreed upon time. When the proprietor allows another person for cultivating in his land, it is known as tenancy or Muzara. Muzara can be categorized into 2 types, Shared Muzara and Cash Muzara

- Shared Muzara: here both cultivator and proprietor share the produced crops as per contractual agreement.
- Cash Muzara: Here the tenants pay in cash as rent to the proprietor for using the land for cultivation.

#### *Izara wa Iqtina (Leasing and promise to gift):*

As per shariah law, it is permissible for the lessor to sign a separate promise to gift the leased assets to lessee at the end of lease period instead of sealing It to the lessee. This contract is subject to payments of all rent amount. However, the lease document should not be subject to any document related to gift or sales of leased assets. Besides, the promise should be recorded to a separate document binding only the promisor.

#### *Istijrar:*

Istijrar refers to buying of goods in different quantities form time to time. Under shariah Law it is allowed and in such a contract on each purchase there is no bargain or acceptance. Since the purchase is exercised from time to time, price can either be determined after all transaction or it can be determined prior to transaction,

### 3.1.2 Objective(s)

The objective of the report is to know about different Islamic investment modes based on Islamic tenets, and how shariah banking differs from conventional banking. Besides, the report aims to identify the scope and challenges faced by Islamic banking form both national and international view. The specific objective of the report are as follows:

- Different Islamic Investment modes
- Core differences between Shariah Banking and conventional banking.
- Current status of Islamic banking in Bangladesh from both macro micro perspectives.
- Scopes and challenges of Islamic baking in Bangladesh.

### 3.1.3 Significance

The significance of the report is to provide a vivid picture of current status of Islamic baking in Bangladesh, identifying the areas where improvement can be made and the scopes to capitalize on, portraying how other counties are using Islamic financial instrument. The report also provide idea about the key differences in banking ideologies followed by performance of both Islamic and conventional banking.

## 3.2 Methodology

In preparing this report, I have relied on both primary and secondary sources of data. The primary data are collected from Bangladesh Bank quarterly journal and Exim Banks annual report for last few years. Besides, A lot of primary data has been collected through daily observation of baking activities at Exim Bank.

For Secondary sources of data, I went through many previous literatures and published research papers which have helped me to have a better understanding of the respective topic at whole. Besides, I have referred to various online blogs and news portal which were relevant to this study.

### 3.3 Findings and Analysis

#### 3.3.1 Islamic Banking in Bangladesh

##### *Current status of Islamic Banking in Bangladesh from Global perspective*

Despite the Corona virus pandemic, Global Islamic banking has been able to maintain a growth of 10.7% in terms of total assets for the year 2020 with an estimated worth of USD 2.70 trillion, compare to 2019 with an asset size of USD 2.44 Trillion. As per third quarter of 2020, there are 34 Islamic finance jurisdictions out of which 15 countries have achieved domestic systemic importance<sup>6</sup>. Oman and Pakistan are the latest addition to list of systemic importance jurisdictions.

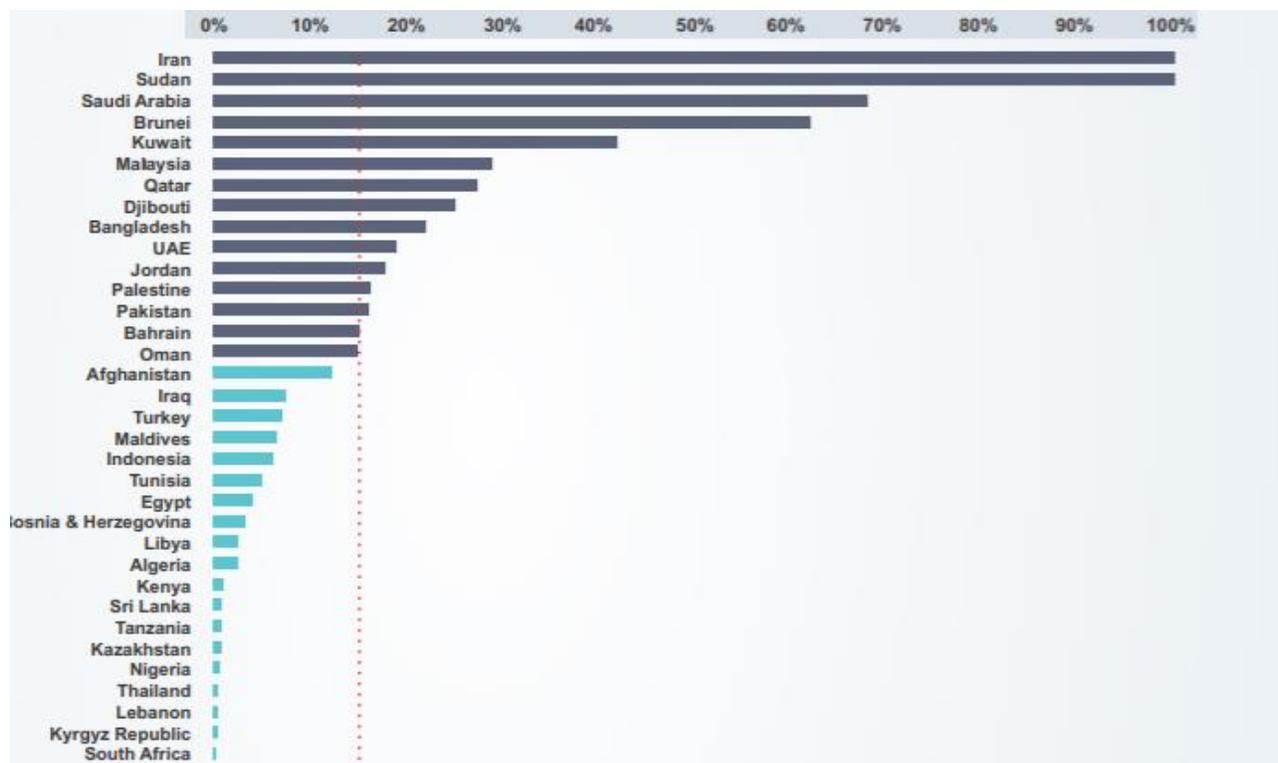


Figure 1. Country wise market share of Global Islamic Finance industry (Source: IFSB)

These 15 domestic systemically important jurisdictions accounts for roughly 92.4% of the total global Islamic finance assets. Within Jurisdictions in terms of assets of global Islamic financial industry, Saudi Arabia tops the list accounting for 28.5%, followed by Iran with 22.1% and then Malaysia by 11.4%. Bangladesh holds only 2.3% assets of global Islamic banking. Bangladesh have recorded a growth of 12.6% growth in assets for the year 2020 compared to previous year in. This growth is indeed phenomenal taking the pandemic in account and how adversely the Islamic

<sup>6</sup> A country, who's Islamic banking and finances holding 15% or more of the total domestic banking assets is said to have a domestic systemic importance.

banking industry could have affected. In the same period, Kuwait recorded 7.9% growth in assets compare to previous year, UAE recorded 9.5% and only Qatar to surplus the assets growth of in asset growth compare to Bangladesh with 15.2%. On the other hand, other important jurisdictions have experienced decline in their growth due to the corona virus pandemic, such as Malaysia registered a growth of 7.8% in 2020 compare to 9% in 20219, Besides, non-systematic Islamic banking jurisdictions such Nigeria Lebanon experienced decline in asset growth. (Islamic Finance Service Board)

### *Current status of Islamic Banking in Bangladesh from Country perspective*

Bangladesh holds 21.9% of the domestic banking assets with in the banking industry, roughly a bit more than one fifth of the total banking assets. As for January 2022, 10 fully fledged banks along with 19 Islamic branches of 9 conventional banks and 198 Islamic banking windows of 14conventionals banks all together makes up Islamic finance industry of the country. Despite the pandemic as per Bangladesh Bank, Islamic banks experiences a growth of 2.28% and 3.55% during the period October and December respectively. (Bangladesh Banking Cell, 2020). Currently, Islamic bank accounts for 40.51 % of the total remittance of the country, which also experienced growth during the same period by 19.24% along with excess liquidity with a 60.61% growth compare to previous year, 2019.

In terms of total deposit, Islamic bank witnessed a growth of **16.66%** in 2020 compared to previous year. In December of 2020, total Islamic bank's deposit stood to BDT 3269222.47 Million. Besides, in December 2020, Total Investment stretched to BDT 2940936.38 million, meaning a sharp 8.09% growth in total invest compare to September 2020.

In terms of Employment and branches, Islamic banks are expanding deliberately and gradually. At the end of December 2020, the total number of employees and branches stood to 38784 and 1528 (it includes Islamic banking branches and windows of conventional banks) respectively. Previously which was 3596 (employees) and 1380 (branches) respectively as per December 2019. This data insinuates how Islamic banking industry is flourishing even with major challenges which are yet to be addressed properly.

### *Islamic Bank's Market share*

As mentional earlier, one-fifth of the total banking deposite and credits are being serviced by all Islamic bank in bangladesh. To provide an overview of the current holding of makret capes of Islamic bank at, it is very important to scrutinize their total holding of assets, liabiliets and so on. I have refered to the report of Bangladesh Bankin cell, providing a clearer image of Islamic bank's overall market share.

Traits (In Million)	For the period of October- December 2020		
	All Banks	Islamic banks	Share of islamic bank
Total deposits	12904724.00	3269222.47	25.85%
Loans and advances	11449073.00	2940936.38	25.44%
Remittance	528441.90	214093.53	31.53%
Total excess liquidity	2047380.20	293175.01	10.76%
Total number of branches	10752	1528	13.80%
Total Agricultural credits	73936.7	9911.5	22.88%

Source: Statistics Dept. and MPD, Bnagladesh Bank. (Bnagladesh Banking Cell)

From the chart above, it is evident that islamic banks were responsible for one-fourth of the total deposit collection and total loans/Investments disbursed. These numbers become more profound when the number of conventional banks and islamic banks are compared, as the conventional banks outnumber their counterparts by 50. Moreover, Islamic banks accounts for 40.51% of the total remittance channeled by the banking sector. Among all islamic banks, Islami bank Bangladesh Ltd. Accounts for collecting 74.69% of remittance of the total remittance collected by all Islamic Banks at whole. As per me, the potential for Islamic bank to stretch more of its operations and offering more product, intensifying the competiton with their counterparts is very viable.

### 3.3.2 Challenges encountered by Islamic Finance In bangladesh

Although Islamic Banks are operating in the country since 1983 and it have achieved systematic domestic importance there are a lot of challenges which are yet to be addressed with proper solutions. As of today, there are no independent central shariah board that evaluates and monitors Islamic banks day to day operations in term of shariah compliance. All Islamic banks conducts their daily operations based on the guideline circulated by the Bangladesh Bank in 2009, which insinuates the types of products to be offered to customers, Islamic banking operational framework and investment modes. As per Bangladesh Bank's guidelines, Islamic bank's directors are only responsible for shariah compliance of their banks. Although all Islamic banks are affiliated to the "Central shariah board for Islamic banks of Bangladesh" for Shariah compliance issues and advices about operations, however to it is optional for Islamic bank to have a shariah

board which is considered as great shortcoming of the guidelines itself (Abdullah and Rahman, 2017). There is no separate laws been or window from the central bank for keeping its shariah compliance checked, whereas Shariah compliance is the most important part of Shariah governance system (Hasan, 2014).

Another crucial challenge faced by Islamic Bank is the absence of an active Islamic Capital market. As usury is haram as per Shariah law, Islamic banks cannot invest their money in marketable interest-bearing securities such as treasury bills and Investment bonds, which are being used by conventional banks to maintain liquidity and not keeping funds idle. Due to absence of Islamic capital market, the scope of investments for Islamic banks becomes narrower and managements cannot make proper utilizations of funds.

The products and services of Islamic Banks are not much diversified. Compare to their conventional counterparts, Islamic banks do have wide range of product and services but the practice of familiarizing those products and service is absent which ultimately narrow down the products offered by Islamic banks. Islamic banks are mainly focused on facilitating trade and commerce with much lesser attention to personal loans and retail banking, negating full potential of Islamic banking in the country.

As the regulatory bodies cannot ensure shariah compliance and shariah compliant auditing, focusing mainly on the guidelines about shariah financing regulators such as Bangladesh Bank and Central Shariah Board For Islamic Bank falls short to maintain consistency among related industry player in terms of shariah compliant practices.

Profit and loss sharing is the closest tenets of Islamic finance, yet Islamic Banks are resorted to only such investment mode which are less risker and brings in somewhat fixed returns due to absence of ideal mode of investments in their operational practices. Such as per Islamic banking Cell, Bai-Muazzal and Bai-Murabaha accounts for 68.73% of total investment, Whereas Murabaha bearing the main essence of Islamic finance accounts for only 0.33% of total investment.

Almost half of the population is still unbanked. Adding to dilemma, both existing and potential customer of Islamic banks and conventional banks have unclear ideas about the two banking ideologies, let along the subtle difference between interest and profit rate. Many still perceives that through interest is haram as per Shariah law, "Profit rate" in Islamic Banking is just another name for conventional interest rate.

Mostly clients' affiliates with Islamic banks from religious stand point, however missing out on the benefits of sharing risk and other Islamic financial inclusions. Inaptitude of bank officials might be single biggest reason behind customers not being aware of the Islamic products and services. The perceptions need to be devised to other factors rather than religious appeal such as marketing well-planned Islamic products that fits individuals and business needs, preaching

how shariah compliance is helping out the banking sector to distribute the wealth among society and most importantly more competitive services offered to customers than conventional banks.

As mentioned earlier, about 60% of the Islamic banking customers are non-Muslim's globally (Anon, 2017). However, products of Islamic banks are only targeting the Muslims populations (Shaown and sultana, 2017). Personally, This might be the case due to banks officials' attitude of preaching Islamic finance from religious stand point rather than from a professional perspective. Officials should be trained to attend potential client with full knowledge of Islamic financial inclusion. Islamic banks of Bangladesh should be eyeing to expand customer base at whole, specifically through crafting new products for next generations and focusing on non-Muslims too. Other challenges which are faced by the Islamic Banks are as follows:

- Lack of cooperation and coordination among related industry player.
- Absence of product and service innovations.
- Absence of skilled and shariah compliant officials for better customer experience.
- Lack of syndication within related industry player to finance public infrastructure projects in a shariah compliant way.
- Absence of central shariah board for auditing and shariah compliance check.
- Absence of shariah compliant law set by the Bangladesh Bank.
- Absence of legal framework for Islamic Financial institute.

### 3.3.3 Scopes for Islamic Finance in Bangladesh

From macro perspective, Islamic finance industry is managing assets worth more than USD 3.374 trillion, which is expected to be USD 4.94 trillion by 2025, Spreader to more than 80 countries. Among these countries, only 47 counties are being regulated under Islamic finance Regulations. Although GCC (gulf cooperation council) are dominating MENA (Middle eastern/North Africa) regions with over 90% shariah compliant assets, other counties from the western world are taking interest in Islamic Finance industry. Among them the initiative of the British govt. is notable. London is considered to the hub of Islamic financial inclusion since the early 2000's. At present UK is home to 5 licensed Islamic Bank along with 20 conventional banks providing Islamic financial inclusions. Sukuk<sup>7</sup> market has been active in the UK since 2007 and being traded in the London stock exchange with a total valuation of USD 51 billion. Besides, the UK, Germany, Switzerland and Luxemburg are increasing their presence in the global Islamic industry from the western world. Malaysia is leading and dominating global sukuk market with a outstanding value

---

<sup>7</sup> Sukuk derived from Arabic work Sakk, meaning "certificate". It is equivalent to conventional bond. It has to be qualifiable, quantifiable, have value and income generating. Unlike conventional bond it is not a debt obligation rather partial ownership interest of the backed asset.

of USD 262 Billion occupying more than 60% of the market share, followed by Saudi Arabia with USD 158 Billion and Indonesia with USD 73 billion.

From micro perspective, Though Bangladesh is among the top ten Islamic jurisdiction with 2.3% assets of global Islamic Finance, Bangladesh is yet to make notable progress in Sukuk market. Sukuk can be used to finance companies and governments project while allowing investors to have fixed periodic income, just like Saudi Arabia, Malaysia, Indonesia, Bahrain and UAE have capitalized on this Islamic instrument to meet their ESG and SGD goals. Bangladesh have issued sovereign sukuk on behalf of govt. on 28<sup>th</sup> Dec, 2020 for safe water supply, rising BDT 80 Billion. In the first phase, BDT 40 Billion was raised with being oversubscribed by nearly 4 times, showing the immense demand of sukuk with in the country. Apart from corporate sukuk, Green sukuk is paving the way for more ecological and environmentally friendly investment for better tomorrow, making investments in wide range of industries such as airline, energy and most importantly public infrastructure. Besides, Beximco have issued the counties first green sukuk which is set to be listed on Dhaka stock exchange and chottogram stock exchange, eyeing to raise BDT 3000 crore. As the sukuk are back by underlying assets, private companies, government or even financial intermediaries can use this instrument and contribute much to the economic development of the country.

Since the *Islamic capital market* is underdeveloped, the Government and Bangladesh bank along with the related industry player have great responsibility towards developing an Islamic capital market. Developing an active Islamic capital market will surely intrigue the Islamic sensitive customers as well as value seeking investors to be benefited with Islamic products and services, besides it will pave the way for Islamic banks to thrive, contributing much to the economy in a much efficient manner. Sukuk being the major product of such market, an active sukuk market can pave the way for thriving similar to other Muslim dominated counties. Other Islamic Capital market products such as Shariah compliant stock/ Equity Securities, Islamic unit trust/ Mutual funds, Islamic Exchanged traded funds (ETFs), Islamic private equity funds, etc. Compare to conventional capital markets instruments, the size of Islamic capital market is very small due to lack of availability of Islamic capital market instruments which effects the liquidity within the Country's Islamic finance niche. Besides, a wider range of product needs to be catered that can attract both institutional and individual investors in the way of making a vibrant Islamic capital market.

Another void within the Islamic banking industry were absence of a call market. Whereas, conventional commercial bank was able to obtain funds from the call market to tackle their Short-term liquidity crisis, Islamic bank were unable to borrow funds from such market due to prohibition of Interest (Riba). Sinch 2012, Islamic Inter-Bank Funds market (IIFM) has been introduced to mitigate Islamic banks short term funds need and instead of interest rate the funds were loaned on basis of profit rate. This market has solved liquidity crisis within the niche.

Bangladesh bank and govt should work together to set up an independent shariah compliance body for auditing the Islamic banks as per Shariah compliant International standard accounting and auditing, provide guideline to properly govern the Islamic banks. Besides, due to absence of centra auditing body, all Islamic Banks are not being bought under one umbrella for better efficiency and better monitoring of the overall Islamic banking industry. Due to separate auditing practices within them, there lacks a consistency within the industry. Moreover, the govt. should encourage the Islamic banks, Islamic banking branches of conventional banks and all Islamic banking windows to do the necessary for them to become the member of Account and Auditing Organizations for Islamic Financial Institution (AAOIFI) as a mean of preaching standard accounting and auditing practices.

Islamic Fintech is another buzzing word in the recent times. GCC counties along with Malaysia is increasingly investing for the expansion of Islamic Fintech even in the pandemic year 2020, with a view to moving forward to fast growing digital economy. The pandemic has proved, how important digitalization of the financial industry is and digitalization of Islamic financial inclusion will allow related industry players to retain present customer and tap new customer segments. Fintech is not just limited to carrying out payment, besides crowdfunding, trading Islamic ETFs, mutual funds, crowdfunding, Islamic wealth management advisory services, Buy-now-pay-later etc. can be well integrated with Islamic finance industry.

Islamic Banks should be more focused on research and development in order to come up with appropriate policies and guidelines, at whole. Besides, product and service diversification won't be possible without investing much in research and development, insinuating to current lack of innovation of product and services from Islamic banks compare to their counterparts.

As per Islamic banking practices within the country, there are nearly 72 deposit products outdoing the deposit products offered by conventional banks. However, due to lack of practice and inaptitude of the banks officials not all products are being popularized among the mass public. Focusing only on handful of deposit products, Islamic banks are operating on day-to-day basis. With support from all the related industry player and as well as the banks management, officials need to be trained to familiarize this wide range of deposit products to customer with a view to hold more market cap and creating more competitive environment within the banking niche.

Efforts need to be made by Islamic banks and related industry player about Islamic Finance and how it's benefiting the overall economy. Through this effort people can be more aware about the benefits of Islamic financial inclusion and how competitive services they have to offer compare to conventional banks. Besides, Islamic banks can partner up with NGO for Imparting knowledge about the banking industry and how profit and loss sharing can be a superior alternative to conventional bank which are basically selling same assets through slicing and dicing, multiplying the risk of potential financial catastrophes. Islamic bank can also increase their investment to

women enterprise and poverty alleviation through implementing various micro finance institution.

### 3.4 Conclusions

Islamic banks have well integrated with the economy and achieved systematic importance with more than 25% of the total banking assets of the banking industry. Even through it faces a lot of challenges on its operations, their performance is better than their conventional counterpart, In terms of lower non-performing loans and higher asset quality. Whereas many non-Muslim dominant countries are inclining towards Islamic finance due to its distinctive features such as profit and loss sharing, avoiding speculative investment and focuses on securities which are asset backed, Bangladesh is yet to reach its full potential. Particularly, absence of shariah compliance body to provide guidelines and to audit them and underdeveloped Islamic capital market are the main challenges of Islamic banking industry. However, the potential for growth is immense as globally Islamic instruments such as sukuk and takaful are revolutionizing the conventional finance industry. Although Malaysia started their Islamic finance journey on the same year as Bangladesh, currently they are the market leader of Asia in term of sukuk and Islamic asset management. So, to reach full potential of Islamic finance, well and long-term initiatives needs to be taken by related industry players along with the regulatory bodies assessing the current challenges.

## References

- Refinitiv. (n.d.). *Islamic Finance Development Report 2021*. Refinitiv. Retrieved January 19, 2022, from <https://www.refinitiv.com/en/resources/special-report/islamic-finance-development-report>
- Kammer, M. A., Norat, M. M., Pinon, M. M., Prasad, A., Towe, M. C. M., & Zeidane, M. Z. (2015). *Islamic finance: Opportunities, challenges, and policy options*. International Monetary Fund
- Shaown, J. I., & Sultana, Y. (2017). Islamic Banking in Bangladesh: Challenges and Prospects. *AIUB Journal of Business and Economics*, 14(1), 153–174. Retrieved from <http://116.206.57.42/index.php/ajbe/article/view/58>
- Anon., 2017. The Daily Star. [Online] Available at: <http://www.thedailystar.net/business/banking/islamic-banking-growing-rapidly-1417531>
- Velayutham, S., 2014. “Conventional” accounting vs “Islamic” accounting: the debate revisited. *Journal of Islamic Accounting and Business Research*, pp. 126-141.
- Domat, C. (2018). Islamic finance: just for Muslim-majority nations?. *Global Finance*.
- Assets.publishing.service.gov.uk. 2016. *Islamic Finance in the UK*. [online] Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/503491/2015047\\_Is\\_Fin\\_A5\\_AW\\_ENG\\_WEB.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/503491/2015047_Is_Fin_A5_AW_ENG_WEB.pdf)
- Refinitiv. (n.d.). *Islamic Finance Development Report (IFDR) 2020*. [online] Available at: [https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893\\_2100.pdf](https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893_2100.pdf)
- Newage 2022. [online] Available at: <https://www.newagebd.net/article/134737/bank-deposits-grow-by-135pc-in-2020-islamic-banks-fare-better>
- Islamic Financial Services Board, 2021. *Islamic Financial Services Industry Stability Report 2021*, s.l.: Islamic Financial Services Board. [online] Available at: <https://www.ifsb.org/download.php?id=6106&lang=English&pg=/sec03.php>
- Abdullah, M. F., & Rahman, A. (2017). Shari’ah governance of Islamic banks in Bangladesh issues and challenges. *Journal of Islamic Economics, Banking and Finance*, 13(3), 82-94.
- Hasan, Z. (2014). In search of the perceptions of the Shari’ah scholars on Shari’ah governance system. *International journal of Islamic and Middle Eastern finance and management*.