

Report on  
Islami Bank Bangladesh Limited

By  
TAOSIF RIAN MANZUR  
ID 14104107

An internship report submitted to the BRAC Business School in partial fulfillment  
for the degree of Bachelor of Business Administration

BRAC BUSINESS SCHOOL  
BRAC University  
09 October 2021

© [Year of submission 2021]. BRAC University  
All rights reserved.

## Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

---

TAOSIF RIAN MANZUR

14104107

## **Letter of Transmittal**

SAIF HOSSAIN

Assistant professor and Director of BBA program

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Internship program at IBTRA (147<sup>th</sup> batch).

Dear Sir,

It is my pleasure to display my entry level position provide details regarding 'Recruitment and Selection Procedure of Islami Bank Bangladesh Limited', which I was appointed by your direction.

I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.

I trust that the report will meet the desire.

Sincerely yours,

---

TAOSIF RIAN MANZUR

14104107

BRAC Business School

BRAC University

Date: 09 October 2021

## **Non-Disclosure Agreement**

I was an intern in Islami Bank Bangladesh limited. I don't have any agreement between me and Islami Bank Bangladesh Limited.

## **Acknowledgement**

In the name of ALLAH, the most compassionate and most merciful who gave me the ability to write the internship report and present it on front of my supervisor, Alhamdulillah. I send my salutation upon the holy prophet Muhammad (pubh) who came to the world as an ambassador of peace and liberation.

Special thanks goes to Mr. saif Hossain, Mr. Mahbubul Rahman Bhuiyan, Abul Laise Mohd. Khaled who gave me suggestion, guided me how to write and directed improvements along the way.

Taosif Rian Manzur

## **Executive Summary**

In my internship report I tried to show the similarities and differences in Banking, both Islamic and conventional. My first objective is about the deposit system in Islamic Banking. As a financial intermediary, the Islamic Bank mobilizes savings from the public on the basis of mudaraba and provides financing to businesses on the same premise. Amanah can exist with or without consent. Amanah is defined as the goal of accepting someone's property or money for safekeeping. A trust is not a thing for which compensation must be paid, according to the usual norm. Wadiya money is a trust placed in the hands of the person who accepts it for safekeeping. If the property or money in safekeeping is damaged without the trustee's fault, the trustee is not accountable for any compensation. My second objective is about financing and investment in Islamic banking. The financier may possess real estate, such as a house, which he would then sell to the customer at a profit on a deferred payment basis, with payments made in installments as defined in the sale contract. The profit margin may be specified in the selling contract, in which case the entire value of the house will be paid in installments. Promoting housing certificates is a way to get a property as well as a financial instrument for a short-term investment. My third objective is about overdrafts/ credit cards in Islamic banking. Traditional banks allow customers to make interest-bearing overdrafts from their accounts. One of its forms is the usage of a credit card, in which the bank sets the customer's overdraft limit. My last objective is about investment in Islamic banking. I discussed it in detail on chapter 3 and highlighted some problems raised in an interview where in the case of Scheduled Banks listed by Bangladesh Bank, IBBL is required to save 5% of their deposit. On money deposited with Bangladesh Bank, the interest rate is fixed. IBBL does not consider this interest to be revenue, thus it transfers it to the Sadaqah Fund, lowering the bank's reserve.

Table of contents	Pages
Declaration	2
Letter of transmittal	3
Non-disclosure agreement	4
Acknowledgement	5
Executive Summary	6
Table of contents	7
List of Tables	8
List of Figures	9
List of Acronyms	10
Glossary	11
Chapter 1:Overview of the internship	11
1.1 Student Information: Name, ID, Program and Major/Specialization	12
1.2 Internship Information	13
1.3 Internship Outcomes	14
Chapter 2: Organization Part	15
2.1 Introduction	15
2.2 Overview of the Company	19
2.3 Management Practices	20
2.4 Marketing Practices	21
2.5 Financial Performance and Accounting	22
2.6 Operations Management and Information System Practices	24
2.7 Industry and Competitive Analysis	25
2.8 Summary and Conclusions	26
2.9 Recommendations/Implications	26
Chapter 3: Project Part	27
3.1 Introduction	27
3.2 Methodology	35
3.3 Findings and Analysis	35
3.4 Summary and Conclusions	36
3.5 Recommendations/Implications	36

## List of Tables

Islamic banks in Bangladesh at a glance	Page 19
Islamic banking window in conventional banks at a glance	Page 19
Islamic banking window in Public banks at a glance	Page 19

## List of Figures

Islamic Bank Bangladesh limited Organization structure	Page 20
Ratio of Islamic Banking Worldwide	Page 23
Profitability of Islamic Banking Worldwide	Page 24



## **List of Acronyms**

AIBL: Al Arafah Islamic Bank Limited

AWCA: Al Wadia Current Account

BDT: Bangladeshi Taka

CSBIB: Central Shariah Board For Islamic Banks of Bangladesh

CSE: Chittagong Stock Exchange

DSE: Dhaka Stock Exchange

FSIBL: First Security Islamic bank

IBBL : Islami Bank Bangladesh Limited

IDB : Islamic development Bank

MSA-General: Mudabara Savings Account-General

OIC : Organization of Islamic Cooperation

PLS SA: Profit and loss sharing Savings Account

SIBL: Social Islamic Bank Limited

## **Glossary**

**Hadith:** The sayings and the teachings of Prophet Muhammad (pbuh). It is considered as the interpretation of Quran. Without this Quran cannot be interpreted.

**Islamic Sharia:** It is a code for living that all Muslims should adhere to, including prayer, fasting, and giving alms to the poor. It aims to help Muslims understand how they should lead every aspect of their life according to the wish of Allah.

**Pbuh:** Peace be upon him. An obligatory salutation given when the Prophet Muhammad's name is pronounced.

**Quran:** A divine book from Allah. Muslims adhere to its guidance and teachings. Muslims recite some portion of the Quran in Arabic in their prayer. They even recite this book in Arabic Frequently.

**Riba:** Interest/Usury

**Ra:** Radiallahu anhu meaning may Allah be pleased with him

## Chapter 1: Overview of the internship

### 1.1 Student Information: Name, ID, Program and Major/Specialization

Name- TAOSIF RIAN MANZUR  
ID- 14104107  
Program- Bachelor of Business Administration  
Major- Accounting

### 1.2 Internship Information

Period- 01-07-2021 to 31-08-2021  
Company name- Islami Bank Bangladesh Limited  
Department-  
Address-  
*Head Office Complex Corporate Branch*  
Islami Bank Tower, 40 Dilkusha C/A, Dhaka-1000  
Phone: (02) 9570910, 9570911, 7166598, 7114561, 7123968  
Mobile: 01711693908(GB), 01713-425910 (CLG), 01714034155(INV),  
01755-636209  
Fax: (02) 9564532  
Email: hocc@islamibankbd.com; gb.hocc@islamibankbd.com

#### Address of the branch where I did my internship

Uttara Branch

Kushal Centre, Uttara Model Town, Uttara, Dhaka1230

Phone: (02) 58952055, 58956976, 8920500, 8918055, 8923976

Mobile: 01711-693936(GB), 01713-367498, 01755-550093, 01713-438513,  
01755-543336,

Fax: (02) 8923976

Email: uttara@islamibankbd.com; [inv.uttara@islamibankbd.com](mailto:inv.uttara@islamibankbd.com)

Internship Company Supervisor's Info

Name- Md. Mahbubur Rahman Bhuiyan

Position- First Assistant Vice President

Tel- (02)58952055, Ext-103

Mob- 01715028103

Email- [mahbub0266@islamibankbd.com](mailto:mahbub0266@islamibankbd.com)

[mahbub26nv@yahoo.com](mailto:mahbub26nv@yahoo.com)

SWIFT- IBBLBDDH207

### Job Scope/Duties

- Customers are the lifeline of the bank. Providing customers utmost respect and service.
- Timetable of the branch starts from 10am to 6pm. joining the office 15 minutes before the starting time is an obligation.
- Always obey the instructions given by the Head of Branch/Operation Man.
- Always hang the ID card during office hours.
- Modest clothing is an obligation.
- The more anybody open bank accounts of themselves and family members or closed ones are considered as a business performance. The more one opens bank account of others and collects deposit is being rewarded at the farewell ceremony.
- As an Islamic bank it is encouraged for the Muslim employees to read the translation of the Holy Quran, pray Salah on time, always have the fear of Allah, Guard the tongue and don't get angry.

### 1.3 Internship Outcomes

Student's contribution to the company

I as a student appreciated the work of Islamic bank and its function to the economy. I have opened 9 bank accounts of others and 1 for myself. Also, I have recommended 3 people to open a bank account in islami Bank Bangladesh limited. I have worked in clearing and fund transfer department. Authorized and verified check, transferred one bank's check to another bank. Thirdly, I had the pleasure to meet and talk with the senior vice president and head of the branch. I asked him about why an individual's current account seeks his recognition. He explained to me how the government's legislation regarding anti-terrorism act 2002 work where any individual's current account with a good amount of money transaction is a

matter of inspection. IN addition, I worked at investment and foreign exchange department. Saw how to send and receive remittance. Asked questions on Investment method of the bank as per the Islamic sharia. Lastly, I saw the locker service of the bank and where all the cash deposit are kept in a vault. It was a great experience.

### Benefits to the student

I as an intern understood that In Islam Interest/Usury is prohibited. Firstly, I saw How Interest/Usury damages the social and economic balance and integrity. I understood how IBBL establishes balance and integrity in the economy. How IBBL aims to eliminate interest/usury from doing business, establishing industry-factory and all types of foreign transaction. Secondly, I saw how IBBL directly participates in business. This way how the risk associated with the business splits between the bank and the customer. IBBL secures it in two ways-(1) direct participation (2) participation in the profit and loss ratio. In addition, I saw that IBBL even analyzes their investment sector whether it is approved by Islamic sharia. IBBL does not invest in the Production and selling of Alcohol, drugs, tobacco and cigarette. These things are Haram in Islamic sharia and also harmful to public health. Lastly, I understood that IBBL does not invest in hoarding and profiteering sites. IBBL in the light of Islamic sharia sets to prioritize in their investment principle.

### Difficulties (faced during the internship period)

- Nobody wants to give ample time to the interns. An intern is not a full time paid employee. Also, they don't want to give valuable and confidential information to the interns as this will act as a security threat to the company.
- Interns don't have access to their computers. They don't even allow interns to bring their laptop at the office.
- Skilled workforce in IBBL requires knowledge of both Islamic sharia and banking. As in our country no course is offered in university related to Islamic economics and banking.
- Without acquiring any formal education/course related to Islamic banking it creates a vacuum of skilled workforce. IBBL with their own management delivers non-formal courses related to Islamic banking which is very complex and time consuming.
- Any institution's prosperity depends on research and training. For research and training regarding Islamic banking there are only 3 institution. They are

IBTRA, AIBTRA, and IERB. For research and training all the Islamic banks budget are below sufficient. Interest/Usury based banks offer big sum of research grant to the graduates of prestigious universities and research institutions to work on their behalf in a regular basis. But this is not available in the case of Islamic universities and Islamic Banks.

#### Recommendations (to the company on future internships)

- Giving ample time to the interns. An intern must be treated as a future prospect full time employee. Giving valuable and confidential information to a certain extent may be allowed.
- Interns should have access to their computers to a certain extent.
- Skilled workforce in IBBL should be catered with both Islamic sharia and banking. The government/authority should offer courses at least in the university level related to Islamic economics and banking.
- Acquiring Formal education/course related to Islamic banking will create skilled workforce. Also, it will save a lot of time.
- IDB and OIC also needs to work together so that they can jointly offer big sum of research grant to the graduates of Islamic universities and employees of Islamic Banks to work on their behalf in a regular basis.

## Chapter 2: Organization Part

### 2.1 Introduction

#### History of Bank

As this report is written based on Islamic banking system and IBBL. First we need to shed some light on how Banks are invented. Banks are invented on the basis of money lending. As Geaffrey Crowther said, “The merchant whose high and widespread reputation or credit enables him to issue documents that will be taken all over the known world as title of money.” The Merchants gave the institutionalize shape of Bank through economic activities. Also, three types of people are also responsible for giving institutionalize shape of bank. They are- (1) Goldsmiths (2) Money-lenders (3) Modern banking. At this early period following things helped the development of banking system:

- At the start of transaction Merchants were enough solvent
- They displayed their trustworthiness for their own need
- Merchants used to collect, preserve a lot of money
- People used to deposit money to them for their trustworthiness.
- Merchants used to give loan and take loan on next step.

Here we need to mention another saying of Geaffrey Crowther, “The money lender for investment in view for his skill and experience in the technique of exaction, he reaches an embryonic banker.” In the year of 1700 Indian subcontinent has its first commercial bank named “The Hindustan Bank”. Generally From 1401 CE till this age is considered modern banking. On 1401 CE Italy witnessed its first modern bank named “Bank of Barcelona”. 5 years later Holland established “Bank of Amsterdam”. All these banks conducted their operation through manual labor. On 1961 CE National City Bank of New York first started to do transaction through EFTS. On 1972 CE Great Britain’s Lloyds Bank first established Cash and gave their customers Plastic Card. this card contains Magnetic Stripe. Through Magnetic Stripe it is easy to identify customers. Now in this age we are seeing virtual Banking. Lastly, we can say that banking system sets its root through the use of currency/money and came to this far i.e. today’s Modern banking. That’s why Economist R.K. Lover said, “It is difficult to comment on how the birth of bank took place, but it’s clear that the organized socio-economic activities of medieval Europe set up the modern banking system.”

## History of Islamic Bank

According to the definition of OIC “An Islamic bank is a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic sharia and to the banning of the receipt and payment of interest on any of its operations.”

According to the definition of Malaysia’s Islamic banking act 1983 “ Islamic Bank is a company which carries on Islamic banking business means banking business whose aims and operations do not involve any element which is not approved by the religion Islam.”

According to professor doctor MA Hamid, “Islamic Bank is a multi-financial institution which conducts its activities according to the principle of Islamic sharia, banking of Riba in particular, in all its operations and help to achieve the socio-economic goals of an Islamic society.”

If we look at the History of Islamic Bank’s complete setup, it took different chronological timeline. They are given below:

### *1. During the time of prophet Muhammad (pbuh)*

Before the prophet hood of Prophet Muhammad (pbuh), he was the most trustworthy man at his circle. People used to call him Al-Amin which means trustworthy person. People used to keep their money and valuable things in his custody. During the early period of Islam one companion of the prophet named jubair ibn awam (ra) set an unprecedented example in terms of financial dealings. People deposited their money and wealth in his custody. He took those deposit as a loan. He used to consume those deposit and invest those deposit. When he took those deposit as a loan depositors can have their deposit in return whenever they want. This type of system became so popular that people deposited 2 million dirham in jubair ibn awam(ra)’s custody. Prophet Muhammad (pbuh) had a business with his first wife Khadija which was based on mudaraba system. After the establishment of Islamic government in medina Quran explicitly prohibited the use of riba based business. During the speech of last pilgrimage Prophet Muhammad (pbuh) said- “All types of riba that took place in the times of ignorance are canceled. At first I cancel the riba of my tribe’s lender abdul muttalib.”

### *2. During the period of Rashidun caliphate*



In this period baitul mal took the place of central bank. Abdullah bin abbas (ra) deposited dirham in medina and came to kufa to write the receipt of clearance. Abdullah bin jubair (ra) also deposited dirham in mecca and write the receipt of clearance in Iraq. His brother went to Iraq so that he can have cash by showing the receipt of clearance.

3. *During the time of Muslim rule*

During the Abbasid and Umayyad period Muslims saw great development in the banking sector. 11<sup>th</sup> century ruler of Aleppo hamdani invented Hundee. At that period Basra saw the promotion and usage of hundee for business and economical purpose.

4. *Institutionalization*

During the 40's era a man named Anwar Iqbal Qureshi presented the concept of Islamic Banking. On 1955 CE Muhammad udhayer wrote a research titled "An outline of Interest less Banking", where he instructed the principle of Mudaraba to be included in the Islamic banking system. On 1964 CE Egypt established "college of Islamic research" where Islamic Scholars from 40 countries gave the opinion of setting up an alternative of Riba based banking. On 1962 Malaysia invented a Riba free corporation named "Pilgrims Savings Corporation" so that they can deposit the money of their citizens for hajj. One professor of Egypt in 1963 established the first Islamic Bank of the world on the outskirts of Cairo, Egypt. Non-Muslim countries like Luxembourg, Switzerland, and UK saw Islamic Bank in their country. At the First conference of OIC then King of Saudi Arabia his majesty Faisal bin Abdulaziz Al Saud gave an emotional speech where he told that the Muslim nation is like a camel lost in the desert who has baggage full of water but dies out of thirst. On 1981, then President of Bangladesh Ziaur Rahman at an OIC conference held in Saudi Arabia gave the opinion that Muslims also should have their own distinct Banking system. The Arab world saw their First Islamic Bank named "Dubai Islamic Bank" and afterwards "Kuwait finance house". So we can say that the 70's era was the era of Institutionalization of Islamic Banking system.

## **2.2 Overview of the Company**

History of Islamic Banking in Bangladesh

Bangladesh is a Muslim majority country. Islamic Banking started his journey on 1983. Today the country has 9 full-fledged Islamic Bank. 8 Riba based banks have their own separate Islamic window. People of this country have a deep down hatred against Riba. Many of the past stories and incidents indicate ill feelings of people Towards Riba. Like Riba taken by the money lenders people have the same hatred towards Riba taken by banks. During the Pakistan period on the inauguration ceremony of State Bank of Pakistan the first governor of that bank called for setting up the country's banking system in line with the Islamic sharia. The first Governor General of Pakistan MA Jinnah called for an "Ideological guideline proposal" based on Quran and hadith so that the government can be Islamized. Maulana abdur Rahim of East Pakistan wrote a book on Islamic economics. Many seminar-symposium, discussion, writing between the clergy at that time took place based on this book. This book shaped the public awareness about Islamic banking in East Pakistan where the demand for Islamic banking was getting strong day by day.

### Journey of IBBL

30 March, 1983 Southeast Asia saw its first Riba free bank named "Islami Bank Bangladesh Limited". 4 Bangladeshi institution, 19 Bangladeshi citizens, IDB, Middle East and Europe's 11 government organization and 2 eminent Saudi citizens were responsible for the formation of IBBL. IBBL is a joint venture public limited company with 63.09% foreign shareholders. DSE and CSE listed this bank. The authorized capital of this bank is BDT 20,000 million and paid up capital is BDT 16,099.91 million having 33,686 shareholders as on 31 December 2019. During the inauguration ceremony eminent Islamic personalities like the DG of Islamic Foundation Bangladesh, former secretary of finance ministry Bangladesh, Research director of Bangladesh Bank, former deputy governor of Bangladesh Bank and many others were present. That day 48 bank accounts were opened. Total deposit at that day was BDT 3 million. The first accountholder of IBBL was Islamic foundation Bangladesh. The DG of Islamic Foundation deposited BDT 2 million on its account. The account was operated in line with the principle of Al Wadia Current Account.

Another formal ceremony on 12 August 1983 at motijheel commercial area, PLS Savings Account started to operate within IBBL.

Islamic Banks in Bangladesh At a glance (till June 2014)

Name of the Bank	Starting time of operation	Number of Branches
IBBL	30 March, 1983	286
ICB Islamic Bank limited	30 April, 1987	33
AIBL	18 June, 1995	115
SIBL	22 November, 1995	94
Shahjalal Islami Bank Limited	10 May, 2001	92
EXIM Bank	1 July, 2004	82
FSIBL	1 January, 2009	123
Union Bank	1 April, 2013	18

Table 1 (Research department of Bangladesh Bank, 2014)

Islamic banking window in Conventional banks at a glance (till June 2014)

Name of the Bank	Starting time of operation	Number of Islamic banking window
Prime bank ltd	1995	5
Dhaka Bank ltd	2003	2
Southeast Bank ltd	2003	5
The premiere bank ltd	2003	2
Jamuna bank ltd	2003	2
The city bank ltd	2003	1
AB Bank ltd	2004	1
Bank Alfalah ltd	2005	1

Table 2 (Research department of Bangladesh Bank, 2014)

Islamic banking window in Public banks at a glance (till June 2014)

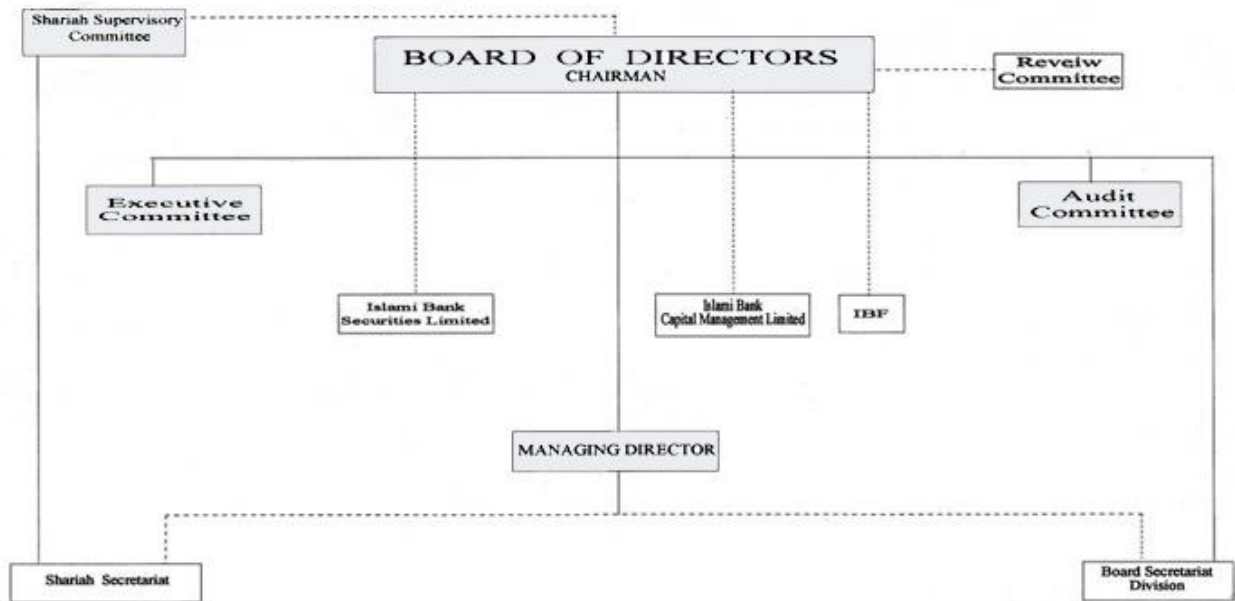
Name of the bank	Starting time of operation	Number of Islamic banking window
Sonali Bank ltd	2010	5
Agrani Bank ltd	2010	5

Table 3 (Research department of Bangladesh Bank, 2014)

It needs to be said that HSBC started their Islamic banking window in 2004 but now it has no Islamic banking window.

### 2.3 Management Practices

## ORGANOGRAM OF IBBL



*(Islami Bank Bangladesh Limited Organizational structure , n.d.)Figure 1*

IBBL in its initial formation ask their entrepreneurs for providing capital. Bangladesh Bank gives IBBL the permission to sell share for collecting capital. Shareholders active participation make up the Board of Directors. Under their leadership IBBL has a disposed administrative structure.

Executive Committee is heads by an executive president who supervises the following departments:

- Secretariat of executive president
- Board of secretariat
- Audit implementation cell and vigilance squad
- Audit and inspection department
- Investment Division
- International business and trade division
- operation division

Above mentioned departments have many sub divisions. IBBL has subordinate divisions under investment department. They are given below:

- Commercial investment
- Project approval

- Special inspection project
- Compensation
- Self-employment
- Accommodation department

IBBL administrative division has a charity institute named Islamic Bank Foundation. Islamic Bank Foundation provides help to poor people, students, widows, food and shelter to disaster affected people. Member secretary of the bank sets up the sharia council. Sharia council supervises and analyzes the day to day transactions and projects undertaken by IBBL.

The recruitment process of IBBL consist of written exam and viva exam. Through this process eligible candidates are selected as full time employee. Training employees of IBBL may be of three types: (i) Ideological (ii) theoretical (iii) Practical.

## **2.4 Marketing practices**

For marketing IBBL combines the principle of value maximization with the principle of equity and justice. Islamic ethics in Islamic banking industry helps to elevate the standards of both behavior and living of bankers, customers alike. They are very customer focused. IBBL creates the impression that their customer contact employees are Islamic.

- (a) Their marketing strategy doesn't have any false advertising. They reject misleading sales tactics. They avoid sales promotion that use deception. They believe that a seller is a person who is accountable to Allah. According to the Islamic sharia marketers are required to disclose all the faults of the products to their customers. It is said that a sale without any stipulation makes it necessary that the thing sold should be free from defect.
- (b) Their target customers those people who want to save their money but they will also have self-interest with it. Conventional banks are a business oriented place where interest is their main concern. IBBL is an outstanding service oriented place who serves at any capacity for the welfare of humanity. IBBL do not fix their profit rate and account holders receive more profit if business earns more profit. IBBL directly is involved on investment production that's why if product price goes up bank earns more profit. Increase of Proportional ratio results to increase in account holder's profit.

- (c) Their Marketing channel is based on participation in risk results to motivate entrepreneurs and applying bank's experience, researcher's expertise guarantees success.
- (d) They develop their products not based on Preserving SLR and CRR. Their sharia committee believes that tackling risk can be done by invention of Mudaraba Bond can create opportunity of not changing the rate of liquidity ratio.
- (e) Their Branding activities are done by buying-selling of foreign currency on spot basis that are related to international debts owed in our daily life activities. IBBL does not participate in foreign currency market. Mufti Taqi Usmani believes that buying and selling of foreign currency can create artificial crisis that will benefit the black market dealers.

## **2.5 Financial Performance and Accounting Practices**

### *Financial performance*

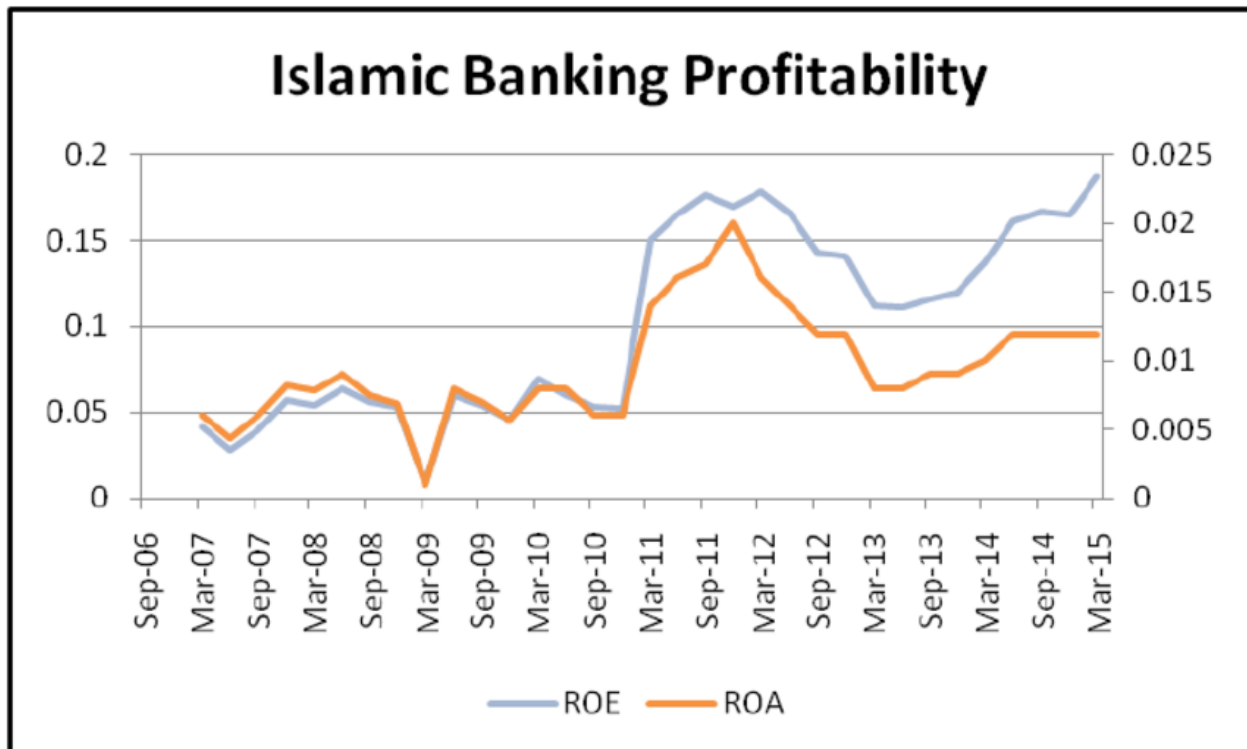
Professor M Mujahidul Islam shows that the Profit income connected with its financing and investment activities, the bank adopted a method of accounting which takes into account expected profits. He further adds that In the case of individual murabaha the profits are realized on the basis of financial settlement. I understood that each year's profits will be recorded in the accounts of the year in which the settlement is made. In the event of declining participation, the profit or income is realized based on the project's net income until the conclusion of the financial year. The bank's administrative expenses do not include participation in revenue and expenses related to their investment. The return on investment accounts is determined by foreign currency transactions, compensation for bad and doubtful loans, and other factors.

Ratios	Standard Chartered Bank					Meezan Bank				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
ROA	3.63%	2.32%	1.08%	0.24%	0.21%	1.37%	1.30%	1.43%	0.73%	0.83%
ROE	NA	14.75%	7.14%	1.63%	1.73%	13.87%	12.69%	16.88%	10.40%	11.16%
ROD	4.85%	3.64%	1.56%	0.36%	0.32%	1.84%	1.75%	1.77%	0.88%	1.02%
OPM	76.12%	60.23%	45.00%	30.47%	25.76%	50.01%	41.31%	36.86%	44.06%	35.76%
OIA	4.78%	3.56%	3.97%	2.68%	2.19%	2.38%	2.41%	2.51%	3.52%	2.91%
ATO	6.28%	5.91%	8.82%	8.81%	8.52%	4.76%	5.82%	6.81%	7.98%	8.13%
CTA	8.89%	9.26%	10.29%	8.59%	6.88%	12.90%	12.70%	8.40%	6.76%	6.75%
CTD	11.87%	14.53%	14.84%	13.03%	10.40%	17.38%	17.12%	10.34%	8.21%	8.36%

Ratios	MCB Bank					Bank Islami Limited				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
ROA	1.89%	2.13%	2.63%	2.78%	2.72%	0.21%	0.31%	-0.15%	0.39%	0.79%
ROE	17.65%	18.94%	23.21%	23.83%	23.09%	2.96%	4.56%	-1.75%	6.04%	113.4%
ROD	6.23%	7.68%	9.45%	8.20%	7.76%	51.00%	45.00%	45.00%	55.00%	66.47%
OPM	2.43%	3.52%	4.28%	3.73%	3.61%	49.30%	42.82%	42.05%	42.92%	39.74%
OIA	2.43%	3.52%	4.28%	3.73%	3.61%	-0.27%	-1.16%	0.00%	0.28%	0.20%
ATO	4.55%	5.70%	6.56%	6.04%	6.01%	7.24%	7.66%	0.05%	0.06%	0.05%
CTA	832.0%	7.45%	634.0%	529.0%	746.0%	0.47%	0.47%	0.47%	0.47%	0.47%
CTD	529.0%	778.0%	596.0%	516.0%	571.0%	66.47%	66.47%	66.47%	66.47%	66.47%

(Ratio of Islamic Banking Worldwide , n.d.)Figure 2



(Profitability of Islamic Banking worldwide , n.d.)Figure 3

### Accounting practices

The trust foundation and the treasury, according to Mufti Taqi Usmani, are units of accountability. According to Shah Abdul Hannan, Islamic banks can also serve as accountability units. As soon as a murabaha transaction is completed, IBBL

recognizes the profit produced. This shows that IBBL operates on a cash basis. Window dressing is forbidden in modern accounting, according to IBBL. Investment accounts are treated as a balance sheet item by IBBL. Investment accounts are treated as an expense withdrawn from the bank's reserve. On the balance sheet, murabaha contracts are listed as a separate category. Profits and losses from joint investment activities shall be separated from other revenue and expenses related to the bank's other activities and services in the accounts.

## **2.6 Operations Management and Information System**

Banking services are among the most rapidly expanding service in the modern world. The fastest growing services of the modern world. The industrial revolution showed the way for this to happen. The electronic fund transfer system and Cellfin are two examples of technological innovation of IBBL. Bangladesh Bank recently established a computerized management information system (MIS) to enable a smooth flow of information between its many sites around the country. IBBL can improve their customer service by implementing a modern accounting system. With the push of a button, customers can be served by a modern system. For bank customers, cashing a check would be a simpler transaction. The sooner IBBL utilizes current technology, the better for Islamic banking's long-term viability and development as an alternative banking system. IBBL should strive to have a well-designed MIS that will benefit the research department. IBBL's image will be enhanced by a comprehensive MIS backed by electronic banking. The controlling system as outlined in the bank laws is highlighted by the IBBL accounting system. The explanations must be approved by the bank's sharia consultant, who will be able to comment on the sharia perspective on the explanations as mentioned in the bank statutes. In an interview published on the financial express Md Mahbubul Alam claimed that the top management is trying to convert IBBL into Fin-tech based global standard modern bank in the near future from the existing level of the bank . He further adds that currently the bank is using its Fin-Tech platform for sanctioning advances from branches to headquarters for providing better services to clients.

## **2.7 Industry and Competitive Analysis**

Porter's five forces are given below:

- Competition in the industry  
According to a report by the research department of Bangladesh bank there are 8 Islamic banks in the country. The report by the research department of



Bangladesh Bank adds that Islamic banking window is present in 8 conventional banks. So we are witnessing that the competition is high.

- Potential of new entrants into the industry  
According to a report published on the daily samakal two conventional banks “standard bank” and “NRB Global Bank” got acceptance of their conversion to Islamic bank proposal in the last year’s annual meeting hosted by Bangladesh Bank.
- Power of suppliers  
Governments rely on the issuance of treasury notes with interest in the same format as traditional banks. Islamic banks can play an important role in project financing through issuing musharaka, advance-sale, salam, and other kinds of Islamic finance.
- Power of Customers  
The CEO of IBBL claims that the funds continue to sneak out by hundreds of millions into investment houses doing business in the west while the country remains thirsty for investment resources.
- Threat of Substitutes  
IBBL is unable to capture substantial profits from high-return projects since its owners prefer to borrow from traditional banks, where borrowing costs are lower. This means that Islamic banks are only left with projects that have the same rate of return.

### SWOT analysis



- **Strengths**

City inhabitants received 64 percent of IBBL's banking services. Bangladesh Bank issued a directive instructing it to open 3:1 ratio branches around the country. The instruction is not followed by many banks. IBBL, on the other hand, is practically following the instructions.

- **Weakness**

In terms of advertisement and promotion, IBBL is behind the times. The majority of Bangladeshis are unaware of the distinction between interest and profit.

- **Opportunities**

The CEO of IBBL told in our internship batch's farewell ceremony that Former Singapore Prime Minister Lee Kuan Yew asked IBBL and two other Islamic banks to be the first to establish an Islamic banking and financial institution in Singapore.

- **Threats**

Mufti Taqi usmani and shah abdul hannan acknowledges the fact that One group of Islamic scholars are unfamiliar with Islamic economics. They issue rulings against Islamic banks' investment strategies, causing public confusion. Furthermore, some well-known intellectuals and men of reputation from secular background write books and articles criticizing the Islamic banking system, saying that interest, usury, and profit are all the same.

## **2.8 Conclusion**

Interest/Usury makes people void of work. For the greed of readily available income people go for interest/ usury. People don't invest in production business for the risk of loss. IBBL encourages their customer to bear the risk of loss. As well as IBBL invest on business by carrying risk of loss. Bearing the risk of loss by 2 parties create skills for doing business. As a result, dysfunctional work of people is replaced by activities of people.

## **2.9 Recommendations**

- Since interest on all kinds of loan is prohibited in Islam, A benevolent loan without interest (Qard-e-hasanah) needs to be practiced by IBBL. It's a loan given in accordance with the Islamic principle.
- IBBL needs to follow the model of benevolent loan done by Pakistani Islamic banks without service charge.

- Islamic Bank foundation needs to promote health and Medicare programs in urban and rural areas.
- Establishment of a sharia committee in IBBL should be required as its head office.
- Origin, power and functions of the sharia council in IBBL should be designed like the model of Pakistani Islamic banks, where the head of state directly took the initiative that laid down in the country's constitution.
- IBBL should improve their allocative efficiency by satisfying social welfare conditions.
- IBBL should have good relation with foreign banks. They should be eager to conduct their banking activities on an international level.

## **Chapter 3: Project Part**

### **3.1 Introduction**

#### Background

My topic is Difference and similarities in Islamic and conventional Banking. We need to remember that there is a fundamental difference between Islamic banking and conventional banking. Their system of work is completely different. Mainly due to ideological difference. Islamic banking has policy differences compare to the conventional banking. First if we look at the definition of Islamic banking it says that they are a financial institution that demonstrate obedience to the sharia through their features, procedure and no type of interest/usury transaction are allowed. Islamic sharia is a source of goodness for the society. On the other hand conventional banks are intermediary financial institution that collects money as a deposit, treats loan as a weapon, buy stocks on interest/usury and provides facility to the depositor to withdraw money in case of necessity. The motto of Islamic banking is to eliminate oppression, suppression from the society at large. Islamic banking don't view earning profit as their main goal. On the other hand, conventional banking's main goal is to collect deposit and provide loans so that they can earn maximum interest and profit. All the Islamic banks have sharia council along with the management committee. Sharia council acts as an observer to the management committee. Especially, whether the projects and policies taken by the Islamic banks are in line with the sharia is being observed and scrutinized by the sharia council. On the other hand, Projects and Policies of conventional banks are taken by the management committee.

## Objectives

### Objective #1

#### Deposit in Islamic and conventional Banking

Methodology: Based on the report titled “Islamic Banking: features and procedure” by Shah Muhammad Habibur Rahman.

##### (a) Al Amanah Deposit System

According to the Dr. Omar chapra, “Al-Amanah means a trust. Something which is given by one person to another keep for some reason such as safe custody. The keeper is under obligation to return it in the same condition.” Evidence from the Quran is given below.

“Certainly will the believers have succeeded, who are to their trusts and their promises attentive.” [Al Quran 23:8]

“Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and seeing.” [Al Quran 4:58]

“It is not [attributable] to any prophet that he would act unfaithfully [in regard to war booty]. And whoever betrays, [taking unlawfully], will come with what he took on the Day of Resurrection. Then will every soul be [fully] compensated for what it earned, and they will not be wronged.” [Al Quran 3:161]

Evidence from the Hadith is given below:

Abu Hurayra (Ra) narrated that the prophet Muhammad (pbuh) said, “Return the depositor his/her deposited item. Those who embezzled your deposit, do not embezzle his/her deposit.”

Remember that a person cannot keep deposit to any minor’s custody. If a person feels unsafe about someone then he should search a trustworthy source, he should not keep deposit to that unsafe person’s custody. Modern banking system even Islamic banks have locker service. Where people keep their valuable documents and ornaments. The bank earns money from this locker service.

Terms of the Al-Amanah treasury fund:

- Deposited money under Al-Amanah principle must be returned as per the demand of the customer.

- No benefit can be derived from the deposited money/item.
- If there arise any dispute between the bank and the customer then the dispute must be resolved as per the customer's saying. But if the bank can show evidence in favor of the bank then the dispute must be resolved on the basis of evidence.
- If the deposited item/money is lost/ruined and the bank is not responsible for the incident then the bank should not bear any compensation. Otherwise, if it is proven that the bank is responsible then the bank should bear the compensation.

#### (b) Al-Wadiah Deposit System

It's like the current account system of conventional bank. It's a contract between an individual and the bank where an individual keeps his/her money/item/asset to the custody of the bank. According to Mohammad Abdul Mannan, "Al-Wadiah has two sides. Bank is called muadda ilaihi. Customer is called muaddi. The deposited money/item is called muadda. Bank collects money from the customer. Customer gives bank the permission to use this money. Bank returns the money as per the customer's demand."

Evidence for this is the action of Jubair(ra) approved by Prophet Muhammad (pbuh), where people used to deposit their money to Jubair(ra) under two conditions:

- Received money is not treated as amanah, it is treated as a loan and the holder can get his money as per his wish.
- Depositor can invest the received money on his business.

#### © Mudaraba deposit system

It is a very popular system. Under this system one side provides capital and other side gives labor to do business. According to Abul Hasan Ali Nadwi, "Mudaraba is a joint venture business where one party provides capital and other party gives labor. Main goal is to have a share on the profit."

Under this system the deposited money can be used by the bank and the profit earned by doing business should be distributed on the basis of agreed ratio and the loss should be borne by the customer.

Evidence for this is mentioned in the Quran, “He has known that there will be among you those who are ill and others traveling throughout the land seeking [something] of the bounty of Allah and others fighting for the cause of Allah. [Al Quran 73:20]

Here travelling means the mudarib travels from one place to another place for business.

On the other hand, Conventional Banks receive time deposit loan from their savings account holder customer under the condition that the bank would give them fixed interest.

Types of Mudaraba basis on accept deposit: (a) Mudaraba Savings Account (b) Mudaraba Periodic Account (c) Mudaraba Hajj Savings Account (d) Mudaraba Savings Bond [e] Mudaraba Special Savings Account

#### Findings:

- According to the Al-Amana principle, whomever has approached the property in trust in an improper manner is accountable for indemnifying the loss, whether or not he was at fault.
- According to the Al-Wadia principle, anytime the owner requests the return of an item, the trustee is required to return the item, and the owner is responsible for any delivery costs.
- According to the Mudarabah concept, if a business fails, the financier is responsible for the entire loss, and the manager is not compensated.

#### Objective#2

Financing and investment in Islamic and conventional Banking

Methodology: Based on a research paper titled “readings in Islamic Banking” by Dr. Ataul Hoque.

According to Dr. MA Mannan, “Islamic Banks take part in investment through partnership, which is known in Arabic as musharaka. Under this system all the Islamic banks take part in a project with the customer on a fixed term contract. Bank and customer both provide capital and enjoy previous mentioned fixed rate profit ratio on the basis of written conditions in the contract. Also, Bank can apply declining and other partners growing side ownership policy.”

According to the CSBIB, “ Musharaka is a type of business contract where a firm invest on the mission of supplying capital to the bank and the customer. Profit is distributed on the basis of mentioned ratio and loss is distributed on the basis of capital.”

#### Classification of Musharaka

According to consensus of Islamic jurists Musharaka can be divided into 2 categories: (a) Share in ownership or Shirkat-Al-Milk (b) Contractual share or Shirkat-Al-Ukood

Mufti Taqi Usmani Writes, Shirkat-Al-Milk can be divided into 2 categories: (a) Shirkat-Al-Milk-Bil-Ikhtiar (b) Shirkat-Al-Milk-Bil-Jabar

Mufti Taqi Usmani writes, Shirkat-Al-Ukood can be divided into 4 categories:

- (a) Shirkat-Al-Mufawada
- (b) Shirkat-Al-Inan
- (c) Shirkat-Al-Abdan
- (d) Shirkat-Al-Wajuh

#### Findings:

- Partners partake in the earnings of the firm in the proportion agreed upon, and endure losses in proportion to the money invested. In Islamic law, this type of relationship is known as musharaka.
- When a person in need of cash lacks sufficient resources, a joint venture can be formed, resulting in a portion of the firm.

#### Objective#3:

##### Overdrafts/credit cards in Islamic and conventional Banking

Methodology: Based on the Pakistan’s Supreme Court historical verdict against interest given by Mufti Taqi Usmani.

Traditional banks allow customers to make interest-bearing overdrafts from their accounts. One of its forms is the usage of a credit card, in which the bank sets the customer's overdraft limit. Customers have the option of using a credit card for both financing and plastic money, allowing them to meet their needs without having to carry cash.



According to Mufti Taqi Usmani, “As for facility of financing is concerned that is not offered by Islamic banks except in the form of Murabaha. However facility to meet requirement is provided through debit card whereby a customer can use his card if his account carries credit balance. Under conventional banking a customer is charged with interest once the facility availed however under Murabaha only profit is due when the commodity is delivered to the customer. Furthermore in case of default customer is charged with further interest for the extra period under conventional system however extra charging is not allowed under Murabaha.”

Findings:

- On the issue of fixed interest rates, the Islamic theological study council of Al-Azhar, based in Cairo has issued a statement that Banks cannot offer set interest rates to depositors, but they can pay variable rates that are connected to the bank's profitability.
- The first reduces Islamic banks' liquidity risk by establishing a secondary market for Islamic financial products, while the second gives additional Islamic bank rating information to that provided by other rating agencies.

Objective#4:

Investment in Islamic and conventional Banking

Methodology: Based on the Pakistan’s Supreme Court Historical Verdict given by Mufti Taqi Usmani and Interview of AZM Shamsul Alam on the problems of Islami Bank Bangladesh limited published in the daily sangram on 23 July, 2004.

Investment method in Islamic banking can be divided into 4 categories:

- Bai Murabah
- Bai Muazzal
- Bai Salam
- Bai Istisna

According to MU Chopra, “ Bai Murabah in its simplest sense stands for supply of goods by the seller to the buyer at a specified profit margin mutually agreed between them.”

Bai Murabah has the following characteristics:

- 3 parties
- Written request to purchase product

- Customers are informed about the Purchase price and profit amount
- Existence of the Product
- Transformation
- Halal Product
- Product pledge
- Letter of Authority

According to MA Hamid, “Bai Muazzal means sales on deferred payments. Under this mode the bank buys the goods needed by the clients, adds profit on it on mutual consultation and hands over the goods to them. The clients pay back the money either at a time or by installment.”

Bai Muazzal has the following characteristics:

- 3 Parties
- Payment of the price
- Price setting by the Investment customer
- Customer is informed about the purchase price and profit amount
- Associate pledge
- Selling price cannot be changed
- Realized Compensation

According to mufti taqi usmani, “Bai Salam is sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot.”

Bai salam has the following characteristics:

- A contract must be sign between the buyer and the seller.
- advanced payment
- Bank provides capital for buying the product.
- For a specific time.
- Bank can pay the price in installment

According to IDB, “ Bai istisna is a contract for manufacturing whereby the manufacturer agrees to provide the buyer with goods identified by description after

they have been manufactured in conformity with that description within a certain time and for agreed price.”

Bai istisna has the following characteristics:

- Mutual agreement
- Not for a certain period of time
- Without the existence of the product distribution of that product is in line with the sharia.
- Modern jurists have said that istisna related compensation can be deemed as a lawful income for the bank

AZM Shamsul Alam told in the interview that the existent common law of Bangladesh indicates that a partner can hold other partners responsible with his acts. In the case of islami bank Bangladesh limited if the bank does business with any individual or institution and the individual or the institution irresponsible act results in increasing liability of the bank. He also adds that In the case of Scheduled bank listed by Bangladesh Bank IBBL has to save five percent of their deposit. Bangladesh Bank gives fixed rate of interest on the deposited money. This interest is not counted as revenue by IBBL, so IBBL transfers it to Sadaqah Fund which results in decreasing the bank’s reserve.

#### Findings:

- The bank should strive to participate in the musharaka with a contract clause that the bank will sell its shares to the customer gradually or at a set time, and the client will agree to buy them.
- Murabaha has a distinct profit and cost statement from the seller, which means that the seller specifically notifies the buyer how much cost he has incurred and how much profit he would charge in addition to the cost.
- Bai salam is a type of sale in which the seller agrees to furnish a certain commodity to the buyer on a specific day in exchange for a fully paid advance price on the spot.

#### Significance

People Keep money in Conventional banks so that they can earn interest. Through Deceiving business some people have the hope of being rich by earning high call money rate. It reduces the potential of investment. But in the Islamic Banking

system free flow of money operation blocks the avenue of doing deceiving business.

### **3.2 Methodology**

The purpose of this report is to know about the services and theory of Islamic banking system. I gathered all the information to meet all my objectives and findings from Pakistan Supreme Court's historical verdict against interest given by Mufti Taqi Usmani. Also, from the report titled "Islamic Banking: Features and procedures" By Shah Muhammad Habibur Rahman. Lastly, from a research paper titled "readings in Islamic Banking" by Dr. Ataul Hoque and Interview of AZM Shamsul Alam on the problems of Islami Bank Bangladesh limited published in the daily sangram on 23 July, 2004.

### **3.3: Findings**

- Bangladesh Bank has provided an Islamic Banking guideline.
- Activities of Islamic Bank is spreading in the country day by day
- Bangladesh Bank has pointed out that IBBL has the potential of becoming a landmark in the banking sector.
- The world is seeing 80 billion dollars of transaction every year through Islamic banks
- Huge amount of capital investment and proper usage of Islamic common market is now a matter of time.
- A recent annual trade convention arranged by OIC, The prime minister of Malaysia called for establishing a trade network among the Muslim countries.
- Islamic banks are doing their best to establish good contact with the food project initiatives around the Muslim world.
- Islamic banks have the growing rate of liquidity which is a blessing to the Universal banking industry.

### **3.4: Conclusion**

Islamic banks face a number of challenges. First, they have not yet been successful in devising a completely interest free mechanism to place their fund on a short term basis. They face the same problem in financing consumer loans and government deficits. Secondly, the risk involved in profit sharing seems to be so high that most of the banks resorted to those techniques of financing which bring them a fixed assured return. Thirdly, Islamic banks in Bangladesh do not receive legal support of Bangladesh bank as Pakistan and Iran. Fourthly, the Islamic banks do not have the necessary expertise and trained manpower to monitor, evaluate, audit projects that are required to finance.

### **3.5: Recommendations**

- Islamic banks can satisfy most of the efficiency conditions if they can operate as a sole system in an economy.
- Evidence from Bangladesh indicates that Islamic banks can survive within the conventional banking framework by switching over from PLS to trade related modes of financing.
- They should consider pro-efficiency character of Islamic banking and its impact on the economy.
- Government policies in Bangladesh should be in favor of transforming the conventional banking into Islamic banking.
- IBBL can consider opening a branch in china where 60 million Muslims live so that the Chinese Muslims can have Islamic banking facility.

**Reference:**

Al-Jarrah, I., & Molyneux, P. (2003). Efficiency in Arabian banking. Paper presented at the International Conference on Financial Development in Arab Countries, Abu Dhabi, and UAE.

Conceptual issues of Islamic Banking taken from the website of Islami Bank Bangladesh Limited (<https://www.islamibankbd.com>)

Hamid, MA PhD. (2009) Islamic economics: An introductory analysis

Interview of AZM Shamsul Alam on the problems of Islami Bank Bangladesh limited published in the daily sangram on 23 July, 2004

Interview of Md mahbub-ul-Alam on IBBL's plan to launch real time online investment banking published in the Financial Express on 30 July, 2020

Islami Bank Bangladesh Limited's First Quarter financial statement of year 2020

Khan, M.A. (1994). An Introduction to Islamic Economics. International Institute of Islamic Thought and Institute of Policy Studies.

Mannan, MA. (1984) the making of Islamic economic society

Usmai, T.S., (2010). Pakistan's Supreme Court Historical Verdict against interest

Usmani, T.S., (2002). An Introduction to Islamic Finance. Maktaba Ma'arif Al Quran, Karachi, Pakistan.





