

Report On
MOST APPROPRIATE PROFIT DISTRIBUTION METHOD
FOR ISLAMIC BANKING: ISR vs WEIGHTAGE

By

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An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of
BRAC University

BRAC Business School
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Declaration

It is hereby declared that

1. The internship report submitted is my 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 have acknowledged all main sources of help.

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Letter of Transmittal

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Deputy Registrar,

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66 Mohakhali, Dhaka-1212

Subject: Submission of my Internship Report.

Dear Sir,

This is my pleasure to display my entry level position as an Intern in Mutual Trust Bank Ltd', 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 desires.

Sincerely yours,

Tanveer Rahman Alif

16204016

BRAC Business School

BRAC University

Date: September 19, 2022

Non-Disclosure Agreement

This agreement is made and entered into by and between Mutual Trust Bank Ltd' and the undersigned student at BRAC University

Executive Summary

Just like the Middle East, the Islamic Banking is a growing market for Bangladesh as well. In the past few years, some of the banks have started Islamic banking in a full-fledged manner. Islami Bank Bangladesh Ltd is a notable example of a full-fledged Shari'ah banking. On the other hand, there are other banks which have assessed the market potential of Islamic Banking in Bangladesh and jumped on to the train by opening a Islamic Banking wing aside from their conventional banking. City Islamic and MTB Yaqeen are some of them. In this study, we have analyzed the most suitable profit distribution mechanism for Islamic banks. Because, many conventional banks of Bangladesh follow a common method named weightage. But a question remains as to how appropriate or ideal is this method for Islamic banking. This study is a compare and contrast of two profit distribution methods named ISR and Weightage. It is an effort to make the readers understand which of the method is more Shari'ah compliant.

Keywords: ISR; Weightage; Mudarabah; Murabahah; Shari'ah compliance; Financing facility

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List of Acronyms

MTBL	Mutual Trust Bank Limited
ISR	Income Sharing Ratio
HR	Human Resources
Ltd	Limited
ATM	Automated Transaction Machine
SMT	Senior Management Team
HPSM	Hire Purchase Under Shirkatul Milk
SOCB	State Owned Commercial Bank
SDB	Specialized Bank
PCB	Private Commercial Bank
FCB	Foreign Commercial Bank
SWOT	Strength, Weakness, Opportunities & Threat
TVC	Television Commercial

Chapter-1: Overview of Internship

1.1. Student Information:

Name:	Tanveer Rahman Alif
ID:	16204016
Program:	Bachelor of Business Administration
Major/Specialization:	Human Resource Management

1.2. Internship Information:

Company Name:	Mutual Trust Bank Ltd
Department/Division:	Islamic Banking Division
Address:	MTB Centre 26 Gulshan Avenue, Dhaka 1212, Bangladesh
Internship Tenure:	03 months
On-site Supervisor's Name & Position:	Kh. Syful Islam SAVP, Islamic Banking Division, MTBL & Md. Tanvir Ahmed Senior Relationship Manager, Islamic Banking Division, MTBL
Job Description:	<ul style="list-style-type: none">• Contribution in forming Banking Arrangement Letters of multiple financial services.• Contribution in forming flowcharts for multiple nano finance facilities.• Prepare the internship report as per company's requirement.• Translating Banking Arrangement Letters in Bangla for the MTB Islamic Banking.

	<ul style="list-style-type: none"> • Creating PowerPoint slides as per seniors' requirement. • Conduct research on the activities on other Islamic Banks. • Negotiated with a printing shop to print out three books required for the company. • Visited the printing shop and took notes of their progress from time to time.
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1.3. Internship Outcomes:

1.3.1. Student's Contribution to the company:

I have worked in 'Product Development' project of MTB Islamic Banking Division. I have tried my best in contributing my host organization as much as possible. I had always carried out my assigned tasks with utmost care and sincerity. As the job description says, I have contributed in forming Banking Arrangement Letters as per my on-site supervisor's guidance. I have written drafts and took necessary feedback from my supervisor. I have edited the draft after each follow-up, until a final copy has been completed. Some of the notable works are – Translating Banking Arrangement Letters of 'Yaqeen Auto Finance' and 'Yaqeen Personal Finance' in Bangla.

Another notable contribution to this bank is that I was responsible for developing flowcharts of two nano finance projects named as – 'Nano Finance on Murabaha basis' and 'Nano Finance on HPSM basis'. Nano finance of Mutual Trust Bank Ltd is a project under development which will enable a customer to apply for a micro finance facility via mobile application in Shariah compliant ways. I have created interface-outlines of the mobile application for these two projects by using flowcharts in Microsoft and Powerpoint.

I have also translated PowerPoint slides written in English in easy understandable Bangla for my senior colleague other than my line manager.

Last but not the least, I have written my internship report on a topic which would contribute to the organization and also my internship course in BRAC Business School. I have learned a few things about Islamic banking in these 3 months tenure.

1.3.2. Benefits to the students

Unfortunately, there is no honorarium of any sort provided by Mutual Trust Bank Ltd to the interns. My on-site supervisor also discussed the matter with the HR Division. But the HR had been steadfast with their policy. However, I did avail access to coffee and other snacks sponsored by my senior colleagues from time to time. I got a very ambient and friendly work environment. My seniors had always taught me in a helpful and friendly behavior.

1.3.3. Problems and difficulties faced during internship:

Not providing office equipment: I had to carry my personal laptop to the office everyday throughout the rainy, sunny and other adverse weathers. The organization did not provide me any kind of device for working. My laptop, lunch carrier, raincoat and other necessary commodities all made my bag weigh around 6 kilograms. This made my commuting from home to office and vice versa, utterly unpleasant. My tasks throughout my internship required access to a computer and a printer which could have increased my productivity to a great extent.

1.3.4. Recommendations:

My recommendations to Mutual Trust Bank Ltd are written below:

- The bank should at least offer an honorarium to the interns.
- If the bank is not willing to offer any honorarium, then they should at least provide necessary devices and tools required for the interns as per their duties and responsibilities.

The interns should be valued properly. Because, they are at least theoretically knowledgeable to some extent and goes there to gain some practical experience.

Chapter-2: About Mutual Trust Bank Ltd

2.1. Overview of the company

Mutual Trust Bank started its journey in the year 1999 as a public limited company under the Companies Act 1994. During that time, the company had an authorized share capital of BDT 1 billion which was divided into 10 million ordinary shares of BDT 100 each. The bank received its banking license from Bangladesh Bank on 5th October of the same year. Today, Mutual Trust Bank is a private commercial bank. Throughout the years of persuasion for innovation and client-focus, the bank was awarded as the ‘Best Financial Institution of 2014’ at the DHL-Daily Star Business Awards 2015. It also received the best “Women Entrepreneurs’ Friendly Bank of the Year” by Bangladesh Bank and SME Foundation which proves it to be thoughtful about its client. At present, the bank’s network extends throughout Bangladesh with 119 branches, 33 sub-branches, 200 agent banking centers and 310 ATM booths for cash draw out.

2.2. Management Practices

2.2.1. Leadership style

After interviewing Mr. Aymanul Haque, the associate manager at MTB Group HR Division, it has been known that the management of Mutual Trust Bank Ltd. is formed of three committees hierarchically. They are – Board of Trustees, management committee and senior management team (SMT). Board of trustee holds the top-most authority in the bank. And, the long-term goals, strategy and navigation of this bank is shouldered upon the members of the board of trustees. After formulation and fixing of goals and long-term plans, it is the responsibility of the management committee to conduct, monitor and operate them by the help of senior management team. The senior management team (SMT) is guided and directed by the management committee. They are responsible to execute the objectives, targets and assignments distributed among them with their own teams. Lastly, Mr. Ayman has also remarked that this structure is considered to be a standard structure in most of the banks of Bangladesh and MTBL is no exception.

2.2.2. HR planning process:

Human Resource Management of any company is comprised of some sub wings like recruitment and selection process, compensation management, training and development and performance appraisal. These are the vital components of MTBL Group Human Resources Division. Now let us discuss about the non-confidential information about these sub-wings which has been received from Mr. Aymanul Islam.

Recruitment & Selection Process:

MTB believes in fair and equal opportunity for everyone. Hence our selection criteria are progressive and only focuses on candidate's core competencies. Recruitments can be divided to two parts: 1) Entry level 2) Lateral recruitment.

These recruitments take place as per manpower requisition. HR also estimates a manpower budget every year. With Approximately 2,500 employees currently, its workforce has increased over last 5 years.

Job circulars placed in online and news media are the primary source of candidates in entry level recruitment while headhunting is crucial for lateral entry. Entry level recruitments may have multiple stages in recruitment while lateral recruitment may have multiple interview rounds.

Performance Management:

MTB has developed an inhouse PMS (Performance Management System) to track employee contribution and feedback. MTB believes in a performance-based culture. Hence PMS is a cornerstone in many activities. The KPIs are set well ahead of time so all relevant parties are aware of goals. Appraise & appraisee hold a discussion after the appraisal to critically analyze the rating and review and what led to the review. Specific trainings are also recommended at the end of appraisal.

The HR maintains a transparent PMS system to ensure maximum accountability & credibility. Each step has an accountable authority.

Compensation & Benefit:

The compensation scale of every organization is confidential and unique in its own way. MTB always tries to ensure a competitive compensation package which is crucial to attract and retain the top performers. Apart from financial compensation & benefits, MTB provides many other

benefits as well. Health coverage, leave fair assistance, medical-maternal- paternal leaves are provided to employees. Some executive perks are provided as well as per industry practice. These benefits are reviewed in periodical manner and changes are made when necessary.

Training & Development:

MTBL also has a training and development institute for its employees. The institute is situated at the Banglamotor branch of this bank in Dhaka city. This bank arranges for various training sessions for its employees from time to time. The training sessions help the employees to be on par with the modern world, developing at a faster rate. The company also arranges necessary grooming sessions for the under-performing employees after the performance appraisal. The trainees have to visit the Banglamotor branch during the period of their training, regardless of the location of their job or posting. The instructors for the sessions are selected either from the senior management personnel of MTBL or sometimes instructors from other organizations are also hired. This training institute of Mutual Trust Bank Ltd is currently held under the leadership of Mr. Marcus Cornelius Gomes, Principal and EVP.

2.3. Marketing Practices:

2.3.1. Target Customer & Positioning

Usually, the common target customers of this bank are the individuals who are salaried employees, professionals and the business people. The salaried employees can be both from government and private sectors. Doctors, engineers, architect, chartered accountant, singer, dancer etcetera are considered to be professional personnel. Entrepreneurs, business owners and land lords/ladies also belong to the target customers. However, it is to be noted that the financing or minimum deposit requirements for these group of customers vary from product to product and also the numerical figure of their income statement.

Mutual Trust Bank also positions its products as per age and income ranges. For example- Yaqeen Student Savings Scheme is a product particularly targeted to the students with a minimum age of 18 years and a Bangladeshi citizen. This product can be availed by any individual who has proper identity of being a student regardless of his/her type of degree.

Another notable example can be that the Mutual Trust Bank apart from its conventional banking has also opened an Islamic Banking Division back in 2020 in order to cater the need of Islamic Banking and Shari'ah compliant financing products for the practicing Muslims. The bank has branded its Islamic banking by naming it as MTB Yaqeen. 'Yaqeen' is an Arabic word meaning 'Trust'. This brand name has been chosen aligning it with the tag line of MTBL which states 'You can bank on us.'

2.3.2. New Product Development & Competitive practices

MTBL always focus on developing newer and innovative products as per the market research and analysis in both of its conventional and Islamic wing. For example- in order to encourage women empowerment in Bangladesh, the conventional wing has launched a sub-wing named 'MTB Angona'. The main purpose of this sub-wing is to help the women of this country who have the potential and ambition to be an entrepreneur or want to take loans for their certain goal or purpose. This project helps a woman to develop leadership and be empowered by granting her a loan tailored to her needs and be lenient about the repayment.

In MTB Yaqeen (Islamic Banking Division), the senior relationship manager, Md. Tanvir Ahmed has been working on two new projects with his team. They are: 'Nano Finance on HPSM basis' and 'Nano Finance on Mudaraba basis'. I contributed in developing a primary probable interface by drawing flowcharts for both the diagrams. The interfaces of these financing facilities which have been primarily developed by flowchart are aimed to be introduced via mobile application. Customers are expected to apply for a Shari'ah compliant financing aid without having to come to the bank for consultation. Thus, these are the overall information I have gathered from my senior coworkers, website and my personal observation from three months of internship regarding new product development.

2.4. Industry & Competitive Analysis:

2.4.1. Industry Competitive Analysis:

Let us discuss the competitiveness of MTBL on the basis of Porter's 5 forces. This model is comprised of five key factors which are: 1) Competition in the industry, 2) Threat of new entrants, 3) Power of suppliers, 4) Power of customers and 5) Threat of substitute products.

1) Competition in the industry:

Banking sector of Bangladesh is quite saturated. From the official website of Bangladesh Bank, it has been found out that currently there are 61 scheduled banks in Bangladesh. The breakdown of each type of bank is written below.

Type of Banks	Numbers
State Owned Commercial Banks (SOCBs)	6
Specialized Banks (SDBs)	3
Private Commercial Banks (PCBs) <ul style="list-style-type: none">• Conventional PCBs• Islami Shari'ah based PCBs	43 33 (Conventional) 10 (Islamic)
Foreign Commercial Banks (FCBs)	9

Since our topic is about Islamic Banks, we can see that the total number of Islamic banks in Bangladesh is 10. Now this is not high in number. But Islamic banks are emerging day by day. Therefore, even though the competition is not very high compared to the conventional banking sector, the competition is definitely rising which brings us to the next point.

2) Threat of new entrants:

The threat of new entrants will definitely be there in the market for any kind of business. And, Islamic banks are not exception from that. Recently, I have seen advertisement posters of Nagad introducing Islamic mobile banking in the name of 'Nagad Islamic'. Hence, it is safe to assume that the threat of new entrants in the market is quite high for MTB Yaqeen.

3) Power of Suppliers:

For an Islamic bank, the suppliers are usually considered to be the vendors, corporations as well as the customers. Since, Islamic bank is generally conducted in partnership basis which will be discussed in details in the third chapter. The bank gathers its funds with the help of its deposit products. The depositors deposit their money as an investment in MTB Yaqeen. The bank utilizes this fund to invest in various financing facility. The vendors and corporation help MTB Yaqeen by offering their products at an affordable rate. For example- Hamko Electronics offers MTB Yaqeen various electronics products at an affordable rate. These electronic products are offered to

the customers of ‘Yaqeen Personal Finance’ and ‘Yaqeen Home Finance’. So, Hamko Battery is acting as the supplier for MTB Yaqeen.

4) Power of customers:

Customers play a significant role for any business. MTB Yaqeen always tries to offer its financial products to the customers at an affordable rate. This Islamic bank conducts its profit distribution in the form of ISR which is Shari’ah compliant. Yaqeen also tries to please its customers by offering various discounts, cashbacks etcetera. Otherwise, a customer may shift to another bank any time.

5) Threat of substitute products:

From my on-site supervisor, I have come to know that MTB Yaqeen considers ‘City Islamic’ and ‘Bank Asia’ as its prime competitors. According to the data of the website named ‘top in Bangladesh’, it is stated that MTBL stands in the 12th position as per the analysis of 2022. So, it is very crucial for this bank to try to be more competitive in terms of their offered products, organization culture and many more, which will be discussed in the next sub-section.

2.4.2. SWOT Analysis for competitive advantage:

SWOT Analysis stands for strength, weaknesses, opportunities and threats. It is a tool which helps an organization to evaluate its strengths and weaknesses. And also explore newer opportunities and the threats associated with that. Let us try to analyze MTB Yaqeen as per the SWOT analysis:

Strengths:

The biggest strength of MTB Yaqeen is the flexibility it provides to the customers. Flexibility in terms of financial facilities as well as being lenient about the repayment. It is also lenient in terms of various fees like credit card fee, service charge etcetera which is quite pleasant for the customers.

Secondly, MTBL in general offers better salary and benefits to its employees as compared to City Bank Ltd. This information has been approved by my supervisor Mr. Md. Tanvir Ahmed who was a former relationship manager in City Bank for many years.

Thirdly, MTBL both in its conventional and Islamic banking, offers a wide range of financial products for customers of various age range, gender and income. More importantly, it has more ATM booths than many other banks in Bangladesh which gives its customers an easier cash withdrawal experience.

Weakness:

Although MTBL offers its employees a better compensation and benefits, the growth opportunity for the employees is low. Mr. Aymanul Islam stated that job applicants prefer City Bank Ltd over many other banks because of its growth opportunity. He further added that the compensation in City Bank Ltd might be lower than the MTBL but the scope of self-development, learning and growth for the employees there is huge. Based on my observation I have seen bureaucracy in MTBL to some extent.

Secondly, despite offering a wide range of products, MTBL lacks proper marketing strategy and advertisement. The brand management is not up to the mark compared to its competitors which has put the bank in 12th position in my opinion.

Opportunities:

When it comes down to exploring a potential market, this bank had always been quick to sail to the new air. A very noteworthy example is MTBL launching its Islamic Banking wing in 2020 by analyzing the market potential. And, constantly trying to bring newer products and innovative financing systems for Bangladesh is also a commendable effort from this bank.

Threats:

Since the Islamic banking is an emerging sector for Bangladesh, it is natural for the new entrants to enter in the market. Be it retail, corporate or mobile banking, MTBL has to be more proactive in order to mitigate the potential threats in the near future.

2.5. Recommendation:

To sum up, the bank has some strengths and also some weaknesses. In order to thrive, it is always necessary for any company to solve or minimize its weaknesses. MTBL should inculcate a growth mindset in its organization culture. This will attract creative and more ambitious applicants. For any business to develop and go beyond, the employees have to be self-driven, proactive and ambitious. Because, they are the driving force of an organization. In my opinion, if the bank can reduce its strict bureaucracy to some extent then the productivity of the bank may rise up.

Marketing management should be strengthened in order to let the customers know. TVC, social media marketing etcetera should be done to the targeted customers. Because, if the customers are not aware of the products and facilities offered by this bank, then the bank will not be able to expand its horizon.

Ch-3: Most Appropriate Profit Distribution Method for Islamic Banking: ISR vs Weightage

3.1. Introduction

In a general sense, a bank is a financial institution who has the authority to deposit liquid asset and manage fixed assets. It usually grants loans and provide many other banking services with the help of two participants. They are 1. Surplus Unit and 2. Deficit unit. A bank is responsible for depositing various form of assets from the surplus unit and provides those financial services to the deficit unit. Let us briefly know about the surplus and deficit unit in the following: -

Surplus Unit & Deficit Unit:

Surplus units are that kind of people or organizations whose earnings are more than their expenditures. Thus, the extra earnings are safeguarded by a financial institution preferably bank. For example- Let us assume that there are two earning-people in a household who are the husband and wife. If this couple together can save an amount of BDT 15000 monthly, then they would require a secured place to keep their savings. This couple is considered to be surplus units in the eye of a bank.

Now, the bank utilizes these deposits on the individuals and organizations who need financial aid, as a form of investment. Such individuals are considered to be deficit units. Because, they lack proper funds to fulfil their goals, ambitions or objectives. For example- the same couple now require a loan to build a house. Because, in order to start the construction work there are ancillary matters like designing the layout of a home, arrangements for construction materials etcetera. Arranging such matters definitely require a huge sum of money within a short period of time. This is where the bank extends its hand to aid the couple by offering them a loan to be repaid within a fixed time as per pre-agreement. This couple now turns into a deficit unit.

3.1.1. Definition & Purpose of Islamic Banking:

Islamic Banking is a financial system whose rules, principles, policies constitute in compliance to the Islamic law or commonly known as Shari'ah. Islam has prohibited to indulge in any kind of transaction which is more than the just-price or amount. In general, it speaks for sharing both the risk and profit among the parties and execution of fairness in the transactions. Most often, a form of business activity, asset, product or service is associated in the transaction. For example, Mr. Rahim has to build a house in his land, inherited from his father. So, he needs building materials like iron rods (in tons), bags of cement, construction machineries etcetera. Naturally, he will require money to purchase all the products and take the machines as a lease. That is, he requires financial support to purchase the construction materials. Now, an Islamic bank would take the initiative to meet a certain portion of his need for the materials. Let us assume that the Islamic bank is providing few tons of metallic rods as an aid to Mr. Rahim. In that case, Mr. Rahim has to pay back the current price of that given quantity of rods after a certain period of time.

3.1.2. Literature Review:

A study in 2014, states that Islamic Banking pivots around Middle East which contributes around 74% and the rest 26% is contributed by the rest of the world. The study also states that from the year 2004 to 2013, the average annual growth rate of Islamic banking in Pakistan is 63%. The three main challenges of an Islamic banking is Shari'ah compliance in operation, perception of financial industry sectors and what the Muslim customers know or believe. (*Differences & Similarities in Islamic & Conventional Banking, 2014*)

Another study states that Central Bank of Malaysia promotes risk-sharing and conducts Islamic banking based on Mudarabah principle by using exchange-based contract instead of equity-based contract. It also states that the customers also require to develop a deep sense of integrity and awareness regarding incurring loss or reduction in profit based of the business from time to time. (*Issues and challenges of Application of Mudarabah and Musharakah in Islamic Bank Financing Products, 2020*)

3.1.3. Objective:

Quran and Sunnah of Islam has forbidden the Muslims to refrain from ‘Riba’. The term ‘Riba’ generally means interest in Islam. However, Riba also means increase of money or increment of anything from its original amount (Maududi 1979, p.84). But, the muslim scholars of today, mainly use Riba for denoting interest, a rate or amount which is charged as an addition to the fixed amount of loan sought by a deficit unit. Quran, the divine and holy book of Islam says regarding interest that, *‘O ye who believe! Observe your duty to Allah and give up what remains (due to you) from Riba, if you are (in truth) believers. And if you do not, then be warned of war (against you) from Allah and His Messenger. And if you repent then you have your principal (without Riba). Wrong not, and you shall not be wronged [2:278-9]’*. From the above Quranic verse, it is evident that attaining interests is strictly prohibited in Shari’ah. In research from Wikipedia, 2020 there are 1.9 billion believers of Islam throughout the world. Of this, one-third of the entire muslim population resides in South Asia, making it as the largest population of muslim habitat in this world. Bangladesh, Pakistan, India, Afghanistan and Maldives are noteworthy countries. Therefore, it is important to consider a financial system in parallel to the general banking system which would cater the need for an Islam dominant country without harming the beliefs of committed muslims. And, the solution to that is preferably Islamic Banking. Because, the prosperity of a country is depended on proper financial management of Gross Domestic Income (GDI) and Gross Domestic Product (GDP).

3.2. Research Methodology

This study utilizes a mixed research method to conduct the research. The primary data is collected from the various websites. They have also been cited accordingly. And, the secondary data

collection uses the library research method. Documents provided by my on-site supervisors has been studied thoroughly and evaluated before choosing the knowledge and data for this study. These documents include product program guidelines (PPGs), books on AAOIFI Shariah Standard and many more. Thus, I have tried to conduct qualitative research based on the information and data gathered from various online and offline sources.

3.3. Shari'ah Guideline for Deposit

3.3.1. Brief overview of Mudarabah Principle

Before dividing deeper into our topic let us discuss the basic concepts of Mudarabah. Mudarabah is one of the notable Shari'ah standard where one or more party invest his/her capital in the business and the other party takes charges of the skill and labor required to operate the business. The party who has invested his/her capital is called Rab-ul Mal and the other party who does the labor is called the Mudarib. It is a one kind of trust-based contract. The Mudarib acts as a trustee and is responsible for investing the capital in the business. However, if the business fails to shine or incur loss due to external environmental factors and other causes, then the Mudarib cannot be held liable for such losses. But, in case of breach of terms, misconduct or negligence by the Mudarib, s/he will be held accountable for the loss.

In a Mudarabah contract, both parties have the legal capacity to appoint agents and accept agency. The capital here is mostly appreciated in cash. But if the Rab-al-mal decides to invest in the form tangible assets then the valuation of the assets must be conducted by the experts. It is a widely used principle for gathering deposits from the customers.

3.3.1. Mudarabah application in the context of Bangladesh

In Bangladesh, Mudarabah is mainly applied for creating savings accounts and investment accounts. In case of savings accounts, there are mainly two ways of conducting such accounts. One, the Islamic Banks will not have the authority to utilize the money of the customers in any kind of investment in other fields or processes. Two, Islamic Banks are allowed to utilize the deposited money of the customers as an investment on Mudarabah basis.

In case of investment accounts, financial amount is usually deposited on a trust basis under Mudarabah standard. And as per the Shari'ah, an investor has to bear the outcome of business, be it a loss or a profit. Due to this probability of loss, the bank may sometimes fail to repay if it has incurred any kind of loss.

3.3.3. Mudarabah Profit Distribution Method

3.3.3.1. Calculation using ISR

ISR is known as 'Income Sharing Ratio'. It is a profit distribution method where the rate of profit is directly related to the investment amount and profit incurred from investing the amount to a Shari'ah compliant business or any other purpose. Since the Islamic Bank invests the deposit in Shari'ah compliant business and the return of that investment may vary from month to month, the bank cannot promise its deposit customers any fixed/floating rate of return. But it is mandatory to discuss the profit-sharing ratio with the customer before taking the deposit. For example: let us assume, if the customer has agreed to receive 60% of the profit gained every month, then the bank as a Mudarib would receive 40%.

A sample of profit distribution calculation using the Income Sharing Ratio (ISR) is shown in the following:

Customer's Yearly Rate of Profit using ISR

Deposit	BDT 100,000,000
Investment (90.5% of Deposit) [100,000,000 x 90.5%]	BDT 90,500,000
Profit Rate on Investment (Yearly/Max)	8%
Yearly Income from Investment [Tk 90,500,000 x 8%]	BDT 7,240,000
Other Investment Income	BDT 220,000
Total Income on Investment [Tk 7,240,000 + 220,000]	BDT 7,460,000
Yield on Deposit $\left(\frac{\text{Income on Investment}}{\text{Deposit Amount}} \times 100\right)$ $\left[\frac{7,460,000}{100,000,000} \times 100\right]$	7.46%

Investment loss offsetting reserve/other contingency [Nil for now]	BDT 0
Distributable profit between Customer and Bank	BDT 7,460,000
Profit Rate of Customer if ISR is (Customer:Bank = 21:79) [21 x 7.46%]	1.57%
Yearly Amount of Customer [7,460,000 x 1.57%]	BDT 117122

Hence, Monthly ISR calculation formula would be:

<p>Gross Funded Income:</p> <p>(-) profit offsetting reserve (if any)</p> <p style="padding-left: 40px;">= Profit available for distribution</p> <p>(-) income generated from cost free fund + Bank's Share Capital (if any)</p> <p style="padding-left: 40px;">= Profit to be distributed among depositors and bank</p> <p>Deriving Monthly Profit Rate:</p> $= \frac{\text{Funded Income for a month} \times 100}{\text{Sum of Daily Products}}$
--

3.3.3.2. Calculation using Weightage

Weightage is a profit distribution method where each financial service (commonly termed as product in the banks and financial institutions) is given a certain number as its weight. It is often used to value a product over another. Generally, a weight is set on a product based on tenure and amount. The higher the tenure and amount of deposition made by the customer the higher weight it will achieve.

Now, let us look at the calculation of profit of various deposit types using the weightage:

Step-1: A Profit-Sharing Ratio (PSR) is determined between all customers and the bank. Let us assume that the bank's share in profit is 30% and all the customers would get profit from the rest 70%.

Step-2: In order to disburse the 70% of the profit among all the customers, a differentiation is created by imposing weight on various deposit products of the banks.

Step-3: The weight has to be multiplied with deposit amount to get Weighted Product. That is, Weighted Product = Weight x Deposit Amount

Particulars	Amount
Total Deposit	BDT 1000
Al-Wadea Current Account	BDT 50
Mudarabah Deposit	BDT 950
Investment	BDT 900
Investment Income (Yield on Asset @12%)	[900 x 12%] = BDT 108
PSR – Customer : Bank	70 : 30
Profit Equalization Reserve (5%)	[108 x 5%] = BDT 5.4
Total Distribution Fund	[108 – 5.4] = 102.6
Mudarabah Depositors' Fund for distribution (70%)	[102.6 x 70%] = 71.82
Bank's Share of the Income (30%)	[102.6 x 30%] = 30.78

Calculation of Profit under Weightage system:

Type of Deposit	Deposit Products	Weightage	Weighted Deposit Product (WDP)	Distributable funded Income (70% of the funded Income)	Profit Rate of Depositors (%)
C1	C2	C3	C4=C2 x C3	C5 (Proportionate Income Allocation)	C6 = (C5/C2) x100%
SB	100	0.4	40	[(40/930) x 71.82] = 3.09	3.09%
1Yr - TDR	150	0.8	120	[(120/930) x 71.82] = 9.27	6.18%
1Yr - TDR	250	1	250	19.31	7.72%

1Yr - TDR	400	1.3	520	40.16	10.04
Al-Wadea Current Account	100	0	0	0	0
Total	1000		930	71.83	

3.3.3.3. Comparison between ISR & Weightage:

A few differences between the two profit distribution methods are written below:-

Weightage	Income Sharing Ratio (ISR)
1) In weightage system, customer get a fixed provisional rate on a deposit scheme from the bank regardless of the income by the bank.	1) In ISR, the customer always gets his/her portion of the income pre-agreed between the bank and the customer according to the monthly income. So, a fixed provisional rate is impossible to offer since income can vary from month to month.
2) Profit distribution is calculated annually in weightage profit distribution. Because, it is very difficult to calculate the actual rate in a monthly basis because of the fluctuation of the income.	2) The ISR profit distribution method enables the bank to calculate the actual profit in monthly, semi-monthly or annually depending on the requirement.
3) Here, the depositors of deposit schemes like FDR, Term deposit etc are sure about his/her amount to be received after the maturity of the scheme.	3) Here, the customer is not sure about the exact amount to be had after maturity. Therefore, the income of the last few months can be shown so that the customer can assess a probable rate. The Islamic bank like MTB following ISR method, generally offers an indicative rate based on the amount of deposit made by the customers.

3.4. Deposits products of MTB Yaqeen:

The three main deposit schemes of MTB Islamic Banking under Mudarabah standard are mainly:

- 1. Yaqeen Savings Account, 2) Yaqeen Term Deposit and 3) Yaqeen Students Savings Scheme.

The entire Islamic Banking of MTB bank follows ISR method as its profit distribution.

1) Yaqeen Savings Accounts (Yaqeen SA):

Based on Mudarabah principle, the profit derived from investing on commercial enterprises is shared amongst the Rab-ul Maal and the Mudarib in a predetermined basis. The bank allocates the funds received from the customers to a deposit pool. After that, funds from the pool are utilized to provide financing to the customers under Islamic modes of finance. Yaqeen Savings Account offers the following notable features that would make a customer choose Yaqeen over other Islamic Banking brands: -

- Yaqeen Savings Account can be opened either as single account or joint account or both.
- It allows the customers with a joint account to operate in **single** manner, **jointly**, **anyone**, either or **survivor** modes.
- The account can be opened with a **minimum of BDT 500**.
- There is **no restriction on deposition/withdrawal** transactions, subject to the compliance with Bangladesh Bank Guidelines.
- The Income Sharing Ratio (ISR) offered by MTB is –
 - Initial ISR will be [**Customer:Bank = 10:90**]
 - It **can increase up to 28:72** based on the longevity of the accounts, frequency and amount of deposits made by the customer. The MTB Asset Liability Committee is reviews and decides to change the ISR rate of the customers periodically.
- Offers **Debit Card and SMS banking** facility to all its customers. However, a customer can write a statement to the bank if s/he is unwillingness to accept this service.
- **Complimentary services:** Debit Card (1st year), Cheque Book (1st 10 pages), Internet Banking, Account Statement on half-yearly basis, Countrywide online transaction.
- Profit is **credited on half-yearly** basis to the customer's account.

MTB sometimes offers **special offers** like any kind of service/value added service to its valuable customers at its own discretion for **free of cost**.

MTB Islamic Division offers an indicative rate to its customer group of Yaqeen Savings Account holders. The indicative rates for varied ranges of deposit amounts are shown below in a single chart:

Deposit Product	Balance Range	MTB	
		Yaqeen ISR for Customer	Yaqeen Indicative Rate
Yaqeen Savings Account	Below 15 thousand	10%	0.75%
	15 thousand to less than 1 lac	17%	1.27%
	1 lac to less than 10 lac	21%	1.57%
	10 lac to less than 50 lac	24%	1.79%
	50 lac and above	28%	2.09%

Every account or scheme requires some basic documents to open. Yaqeen Savings Account is no exception from that. Let us observe the list of basic documents required to open a Yaqeen Savings Account: -

- a. Complete Account Opening Form (Mudarabah Contract)
- b. Passport size photograph of Account Holder
- c. Passport size photograph of the nominee
- d. Copy of National ID/Passport/Birth Certificate
- e. Tax Identification Number (TIN) Certification, where applicable.
- f. Document conforming of address of the account holder
- g. Document conforming to the source of fund, where required as per MTB Policy

All documents to be obtained as per MTB customer acceptance policy.

2) Yaqeen Term Deposit Account (MTDA):

Term Deposit is an investment account where the customer/depositor invests a fixed sum of money for a certain period of time. In return, the depositor will receive a profit along with his/her investment after the end of that tenure. This successful end of the tenure of investment is termed as 'maturity'. Generally, there are two types of term deposits- 1) Recurring Deposits and 2) Fixed Deposits. (Term Deposit vs Fixed Deposit - A Detailed Comparison, 1994)

Recurring Deposit accounts are that type of term deposit where the customer can a fixed sum of money at a fixed interval. The interval of investment is usually once in a month. That is, every month the depositor invests a fixed sum of money within a pre-agreed tenure. Here, the customer may be allowed premature cash withdrawal (a portion of the investment) upon valid reason. However, the bank at its discretion, has the right to cut back the indicative profit or ISR in that case. This deposit account is ideal for those who has a monthly fixed sum of money for investment.

Whereas in Fixed Deposits, premature cash withdrawal is not allowed. The bank as per the guidance of law of land and Bangladesh Bank may charge penalty or take other actions due to premature cash withdrawal for it is deemed as a breach of contract. (Term Deposit vs Fixed Deposit - A Detailed Comparison, 1994)

The Yaqeen Term Deposit offered by Mutual Trust Bank Limited is undoubtedly a Shari'ah compliant Term Deposit guided by Mudarabah. It acts similar to fixed deposit but is an alternative solution to Islamic Banking with some unique features and lenience for premature cash withdrawal. Here, the depositor invests a fixed sum of money for a tenure and is expected to receive a profit rate around the indicative rate declared by MTB. The uniqueness of Yaqeen Term Deposit is listed below.

Key Features:

- **Minimum** opening deposit is **BDT 10000**
- Account can be opened for a **tenure of 1/2/3/6/9 months or 1/2/3 years**
- The profit is shared **monthly** based upon the pre-agreement between the bank and the customer.
- The ISR between the customer and bank is [**Customer : Bank = 20:80 to 60:40**]

- **Qard/withdrawal facility is up to 90%** of the invested amount can be availed.
- The account can be operated **singly, jointly, anyone, either or survivor modes**.
- Premature encashment is possible upon application for withdrawal. In that case, the customer will be paid the profit for the year(s)/months completed.
- **Complimentary service:** Free Debit Card for the first year (applicable for single individual/guardian)

Market information of the competitors:

Mutual Trust Bank Ltd regards City Bank and Bank Asia as its competitors and thrives to excel as per the following data:

Amount	Tenure	The City		Bank Asia	
		ISR (C:B)	Rate	ISR (C:B)	Rate
Any Amount	1 Month	40:60	1.98%	40:60	2.57%
Any Amount	2 Month	-	-	40:60	2.57%
Any Amount	3 Month	45:55	2.23%	62:38	3.99%
Any Amount	6 Month	55:45	2.72%	62:38	3.99%
Any Amount	9 Month	-	-	62:38	3.99%
Any Amount	1 year	60:40	2.97%	62:38	3.99%
Below 1 crore	2 years	60:40	2.97%	62:38	3.99%
Below 1 crore	3 years	60:40	2.97%	62:38	3.99%

ISR structure for MTB Yaqeen Term Deposit Account as per variable tenure and amounts:

Deposit Product (MTB Yaqeen)	Balance Range	Revised ISR for the customers of MTB Yaqeen	Revised Indicative Profit Rate for MTB Yaqeen
MTD 01 month & MTD 02 months	Below 50 lacs	20%	1.50%
	50 lacs to less than 1 crore	23%	1.75%
	1 crore to less than 5 crores	27%	2.00%
	5 crore & +	30%	2.25%
MTD 03 months, MTD 06 months & MTD 09 months	Below 50 lacs	47%	3.50%
	50 lacs to less than 1 crore	50%	3.75%
	1 crore to less than 5 crores	54%	4.00%
	5 crore & +	57%	4.25%

MTD 01 Year, MTD 02 Year & MTD 03 Year	Below 50 lacs	50%	3.75%
	50 lacs to less than 1 crore	54%	4.00%
	1 crore to less than 5 crores	57%	4.25%
	5 crore & +	60%	4.50%
MTD 100 Days & MTD 200 Days	Below 50 lacs	47%	3.50%
	50 lacs to less than 1 crore	50%	3.75%
	1 crore to less than 5 crores	54%	4.00%
	5 crore & +	57%	4.25%

Basic documents required to open Yaqeen Term Deposit:

- Complete account opening form
- Passport size photograph of the account holder
- Passport size photograph of the nominee
- Copy of National ID Card/Passport/Birth Registration Certificate with photo ID
- Tax Identification Number (TIN) Certificate where applicable
- Document conforming of address of the account holder

Document conforming to the source of fund, where required as per MTB Policy.

3) Yaqeen Students Savings Scheme (Yaqeen SSS):

MTB Yaqeen Student Savings Scheme (Yaqeen SSS) is a monthly savings scheme for students from all kinds of educational institutions. MTB Yaqeen Islamic Banking aims to inculcate a savings habit among the students aged from 18 to 28 years through monthly installments over a period of time. The amount to be installed monthly is set based on pre-agreement.

Key Features:

- Only BDT 500 initial monthly installment to open a scheme.
- The subsequent amount can be BDT 500 or more.
- The tenure of deposit is 3years, 5years, 8years or 10years.
- No late payment fee is charged for failing to deposit monthly installments in due time.
- Customer's profit is derived on monthly basis based on the pre-agreed ISR.
- **Qard/withdrawal facility is up to 90%** of the invested amount.

Detailed ISR for Yaqeen SSS

Deposit Scheme	Tenor	ISR	Indicative Rates
MTB Yaqeen Students Savings Scheme	3 years	83%	6.16%
	5 years	86%	6.40%
	8 years	88%	6.54%
	10 years	89%	6.64%

Required basic documents:

- Complete the account opening form also named as Mudarabah contract.
- Passport size photograph of account holder.
- Passport size photograph of nominee.
- Copy of student ID.
- Copy of NID/Passport/Birth Registration Certificate.
- Copy of any acceptable document confirming of address of the account holder.

3.5. Shari'ah Principle for Investment:

After receiving deposits from the customers, an Islamic bank invests the fund to various other businesses and commercial enterprises which are Shari'ah compliant. AAOIFI Shariah standard generally offers three notable forms of principles to invest the funds for Islamic Banks and finance institutions. In the above topics, we have seen how MTB Islamic Bank receives its deposits/funds from the customers on the basis of Mudarabah. We have discussed about the two profit distribution methods named as weightage and Income Sharing Ratio (ISR) and their calculations. Then, we have discussed about various deposit products offered by MTB Yaqeen. Now we will discuss about the three Shari'ah principles regarding investment in brief. After that, we will discuss about the products under that principles:

3.5.1. Murabahah

Murabahah is about selling a product or a commodity as per the purchasing price with an agreed profit mark-up. This mark-up can either be a definite percentage of the selling price or a lump-sum. There are two types of Murabahah. One is 'Ordinary Murabahah and the other is 'Banking Murabahah'. In 'Ordinary Murabahah', the customer may or may not give a prior promise to purchase the product or commodity. But in 'Banking Murabahah', the customer has to make a

prior promise to purchase the product from the Islamic Bank for the cost price plus the marked-up profit. In this case, the customer is called the ‘purchase orderer’ in the eye of the Shari’ah since s/he is ordering the Islamic bank to purchase the product for him/her. This is a highly trust-based contract. Transparency has to be maintained between the bank and the customer regarding the actual purchasing price of the product and the additional expenses that comes along with it in making the purchase. Allah the Exalted has stated in the Quran, “*It is no crime for you to seek the bounty of your Lord,*” [Suratul Baqarah: 198]. The Islamic scholars collectively agree that the term ‘bounty’ here is referred to as the profit.

3.5.2. Bai Salam:

Bai Salam is a Shari’ah principle where a contract is made between the bank and the customer for full payment of the product to be purchased. The detailed features and quality of the product which is to be purchased must be included in the contract so that there will not be any future conflict or question raised regarding the quality, features or other detail about the product. Bai Salam covers almost all type of products which can be defined by three criteria such as – quality, quantity and workmanship (*Wikipedia, 2022*).

3.5.3. Musharakah

Musharakah is a partnership structure or a joint venture in Islamic Finance. In this type of contract, the business partners share the profit and loss incurred their joint enterprise or project. Since Riba or interest is forbidden in Islam, the partners receive a portion of the actual profits based on pre-agreement in the contract. The loss incurred from the project is also burdened in a pro-rata basis (*Musharakah, Investopedia, 2020*)

Some of the modern forms of partnership are: -

- Stock company
- Joint liability
- Partnership in commendam
- Company limited by shares
- Allotment (Muhassah) partnership
- Diminishing partnership

3.6. Products under Murabahah in MTB Yaqeen

MTB Yaqeen has various type of investment products of which three of them is described in the following. These products are considered as retail investment under Murabahah principle. There are seven basic pillars in Islamic finance which are – a) Free of Riba/usury, b) Devoid of uncertainty, c) Ban on gambling, d) Ban on prohibited items, e) gain is justified with risk, f) Asset based transaction, g) Independency of transaction/contract. All the products of MTB Yaqeen are developed based on these pillars and guided particularly by HPSM (Hire purchase under Shirkatul Milk). ‘Shirkat’ means partnership in Islam and ‘Shirkatul Milk’ means share in ownership or co-ownership. Thus, when two or more parties provide equity, purchase an asset, share the benefits as per the agreement and bear the loss in proportion to the equity, that it is called Shirkatul Milk. Shirkatul Milk is commonly known as Diminishing Musharaka. HPSM has three underlying concepts which must be met to gain its Shari’ah permissibility. They are – a) Shirkat, b) Ijarah (Hire) and c) Sale. Hence, HPSM is a special type of contract in Islamic Finance where the bank forms an equity-based partnership with the customer in order to purchase an asset. The bank leases out the bank’s share of the asset to the customer. In return, the customer has to pay back the bank’s investment along with a markup profit in a given time period as per the agreement. By repayment of investment along with a markup profit the condition of ‘Sale’ is met in a HPSM contract. The two most common investment products of MTB Yaqeen are written here in brief. They are: -

1) **Yaqeen Auto Finance:**

It is an investment product by which MTB Yaqeen Islamic Bank helps a customer to purchase his/her desired car. MTB Yaqeen Auto Finance product is designed based on HPSM, making it compliant to Islamic Shari’ah. Let us look at the process flow of how the product works. Some salient features of this product are written below:

Salient Features & Eligibility:

- This investment facility enables a customer to purchase brand new, reconditioned or registered vehicle.
- The range of this finance amount is BDT 3 lacs to 40 lacs.
- The bank shall invest up to 50% of the value of the vehicle.
- For brand new vehicles, this bank offers 6 years of maximum investment facility.

- For the reconditioned and registered vehicles, the maximum investment tenure is for 5 years.
- MTB Yaqeen allows takeover facility by other banks or financial institution.
- The bank does not charge any fee in processing this investment facility.
- This facility is free from any compounding calculation.
- There is no fee for early settlement.
- Eligibility:
 - The age of the applicant must be from 21 to 65 years.
 - The applicant must have 1-year work experience if s/he is a salaried person and 2-years of business experiences for business men/women.
 - The minimum monthly income for salaried/self-employed/professional is BDT 40,000 and for the business person/land lord/other individuals it must be BDT 50,000.

2) Yaqeen Home Finance:

This product helps a customer to purchase/construct a flat or house by making payment in installments. The salient features of Home finance would be almost same as Auto Finance. But here, the numerical figures will definitely vary. Therefore, I apologize beforehand for the plagiarism percentage since an AI software will not understand the difference between these two products' features are valued based on numerical figures, not the language.

Salient Features & Eligibility:

- BDT 5 lacs to BDT 2 crore is finance range where the limit is up to BDT 75 lac in case of renovation.
- The limit of bank's investment is up to 70% of the property's value.
- The bank provides an investment tenure from 1 year to 25 years. The tenure for renovation is up to 10 years.
- During the financing, the age of the property should be maximum 20 years and financing at the end of financing tenure.
- MTB Yaqeen offers takeover facility from any other bank/financial institution.

- There is no fee required to process the financing facility.
- It is free from any compounding calculation.
- The bank charges no fee for early settlement.
- Eligibility:
 - The applicant must have to be 25 to 70 years old.
 - The applicant must have a minimum 2 years of any work experience if s/he is a salaried person. For professional or business owners the minimum experience is 3 years.
 - For government employees – minimum monthly salary has to be BDT 25,000. For other salaried individuals minimum work experience is BDT 30,000 and for self-employed/land lord/business owners the minimum income has to be BDT 40,000.

3.7. Findings & Analysis:

In this section, we will analyze why and how ISR method is more suitable than the Weightage method by demonstrating a sample calculation. We will analyze the two methods based on the two most common phenomena:

- a) Change of ISR and Weightage
- b) Effect of introducing of ‘New Product’ in the deposit pool

Lastly, we will discuss the most suitable method based on the findings.

3.7.1. Impact on ISR in the above two phenomena:

Particulars	Amount (BDT)
Deposit	1000
Investment	900
Investment Income	142.857
Rate of Return [(Investment Income/Deposit) x 100]	14.29%

ISR Table-1: A Standard Sample Calculation

Deposit Type	Product (BDT)	Mix [B/Total B]	Distributable Profit (BDT) [Total D x C]	Customer's Ratio (%)	Bank's Ratio (%)	Customer's Income (BDT) [D x E]	Bank's Income (BDT) [D x F]	Rate [(G/B) x100]
A	B	C	D	E	F	G	H	I
Yaqeen Savings Account	100	0.1	14.286	50	50	7.14	7.14	7.14%
1-Yr Yaqeen Term Deposit	200	0.2	28.571	60	40	17.14	11.43	8.57%
2-Yr Yaqeen Term Deposit	300	0.3	42.857	70	30	30.00	12.86	10.00%
3-Yr Yaqeen Term Deposit	400	0.4	57.143	80	20	45.71	11.43	11.43%
Total	1000	1	142.86	-	-	100	42.86	

This first table (ISR Table-1) is the demonstrated as the standard calculation of ISR. We will compare and contrast based on this table regarding the two phenomena, that is change of ISR of one group of customers and the effect of introduction of a new product in the ISR system. Since the method of calculation of ISR is already described in (3.3.3.1), we will not repeat the same explanation here again but rather dive into analysis those phenomena. But it is to be noted that we are considering the deposit types in column-A as the customer groups.

ISR Table-2: Impact on changing ISR of one group

Deposit Type	Product (BDT)	Mix [B/Total B]	Distributable Profit (BDT) [Total D x C]	Customer's Ratio (%)	Bank's Ratio (%)	Customer's Income (BDT) [D x E]	Bank's Income (BDT) [D x F]	Rate [(G/B) x100]
A	B	C	D	E	F	G	H	I
Yaqeen Savings Account	100	0.1	14.29	80	20	11.43	2.86	11.43%
1-Yr Yaqeen Term Deposit	200	0.2	28.57	90	10	25.71	2.86	12.86%
2-Yr Yaqeen Term Deposit	300	0.3	42.86	70	30	30.00	12.86	10.00%
3-Yr Yaqeen Term Deposit	400	0.4	57.14	80	20	45.71	11.43	11.43%
Total	1000	1	142.86	-	-	112.9	30.01	

In the ISR Table-2, we can see that customer's share (column E) of Yaqeen Savings Account and 1-Yr Yaqeen Term Deposit has been increased to 80% and 90% respectively. The previous customer's ratio in ISR Table-1 was 50% and 60% respectively. And so, the customer groups of savings accounts and 1-yr term deposit are now receiving BDT 11.43 and 25.71 which was earlier BDT 7.14 and 17.14 respectively. And so, the new rate for the customers of these two groups have also increased to 11.43% and 12.86% respectively. However, the key point to be noted is that if we look at the 3-yr and 4-yr term deposits, they have remained unaffected. Thus, we can firmly say that ISR provides a flexibility in terms of amendments in the ratio between the customer and the bank, keeping the rest other products unaffected.

ISR Table-3: Impact on introduction of New Product

Deposit Type	Product (BDT)	Mix [B/Total B]	Distributable Profit (BDT) [Total D x C]	Customer's Ratio (%)	Bank's Ratio (%)	Customer's Income (BDT) [D x E]	Bank's Income (BDT) [D x F]	Rate [(G/B) x100]
A	B	C	D	E	F	G	H	I
Yaqeen Savings Account	100	0.1	14.29	50	50	7.15	7.15	7.15%
1-Yr Yaqeen Term Deposit	200	0.2	28.57	60	40	17.14	11.43	8.57%
2-Yr Yaqeen Term Deposit	300	0.3	42.86	70	30	30.00	12.86	10.00%
3-Yr Yaqeen Term Deposit	200	0.2	28.57	80	20	22.86	5.71	11.43%
Hajj Deposit	200	0.2	28.57	90	10	25.71	2.86	12.86%
Total	1000	1	142.86	-	-	102.86	40.01	

In the third table, we have added another group of customers named as ‘Hajj Deposit’ with customer:bank ratio of 90:10 respectively. if we compare it with the ISR Table-1, we can see that the customer’s income and rate of previous group of customers has remained unaffected even after adding a new product to the system. Thus, it is safe to conclude that in ISR an Islamic bank can as much products as it wants but the rate of previous group of customers will remain unchanged.

3.7.2. Impact on Weightage based on the two phenomena:

Particulars	Amount (BDT)
Deposit	1000
Investment	900
Investment Income	142.86
PSR – Customer : Bank	70:30
Distributable Income (70%)	100
Bank’s share (30%)	42.86

Weightage Table-1: A standard sample calculation

Deposit Type	Deposit Products (BDT)	Weightage	Weighted Deposit Product (WDP) (in BDT) [D= B x C]	Funded Income (in BDT)	Bank's Share (in BDT)	Distributable funded Income (in BDT) [(D/Total D) xTotal G]	Profit Rate for Depositors (%) [(G/B) x100]
A	B	C	D	E	F	G	H
Savings Accounts	100	0.7	70			7.78	7.78%
1-Yr Term Deposit	200	0.8	160			17.78	8.89%
2-Yr Term Deposit	300	0.9	270			30	10%
3-Yr Term Deposit	400	1	400			44.44	11.11%
Total	1000		900	142.86	42.86	100	

Let us introduce the same data in the weightage system. The first table is the standard calculation and we will compare and contrast based on this table.

Weightage Table-2: Impact of change in the weightage

Deposit Type	Deposit Products (BDT)	Weightage	Weighted Deposit Product (WDP) (in BDT) [D= B x C]	Funded Income (in BDT)	Bank's Share (in BDT)	Distributable funded Income (in BDT) [(D/Total D) xTotal G]	Profit Rate for Depositors (%) [(G/B) x100]
A	B	C	D	E	F	G	H
Savings Accounts	100	0.75	75			8.19	8.19%
1-Yr Term Deposit	200	0.85	170			18.58	9.29%
2-Yr Term Deposit	300	0.9	270			29.51	9.84%
3-Yr Term Deposit	400	1	400			43.72	10.93%
Total	1000		915	142.86	42.86	100	

In the second table of the weightage system, we have changed the weightage value of the first two deposit products named 'Savings Accounts' and '1-yr Term Deposit'. The weightage of savings accounts has been changed from 0.7 to 0.75. And, the weightage of '1-yr Term Deposit' has been changed from 0.8 to 0.85. Therefore, the entire weighted deposit products of these two customer groups has been changed from 70 and 160 to 75 and 170 respectively. However, the most important

thing here is that this change in weightage of two customer groups have affected all the customer groups. If we observe the column-G and H, we will see that the ‘distributable funded income’ and ‘profit rate for depositors’ of the 2-yr and 3-yr term deposit groups have also been affected. Although, their weightage value is the same as before.

Weightage Table-3: Impact of introducing new product

Deposit Type	Deposit Products (BDT)	Weightage	Weighted Deposit Product (WDP) (in BDT) [D= B x C]	Funded Income (in BDT)	Bank's Share (in BDT)	Distributable funded Income (in BDT) [(D/Total D) x Total G]	Profit Rate for Depositors (%) [(G/B) x100]
A	B	C	D	E	F	G	H
Savings Accounts	100	0.7	70			7.61	7.61%
1-Yr Term Deposit	200	0.8	160			17.39	8.7%
2-Yr Term Deposit	300	0.9	270			29.35	9.78%
3-Yr Term Deposit	200	1	200			21.74	10.87%
Hajj Deposit	200	1.10	220			23.91	11.96
Total	1000		920	142.86	42.86	100	

In this third table of weightage system, we have introduced a new product in the system named as ‘Hajj Deposit’. But after introducing the new product we can see that all of the previous products’ distributable funded income and profit rate has decreased. Now, any bank requires to introduce newer financing facilities for its customers. Introducing newer and innovative products helps a bank to retain its old customers as well as attract newer potential customers. This helps a bank to expand its business and horizon further. But if this phenomenon affects the profit rate of the previous products then it is safe to assume that the old customers will welcome their decrease in the return on investment as depositors.

3.8. Recommendations

From the above findings and analysis, we want to recommend ISR profit distribution method. Because, a weight does not bear any value to depositors of Islamic bank who invests their money in Shari'ah compliant businesses and other commercial enterprises keeping the Islamic bank as their partner.

We have also seen that increase of weight of one group affects the other deposit groups which hampers the equality promised to the depositors by an Islamic bank. Furthermore, introduction of a new product affects all the other customer groups in general in a weightage system which also goes against equality in the eye of Shari'ah.

Moreover, by interviewing various personnel in the banking sector, it has been known that profit distribution using the weightage system is usually calculated at the end of a year. This makes a bank very difficult to adjust and distribute the excess and deficit profit between the customer groups and the bank.

However, in ISR profit distribution mechanism, whether we change the ISR of certain type of products or introduce a new product, the profit rate of other deposit types remains unchanged. ISR can also be calculated monthly, semi-annually or annually depending from bank to bank.

3.9. Conclusion

We have seen how MTB Yaqeen gathers funds or investment from the surplus unit with the help of various deposit products. We have discussed how the deposit products are Shari'ah compliant and discussed some of the most common Shari'ah principles regarding investment and utilization of deposits. We have discussed some of the financing facilities which MTB Yaqeen offers for investing the deposits and makes the profit. And lastly, we have discussed how two of the profit distribution method behaves based on two common phenomena. Allah (SWT) and his messenger Prophet Muhammad (SM) has always directed us to refrain from 'gharar' that is uncertainty. But weightage system usually fails to remain certain. More importantly, Islam says that the gain in any business has to be justified with risk. And so, when an Islamic Bank fails to gain the desired profit or incur loss in a certain month, the customers or the depositors should also accept the decrease in income. So, it is also vital that we as Muslims understand Islam properly and follow Shari'ah in order to not only please Allah and His prophet but also establish justice and fairness to the society.

3.10. Reference

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