

Islamic Banking
Vs.
Conventional Banking

**A comparative study on Exim Bank Ltd &
Dutch Bangla Bank Ltd.**

Islamic Banking Vs. Conventional Banking: A comparative study on Exim Bank Ltd & Dutch Bangla Bank Ltd.

Submitted to

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Submission Date

August 20,2013

BRAC University

Letter of Transmittal

August 20, 2013
Shawkat Kamal
Assistant Professor
BRAC Business School

**Subject: Submission of Internship report on “Islamic Banking Vs. Conventional Banking:
A comparative study on Exim Bank Ltd & Dutch Bangla Bank Ltd”.**

Dear Sir,

This is my pleasure to submit my internship report on “Islamic Banking Vs. Conventional Banking: A comparative study on Exim Bank Ltd & Dutch Bangla Bank Ltd”. Which I was assigned. It is a great opportunity for me to acquire knowledge and experience in respect to practical orientation with Exim Bank Ltd.

I have tried my best to prepare this to be as informative and relevant as possible. To prepare this report I have reviewed some books, articles, journals and downloaded some information from internet. I believe that the knowledge and experience I have gathered during my internship period will immensely help me in my future professional life.

I have concentrated my best efforts to achieve the objectives of the internship and hope that my endeavor will serve the purpose. I considered your remarks and instructions very carefully while preparing this report. I tried the best to follow your schedule, format and discipline.

Thank you for your kind consideration.

Sincerely yours,

Sanjida Sharmin Koyel
ID:09304123
BRAC Business School

Declaration

Student Name : Sanjida Sharmin Koyel
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Certification: I certify that the whole of this work is the result of my individual effort and that all quotations from books, websites, periodicals etc. have been acknowledged.

Student's Signature & Date :

Output : Final report preparation for BBA program

Start of the study : June 02, 2013

End of the study : September 02, 2013

I certify that the declaration made above by the student is true.

Shawkat kamal
Assistant Professor
BRAC Business School

Acknowledgement

Internship is a part of BBA program. This report is based on practical knowledge gathered from three months internship on Exim bank ltd. I have realized that practical knowledge is very much essential for professional life and it is totally different from academic knowledge.

In preparing this report first of all I express my deep gratitude to Shawkat kamal, Assistant Professor, BRAC Business School, BRAC University who guided me properly by giving direction at different times to prepare this report. It is his guided supervision that resulted in successful completion and timely submission of the report.

I have received commendable support from all the employees of EXIM Bank Ltd, Gulshan Branch.

I am very much grateful to my instructor Dr.Md.Saiful Islam, SAVP and Operation Manager at Gulshan branch. He has given me all kinds of official support and guideline to manage the internship and complete the report perfectly.

At last I am grateful to almighty Allah who has blessed me and given me strength to prepare this report successfully and smoothly.

Executive Summary

A Bank is an economic institution whose main aim is to earn profit through exchange of money & credit instruments. It is a service oriented as well as profits oriented organization. The Bank divides its operation mainly three parts- General Banking, Foreign Exchange and Investment. The banking sector of Bangladesh is passing through a tremendous reform under the economic deregulation and opening up the economy. Currently this sector is becoming extremely competitive with the arrival of multinational banks as well as emerging and technological infrastructure, effective credit management, higher performance level and utmost customer satisfaction. Bank has a significant role in the economic development of the country. The successful banking business ensures the growth of the economy by the effective uses of the funds. In order to developing the national economy, banks keep in mind going for lending, maintaining safety, liquidity & profitability.

The internship report has been prepared on “focusing whole Activities of Exim Bank Limited to compare with the activities of DBBL whereas Exim bank is serving as an Islamic bank and DBBL is based on traditional banking.

Exim Bank Limited was introduced in Bangladesh as a banking company under the Company Act 1913(Indian) and 1994 in Bangladesh. It commenced on operation on 2nd June 1999. Numerically it is just another commercial Bank, one of now operating in Bangladesh, but the finders committed to make different & a little bit special qualitatively. This bank has new vision to fulfill & a new goal to achieve & try to reach new height for realizing its dream.

I have done this report on the overall banking activities but mainly focusing on the differences between Islamic banking and conventional banking in comparing Exim bank with Dutch Bangla Bank Ltd. These are basically included general banking ,Investment and loan as well as foreign exchange to show how these departments work differently.

The 1st chapter contains the origin, objectives, limitations etc. of the study, 2nd chapter is about the overview of EXIM Bank Ltd, 3rd chapter is about the overview of Dutch Bangla Bank Ltd, 4th chapter is focused on the difference of general banking section, chapter 5 is discussed about foreign banking and chapter 6 is discussed about investment banking of EXIM Bank and DBBL. At the end chapter 7 is all about the findings and conclusion of the report.

List of Abbreviations

- ↻ **ATM:** Automated Teller Machine
- ↻ **BDMD:** Business Development & Marketing Division.
- ↻ **FAD:** Financial Administration Division
- ↻ **ICTD:** Information & Communication Technology Division
- ↻ **GSD:** General Service Division
- ↻ **HRD:** Human Resources Division
- ↻ **AVP:** Assistant Vice President
- ↻ **VP:** Vice President
- ↻ **IRMD:** Investment Risk Management Division
- ↻ **HPSM:** Hire Purchase under Shirkatul Melk
- ↻ **MTDR:** Mudaraba Term Deposit Receipt
- ↻ **SME:** Small & Medium Enterprise
- ↻ **RJSCF:** Registrar of Joint Stock Companies and Firms
- ↻ **NEC:** Non-Encumbrance Certificate
- ↻ **RO:** Relationship Officer
- ↻ **RM:** Relationship Management
- ↻ **IRM:** Investment Relationship Management
- ↻ **EC:** Executive Committee
- ↻ **BOD:** Board of Director
- ↻ **BM:** Branch Manager
- ↻ **CIB:** Credit Information Bureau
- ↻ **CL:** Classified Loan

- ↪ **IRM:** Investment Risk Management
- ↪ **MSD:** Mudaraba Saving Deposit
- ↪ **MPS:** Mudaraba Pension Scheme
- ↪ **MMPD:** Mudaraba Monthly Pension Scheme
- ↪ **MND:** Mudaraba Short Notice Deposit
- ↪ **ESS:** Education Saving Scheme
- ↪ **BB:** Bangladesh Bank
- ↪ **BCA:** Bank Company Act
- ↪ **BCB:** Basel Committee on Banking Supervision
- ↪ **BDT:** Bangladesh Taka
- ↪ **BIA:** Basic Indicator Approach
- ↪ **CAR:** Capital Adequacy Ratio
- ↪ **CSR:** Corporate Social Responsibility
- ↪ **CTPU:** Central Trade Processing Unit
- ↪ **CRPU:** Central Remittance Processing Unit
- ↪ **CCU:** Central Clearing Unit
- ↪ **TIN:** Tax Identification Number
- ↪ **CH:** Clearing House
- ↪ **OBC:** Outward Bills for Collection
- ↪ **IBC:** Inward Bills for Collection

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CHAPTER -01

Introduction

1.1 Background of the Report

Bank is very old institution that is contributing toward the Development of any economy and is treated as an important Service industry in the modern world. Economic history shows that development has started everywhere with the banking system and its contribution towards financial development of a country is the highest in the initial stage. Modern banks play an important part in promoting economic development of a country. Bank provides necessary funds for executing various programs in the process of economic development. They collect savings from large masses of people scattered throughout the country, which in the absence of banks would have remained ideal and unproductive. These scattered amounts are collected, pooled together and made available to commerce and industry for meeting the financial requirements.

Today's modern banks are not only providing traditional banking but also expanding the many financial services. In today's world the life of the people directly or indirectly are within the arena of banking whether conventional or Islamic banking. Although Islamic banking is not a newer concept in Bangladesh as it has started its operation since 1983, very few people are aware about its operation. But things are changing. Islamic Banking is also getting popularity in the country which is the main focal point to this report shown the differences between Islamic and conventional banking. In this regard, Exim bank ltd as an Islamic bank is not same as DBBL as a traditional bank.

1.2 Origin of the Report

Internship program is essential for every student, especially for the students of Business Administration, which helps them to know the real life situation. For this reason a student takes the internship program at the last stage of the bachelor's degree, to launch a career with some practical experience. Against this conditions, I have completed my three months internship in the

Exim Bank Ltd., Gulshan Branch, Dhaka, which has helped me a lot to understand the real life situation of banking business. My course instructor Shawkat Kamal, has authorized me to prepare a report on Islamic Banking Vs. Conventional Banking: A comparative study on Exim Bank Ltd & Dutch Bangla Bank Ltd. It will be regarded as the “Internship Paper”. He authorized me orally how I can analyze the study. Based on his lecture, I have prepared this report.

1.3 Statement of the Problem

In general sense we mean bank as a financial institution that deals with money. On the basis of functions bank can be categorized like Central bank, Saving bank, Invest bank, Merchant bank, Commercial bank, etc. but when we use the term bank it generally means “commercial bank” that collects the deposits from surplus unit of society and then lends the deposits to the deficit units of the society.

For the economic development of a country bank plays a vital role, but traditional commercial banking Systems are interest based and Islamic finance and banking interest is prohibited. Islamic finance refers to financial system that complied with the Shariah. In this regard to establish a banking system that run according to Shariah, the concept of Islamic banking arises.

Though the regular banking system and the Islamic banking system operate in different mode of investment, there is confusion that both systems have merely any fundamental differences. This confusion arises a question that is there actually any difference between Regular banking system and Islamic banking system. That’s why It is the key area that how Islamic banking and general commercial banking is different in respect to general banking, Investment or credit and foreign exchange etc which has been shown on studying Exim bank ltd and DBBL.

1.4 Objective of the Study

Broad Objective

Internship is a process to achieve practical knowledge about some theoretical lesson. It’s most important aspect is to acquire knowledge about the real position. As a practical subject, Management needs some practical knowledge which covers by internship. In this regard, the main objective of the study is to know practically the functions of various departments to compare with other conventional banking systems.

Specific Objectives

The specific objectives of this study are as follows:

- ↪ To have an overall idea about Islamic banking system that claims to be based on the Quran and the Sunnah.
- ↪ To know the principles of Islamic banking system and conventional banking and how it is operated.
- ↪ To find out the differences between the conventional /traditional banking system & Islamic banking system by comparing Exim bank ltd with DBBL.
- ↪ Understanding the differences between Islamic banking system and other commercial banking systems.
- ↪ Understanding how an Islamic Bank runs its business without interest.
- ↪ To know how an Islami Bank earns its profits through investment.
- ↪ To know the key functions of general banking, foreign exchange and investment.
- ↪ To apply theoretical knowledge into practical area.

1.5 Methodology

Type of Study

It is qualitative type of study. The methodology of this report is totally different from conventional reports. I basically emphasize on the practical observation. Almost the entire report has been conducted based on my practical observation and depth interview.

1.6 Sources of Data

Data is collected from both primary and secondary sources.

➤ Primary sources of data

- ↪ Face to face conversation with the bank employees and staffs.
- ↪ Informal conversation with consumers.
- ↪ Practical work exposures from the different desks of the departments of the Branch.



➤ **Secondary sources of data**

- ↻ Annual report of Exim bank ltd & DBBL
- ↻ Different manuals of Exim bank ltd & DBBL
- ↻ Different circulars of Exim bank ltd & DBBL
- ↻ Different textbooks.
- ↻ News papers.
- ↻ Different websites.
- ↻ Bangladesh Bank Report.
- ↻ Unpublished data from the branch.
- ↻ Bangladesh Economic Review

Data analysis & Study question

As it is a comparative study of two banking system (Exim bank ltd Vs. Dutch Bangla Bank ltd) so no statistical tool is used for data analysis. Analysis is done through the comparison of different modes of investment, general banking, Foreign exchange of two banking system. There is only one main study question the answer to which is tried to be found out through this paper. The question is-

“Is there actually any difference between two banking system?”

1.7 Limitation of the Study

Objective of the practical orientation program is to have practical exposure for the students. My permanent status is for only two months, which is somehow not sufficient enough to gather adequate experience of such vast banking business. It is not easy task to collect data and information about my requirement. So the study suffers from various limitations, some of these are mentioned below:

- ↻ In the study areas, the authorities are not willing to express accurate data easily for the reason of their confidentiality.
- ↻ Due to time limitation many of the aspects could not be discussed in the present report.
- ↻ Because of the limitation of information some assumption was made. So there may be some personal mistakes in the report.



- ↪ The time of 3 months is not sufficient to know all activities of the whole banking system for preparing the report.
- ↪ Almost all the personnel were apparently too busy to assist us with their valuable support.
- ↪ The study was limited only to the EXIM BANK Limited & DBBL.
- ↪ The Bank was a busy one having heavy rush of people, whom officers need to deal with. So allocation of time for an internee is very much tough for the officers of the bank.



CHAPTER -02

Organization Part 1 Overview of EXIM Bank Ltd.

2.1 Historical Background of EXIM Bank Limited

EXIM Bank Limited was established under the rules & regulations of Bangladesh bank & the Bank companies' Act 1991, on the 3rd August 1999 with the leadership of Late Mr. Shahjahan Kabir, founder chairman who had a long dream of floating a commercial bank which would contribute to the social-economic development of our country. He had a long experience as a good banker. A group of highly qualified and successful entrepreneurs joined their hands with the founder chairman to materialize his dream. Indeed, all of them proved themselves in their respective business as most successful star with their endeavor, intelligence, hard working and talent entrepreneurship. Among them, Mr. Nazrul Islam Mazumder became the honorable chairman after the demise of the honorable founder chairman.

Its very beginning, EXIM Bank Bangladesh limited was known as BEXIM Bank, which EXIM for Bangladesh Export Import Bank Limited. But for some legal constraints the bank renamed as EXIM Bank, which means Export Import Bank Of Bangladesh Limited.

The bank starts its functioning from 3rd August 1999 with Mr. Alamgir Kabir, FCA as the advisor and Mr. Mohammad Lakiotullah as the Managing Director. Both of them have long experience in the financial sector of our country. By their pragmatic decision and management directives in the operational activities, this bank has earned a secured and distinctive position in the banking industry in terms of performance, growth, and excellent management.

By their pragmatic decision and management directives in the operational activities, this bank has earned a secured and distinctive position in the banking industry in terms of performance, growth, and excellent management. The authorized capital and paid up capital of the bank are BDT 350.00 Crore and BDT 267.75 Crore respectively.

Considering the inherent desire of the religious Muslims, EXIM Bank has all of its conventional banking into Shariah based Islamic banking in July 2004 and initially started Islami Banking practice

and in two Branches in the same year. The Islami Banking branches perform their activities under the guidance and supervision of a body called “SHARIAH COUNCIL”.

2.2 Vision & Mission

Vision

The gist of EXIM Bank Limited’s vision is *“Together towards Tomorrow”*. EXIM Bank Limited believes in togetherness with its customer, in its march on the road to growth and progress with services. To achieve the desired goal, there will be pursuit of excellence at all stages with a climate of continuous improvement, because, EXIM Bank Limited believes the line of excellence is never ending. Bank’s strategic plans and networking will strengthen its competitive edge over others in rapidly changing competitive environment. Its personalized quality service to the customers with the trend of constant improvement will be cornerstone to achieve our operational success.

Mission

The Bank has chalked out the following corporate objectives in order to ensure smooth achievement of its goals:

- » To be the most caring, customer friendly and service oriented bank.
- » To create a technology based most efficient banking environment for its customers.
- » To ensure ethics and transparency in all levels.
- » To ensure sustainable growth and establish full value of the shareholders.
- » Above all, to add effective contribution to the national economy.

Eventually the Bank emphasizes on:

- » Providing high quality financial services in export and import trade
- » Providing efficient customer service
- » Maintaining corporate and business ethics
- » Making its products superior and rewarding to the customers
- » Display team spirit and professionalism
- » Enhancement of shareholders wealth

2.3 Objectives of EXIM Bank Limited

1. To receive, borrow or raise money through deposits, loan or otherwise and to give guarantees and indemnities in respect of all debts and contracts.
2. To establish welfare oriented banking systems.
3. To play a vital role in human development and employment generation to invest money in such manner as may vary from time to time.
4. To carry on business of buying and selling currency, gold and other valuable assets.
5. To extend counseling and advisory services to the borrowers/entrepreneurs etc. in utilizing credit facilities of the bank.
6. To earn a normal profit for meeting the operational expenses, building of reserve and expansion of activities to cover wider geographical area.

2.4 Corporate culture

This bank is one of the most disciplined banks with a distinctive corporate culture. Here we believe in shared meaning, shared meaning and shared sense making. Our people can see and understand events, activities, objects and situation in a distinctive way. They mould their manners and etiquette, character individually to suit the purpose of the bank and the needs of the customers who are of paramount importance to us. The people in the bank see themselves as a tight knit team that believes in working together for growth. The corporate culture we belong has not been imposed; it has rather been achieved through our corporate conduct.

2.5 Values of EXIM Bank Limited

To be one EXIM by holding and guiding the following values:

- » To have a strong customer focus and to build relationship based on integrity, superior service and mutual benefit.
- » To strive for private and sound growth.
- » To work as a team to serve the best interests of the organization.
- » To work for continues business innovation and improvements.
- » To value and respect people and make decisions based on merit.
- » To provide recognition and reward on performance.
- » To value open and honest communication.

2.6 Shariah Auditing

This is the civil supervisory aspect that shapes the Bank's main feature. Its existence is part of the Shariah Supervision procedures. One of its main tasks is to check the Shariah compliancy in the Bank's transactional procedures in accordance to the Fatwas issued in that regard, under the guidance of the Shariah Supervisor. The Shariah auditor is assigned the task of revising the Bank's transactional procedures throughout the year to check the extent to which the staff members and the different departments have abided by the regulations. Advices and Fatwas issued by the Fatwa & Shariah Supervision Board, forums, & banking conferences. As well as, assuring that all the contracts that states a right for the Bank or an obligation on the Bank is certified by the Fatwa & Shariah Supervision Board.

2.7 Banking with Principles

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

The process by which Noriba's investments are designed and executed allows the Bank to offer a combination of Shariah compliance and capital markets expertise that is unique throughout the world.

Noriba is committed to the strict adherence to the requirements of the Shariah as a result of sole focus on Shariah-compliant investments and the full supervision of its financial products and transactions by the Noriba Shariah Board. Noriba experts specifically design each of the Bank's investment vehicles with the approval of the Noriba Shariah Board.

Once the given product or transaction has been arranged, the Noriba Shariah Board carefully screens it for compliance before giving final approval for its implementation. This control mechanism guarantees that all aspects of Noriba's final products and banking transactions are in adherence with the guidelines of the Shariah.

2.8 Performance of EXIM Bank:

EXIM Bank Ltd. was incorporated as a public Limited company on the 2nd June 1999 under Company Act 1994. The Bank started commercial banking operations effective from 3rd August 1999. During this short span of time the Bank has been successful to position itself as a progressive and dynamic financial institution in the country. The Bank widely acclaimed by the business community, from small business/entrepreneurs to large traders and industrial conglomerates, including the top rated corporate borrowers from forward-looking business outlook and innovative financing solutions.

Capital

The bank started with an authorized capital of Tk. 100 million in 1999 and as on 31st December 2004 paid up capital stood at Tk. 627.75 million. The paid up capital stood at Tk. 2677.75million as on 31st December 2008.

Analysis of Capital Structure

Capital structure of EXIM Bank has changed from year to year. The components of the capital structure are paid-up capital; proposed issue of dividend, share premium, statutory reserve, proposed cash dividend, retained earnings and other reserve. Authorized and paid up capital of EXIM Bank:

Overall Performance of EXIM Bank

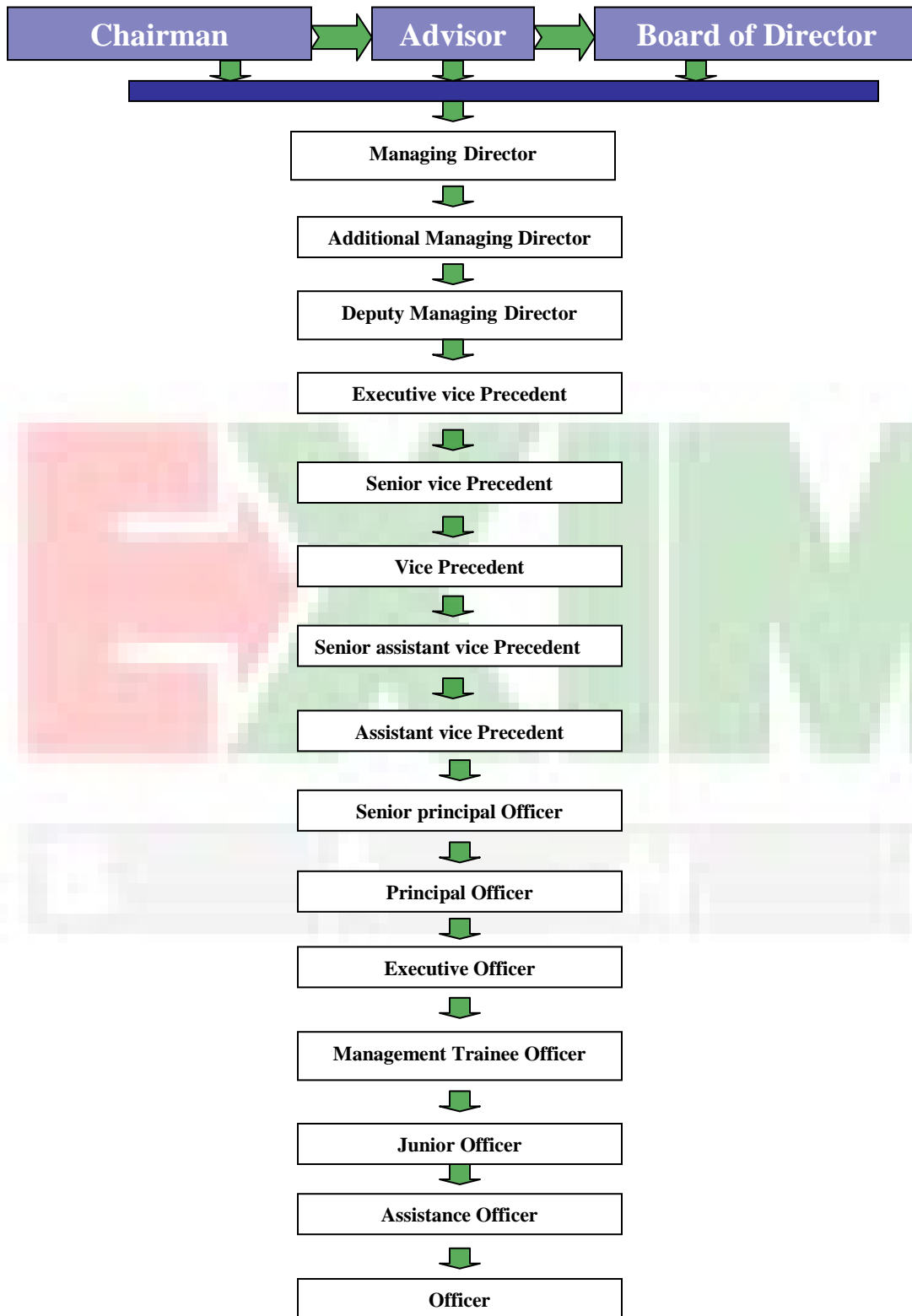
		(Amount in million taka)				
SL	Particulars	2005	2006	2007	2008	2009
1.	Paid up capital	878.85	1713.76	2142.20	2677.75	3373.96
2	Total capital	2179.81	3467.37	4569.56	5763.89	7718.89
3.	Surplus/ shortage of capital					
4.	Total assets	33716.7	41793.54	51503.03	68446.46	86213.37
5.	Total deposit	28319.21	35032.02	41546.57	57586.99	73835.46
6.	Investment (General)	26046.34	32641.27	40195.24	53637.68	68609.91
7.	Total contingent liabilities &	15941.53	18994.09	22632.65	26070.57	30109.11



	commitments					
8.	Ratio on investment & deposit					
9.	Ratio on classified investment & total investment	0.10%	2.43%	2.40%	1.89%	1.80%
10.	Profit after tax & provision	20	25	38	55	65
11.	Cost of fund	9.29%	9.26%	8.40%	8.08%	9.17%
12.	Profit earning asset	1009	1588	1975	2874	3516
13.	Non-profit bearing asset	127	201	461	497	663
14.	Return on investment (share & bonds)	5.40%	5.52%	9.87%	6.63%	6.55%
15.	Return on assets (after tax)	3.40%	3.15%	1.57%	1.65%	1.73%
16.	Income on investment (share & bonds)	8	13	15	11	12
17.	EPS	79.14	81.18	60.82	48.61	43.48
18.	P/E ratio	N/A	N/A	12.80	10.53	7.74



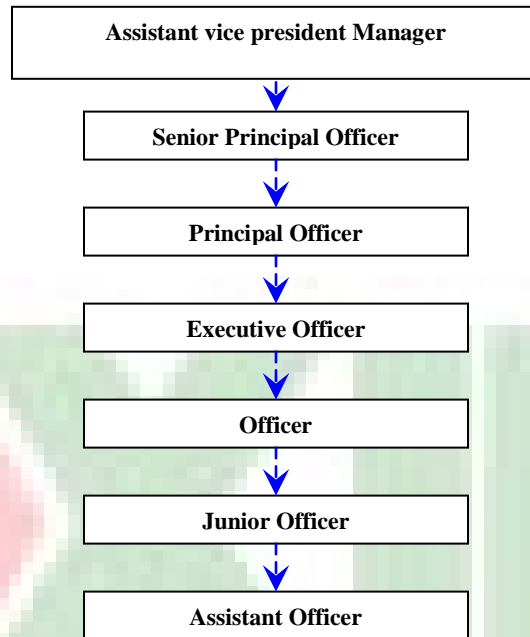
2.9 Organizational Structure of EXIM Bank Ltd:



About Gulshan Branch

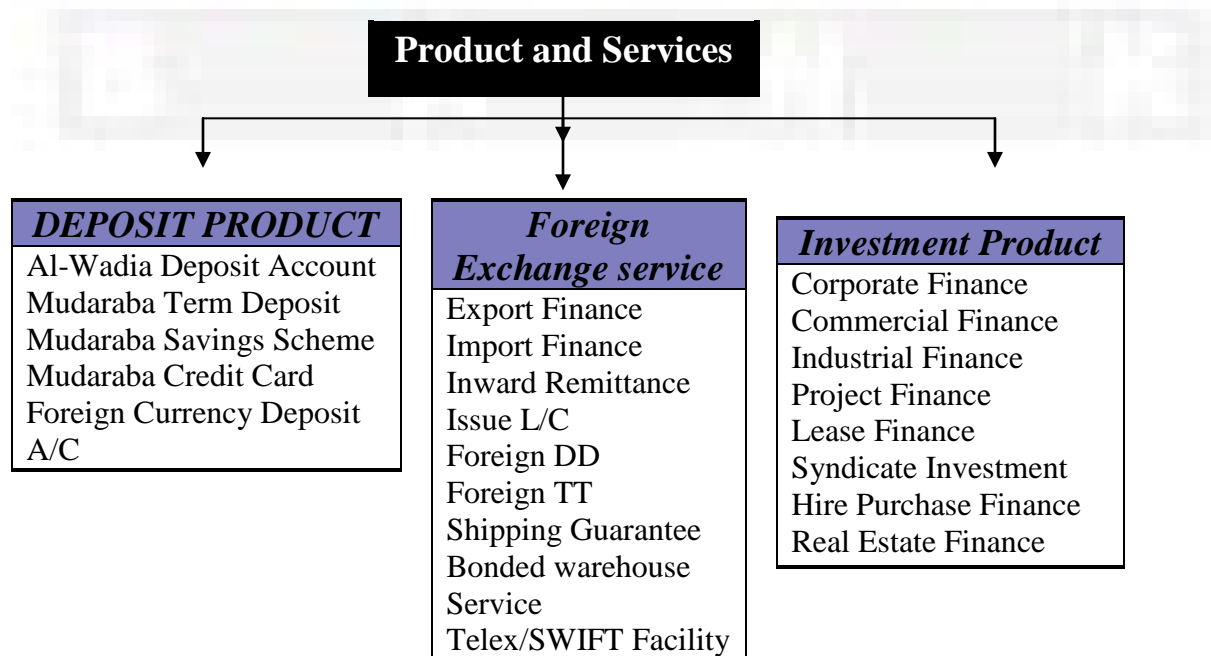
Location of Gulshan Branch: The address of Exim Bank is “Syphony” plot # SE(F):9, Road:142, Gulshan avenue, Dhaka-1212

Hierarchy of Gulshan Branch:



2.10 Products and Services

The following chart shows products and services of different branches of EXIM Bank





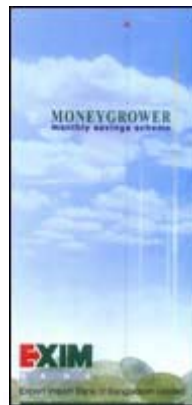
MUDARABA SAVINGS SCHEMES ARE AS FOLLOWS



Super Savings
Deposit Scheme



Monthly Saving
Scheme



Monthly Income
Scheme



Smart Saver



Hajj Deposit

Islamic banks extend investment (loan) under the principles of the followings:

Mudaraba: Mudaraba means the hiring of capital. It is a contract in a profit sharing where one party provides capital/funds and the other labor/work. Under this system, banks provide the capital and clients provide expertise and profit is shared according to agreed ratio.

Musharaka: This mode of finance is represented by two or more financiers in contributions of equal or unequal ratios of capital to establish a new project or to participate in an established one and all partners are entitled to share the total profits of the venture according to ratio as mutually agreed upon allowing for managerial skills to be remunerated.

Murabaha: About 70 to 80 percent of financial operations of most of the Islamic banks belong to this segment. It enables the investor to obtain finished goods, raw materials, machinery or equipment from the local market or through import by opening letter of credit (L/C). Under this technique, bank buys the goods upon the request of the client and then the customer from the bank purchases these goods with a fixed period of time or by installment with a cost, which includes cost of goods plus mark-up profit.

Ijarah: Ijarah financing under Islamic Shariah is same as the western concept of leasing. In Ijarah financing, the bank finances capital goods to industrial project against payment of a rent by installment.

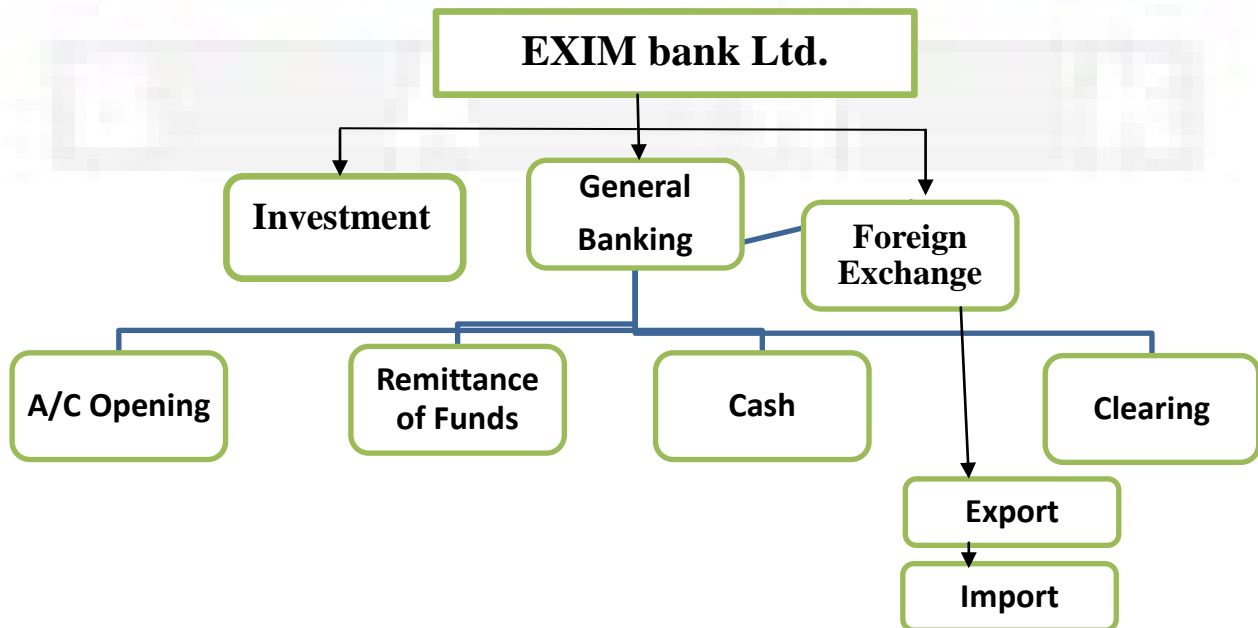
Bai-Muajjal: Bai Muajjal means sale for which payment is made at a future fixed date or within a fixed period. Bai-Muajjal is treated as a contract between the bank and the client under which the bank sells to the client certain specified goods at an agreed price payable within a fixed future date in lump sum or by installments. By this credit sell bank possession of the goods also.



2.11 Corporate Information and Profile of EXIM Bank Ltd:

Registered Name : Export Import Bank of Bangladesh Ltd.
 Registered Head officer : Printers Building (5th floor) 5, Rajuk Avenue
 Motijheel C/A Dhaka- 1000
 Phone No Bank : 9566764, 9566418, 9553872, and 9561604
 Fax No. : 880-2-9556988
 E-mail Address : eximho@bdonline.com
 Web site : www.eximbankbd.com
 SWIFT : EXBKBDDH
 Date of incorporation : 3rd August 1999
 Authorized Capital : Tk. 100.00 Crore
 Paid up capital : Tk. 62.78 Crore
 Number of Branches : 35 (Thirty Five Branches)
 Chairman : MR. NAZRUL ISLAM MAJUMDAR
 Managing Director : Mr. Kazi Masihur Rahman
 Auditor : Pinaki & Company, Chartered Accountants

2.12 Divisions of EXIM bank ltd.



EXIM bank ltd. basically deals with three separate departments to provide banking services.

These are;

1. General banking division
2. Foreign exchange division
3. Investment Division

2.12.1. General banking division

General banking department is the heart of all banking activities. This is the busiest and important department of a branch, because funds are mobilized, cash transactions are made; clearing, remittance and accounting activities are done here. Since bank is confined to provide the services every day, general banking is also known as ‘retail banking’. In EXIM **Bank LTD** Panthapath Branch, the following departments are under general banking section:

1. Account opening section
2. Cash section
3. Remittance section
4. Clearing section

2.12.2. Foreign Exchange division

Foreign exchange is the means and methods by which rights to wealth in a country’s currency are converted into rights to wealth in another country’s currency. In banks when we talk of foreign exchange, we refer to the general mechanism by which a bank converts currency of one country into that of another.

There are mainly two sections of foreign exchange department:

1. Import
2. Export

2.12.3. Investment Division

For any bank, loans and advances constitute the largest portion of asset section in Balance Sheet. Investment division of financial institutions plays a vital role in developing the national economy. Without such support development for a country like Bangladesh were difficult to imagine. The main objective of EXIM Bank Limited is to boost up the economy by proving adequate support to the market through its investment division.



CHAPTER -03

Organization Part 2

Overview of Dutch Bangla Bank Ltd.

3.1 Dutch-Bangla Bank Limited at a glance

Year of Establishment:	1996
Authorized Capital:	4000 million
Paid up Capital:	2000 million
Number of Employees:	2,763
Number of Branches:	96
Total Number of Shareholders:	8,409
Total Number of SME Centre	3
Total Number of ATM Booth	1,742
Total Fast Track:	10
Total POS Merchant	2,186
Total Deposit of the Bank in 2010:	83,244.77 million
Total Profit Figure in 2010:	4,198.47 million
Total Number of Executive & Officers:	847
Total number of share of Tk10 each	200 million (as on 30.11.11)
Earning per Share of Tk.100:	100.12 taka
Business Link: Different Organization both Government and Non Government	

3.2 Historical Background

Dutch-Bangla Bank Limited is a scheduled commercial bank. The Bank was established under the Bank Companies Act 1991 and incorporated as a public limited company under the Companies Act 1994 in Bangladesh with the primary objective to carry on all kinds of banking business in Bangladesh. The Bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. DBBL- a Bangladesh European private joint venture scheduled commercial bank commenced formal operation from June 3, 1996. The head office of the Bank is located at Senakalyan Bhaban (4th floor), 195, Motijheel C/A, Dhaka, Bangladesh. The Bank commenced its banking business with one branch on 4 July 1996.

Dutch Bangla Bank Limited (DBBL) a public company limited by shares, incorporated in Bangladesh in the year 1995 under companies Act 1994. With 30% equity holding, the Netherlands Development Finance company (FMO) of the Netherlands is the international cosponsor of the Bank. Out of the rest 70%, 60% equity has been provided by prominent local entrepreneurs and industrialists & the rest 10% shares is the public issue. During the initial operating year (1996-1997) the bank received skill augmentation technical assistance from ABN Amro Bank of the Netherlands.

DBBL's focus is to provide one counter service to clients covering: Commercial Banking (Deposit Accounts), Consumer Banking (Retail Banking) - Traveler Cheques- Foreign & Inland Remittances, Financial Services, Corporate Banking, Asset & liability management, Liquidity & capital Resources Management, Information technology, Human Resources. DBBL Internet banking enables customer to access his/her personal or business accounts anytime anywhere from home, office or when traveling. Internet Banking gives customer the freedom to choose his/her own banking hours. It can save time, money and effort. It's fast, easy, secure and best of all.

DBBL, since its inception was active in various social activities, which increased manifold over the period of time and its growth. It is one of the fast growing leading online banks in private sector. The emergence of Dutch-Bangla Bank Ltd. in the private sector is an important event in the banking area of Bangladesh. The Netherlands Development Finance Company (FMO) of the Netherlands is the international sponsor of the Bank. The FMO is the Dutch development bank

of the Netherlands specialized in the financing of private enterprises in Asia, Africa, Latin America and Eastern Europe. Dutch-Bangla Bank Ltd. came into existence with joint venture as a public limited company incorporated in Bangladesh on June 26, 1995 with the primary objectives to carry on all kinds of banking business in and outside of Bangladesh. DBBL has started its

business with foreign bank. DBBL commenced its business as scheduled bank with effect from July 04, 1995 with one branch-Motijheel Branch, Dhaka, with a motto to grow as a leader in the banking arena of Bangladesh through better counseling and effect service to clients and thus to revitalize the economy of the country. All the branches are currently providing truly On-Linebanking facility. DBBL resumed its operational activities initially with an authorized capital of Tk.400 million and paid up capital of Tk.202.14 million.

3.3 Mission

Each business unit needs to define its specific mission within the broader company mission. Dutch-Bangla Bank engineers enterprise and creativity in business and industry with a commitment to social responsibility. "Profits alone" do not hold a central focus in the Bank's operation; because "man does not live by bread and butter alone". Mission statements are at their best when they are guided by a vision.

3.4 Vision

“To become a leading banking institution and play a pivotal role in the development of the country”

Vision, a compelling view of a future yet to be, creates meaning and purpose which catapults both individuals and organizations to high levels of achievement. Dutch-Bangla Bank dreams of better Bangladesh, where arts and letters, sports and athletics, music and entertainment, science and education, health and hygiene, clean and pollution free environment and above all a society based on morality and ethics make all our lives worth living. DBBL's essence and ethos rest on a cosmos of creativity and the marvel-magic of a charmed life that abounds with spirit of life and adventures that contributes towards human development.

3.5 Strategies of DBBL

The strategies are as follows:

- To manage and operate the Bank in the most efficient manner to enhance financial performance and to control cost of fund
- To strive for customer satisfaction through quality control and delivery of timely services
- To identify customers' credit and other banking needs and monitor their perception towards our performance in meeting those requirements.
- To review and update policies, procedures and practices to enhance the ability to extend better service to customers.
- To train and develop all employees and provide them adequate resources so that customers' need can be reasonably addressed.
- To promote organizational effectiveness by openly communicating company plans, policies, practices and procedures to employees in a timely fashion
- To diversify portfolio both in the retail and wholesale market
- To increase direct contact with customers in order to cultivate a closer relationship between the bank and its customers.

3.6 Objectives of DBBL

- To earn and maintain Strong Rating.
- To establish relationship banking and improve service quality through development of Strategic Marketing Plans.
- To remain one of the best banks in Bangladesh in terms of profitability and assets quality.
- To introduce fully automated systems through integration of information technology.
- To ensure an adequate rate of return on investment
- To keep risk position at an acceptable range (including any off balance sheet risk)

3.7 Departments of DBBL

Human Resources Department

Success of any organization largely depends on the efficiency & competence of its manpower. The organization provides a comprehensive range of human resources services to staff and managers and all prospective employees. A full list of staff and their relevant areas of responsibility are conduct here. This includes Senior Management, Operations group – including HR Advisors, Staff Development, and Job Evaluation & Systems & Management Information group. Our vision is to be a department that leads on and delivers the University's Staff Experience Strategy, works as a business partner within the organization and leads by example in relation to university values.

Corporate body

Board of Directors: There are six Board of Directors in the Dutch-Bangla Bank Limited. The main factor is that, all of these board of directors are higher educated and experienced enough that generated from different public and private sectors. In the following, I mentioned their names as well as their recognitions

International Division

Internal trade means foreign currency and includes all deposits, credit and balances payable in foreign currency as well as all foreign currency instruments, such as, Drafts, Travelers Cheques, Bills of Exchange, and Promissory Notes payable in any foreign country. Anything that conveys a right to wealth in another country is Foreign Exchange.

DBBL provides premium quality service for repatriation and collection of remittance with the help of its first class correspondents and trained personnel. By introducing on-line banking service and becoming a SWIFT Alliance Access Member, which enable its branches to send and receive payment instruction directly, which helps provide premium services.

Credit department

Risk is an integral part of business & the main role of our risk management principle is to find the optimal balance of risk & return. Bangladesh bank has undertaken a project to install a core risk management system in every bank. DBBL Bank Ltd installing the same system in respect to

Asset liability management, Foreign exchange management, internal control & compliance, Anti money laundering. The bank prudently controls asset allocation through limiting exposure to industry sector & setting client limit. Moreover, the bank approved a new organization structure to accommodate core risk management perspective.

Loans and Advances

- Loan against Trust Receipt
- Transport Loan
- Consumer Credit Scheme
- Real Estate Loan (Res. & Comm.)
- Loan Against Accepted Bill
- Industrial Term Loan
- Agricultural Term Loan
- Lease Finance
- Other Term Loan
- FMO Local currency Loan for SME
- FMO Foreign currency Loan
- Cash Credit (Hypothecation)
- Small Shop Financing Scheme

IT department

Dutch-Bangla Bank Limited (DBBL) undertook a project with BASIS (Bangladesh Association of Software and Information Services) to award the best IT uses by Bangladeshi companies. DBBL and BASIS organized IT award-giving ceremony in this regard. The award Ceremony was held on 30th November 2005, which was the day before last day of BASIS SOFfEXP02005 (November 27-December 01, 2005). This was a gala evening (with dinner and cultural program) attended by around 700 dignitaries including government high officials & policy makers, corporate heads, representatives from development agencies, IT policy makers, academicians and the IT industry members. In this regards, DBBL's contribution in supporting this event was 50% of the estimated cost with Tk.6.25 Lac.



3.8 PRODUCTS AND SERVICES

Products and services offered by DBBL

- Retail Banking
- Remittance and collection
- Import and export handling and financing
- Corporate Banking
- Project Finance
- Investment Banking
- Consumer credit
- Agriculture Loan
- Real time any branch banking
- 24 Hours Banking through ATM
 - o DBBL-NEXUS ATM & Debit card
 - o DBBL-Maestro/Cirrus ATM & Debit card
 - o DBBL Credit card
- Internet Banking
- SMS Banking
- On line Banking through all Branches

CHAPTER -04

General banking: EXIM Bank Vs. DBBL

4.1 General banking of EXIM Bank

General banking department is the heart of all banking activities. This is the busiest and important department of a branch, because funds are mobilized, cash transactions are made; clearing, remittance and accounting activities are done here.

Since bank is confined to provide the services every day, general banking is also known as 'retail banking'. In EXIM Bank LTD Gulshan Branch, the following departments are under general banking section:

1. Account opening section
2. Cash section
3. Remittance section
4. Clearing section

4.1.1 Accounts opening Section:

Account opening is the gateway for clients to enter into business with bank. It is the foundation of banker customer relationship. This is one of the most important sections of a branch, because by opening accounts bank mobilizes funds for investment. Various rules and regulations are maintained and various documents are taken while opening an account. A customer can open different types of accounts through this department. Such as:

- » Al –Wadiah (Current Deposit) account.
- » Mudaraba Savings (SB) Deposit account.
- » Mudaraba Short Term Deposit (MSTD).
- » Mudaraba Monthly Savings Scheme.
- » Mudaraba Monthly Income Scheme.
- » Mudaraba Multiplus Savings Scheme.
- » Mudaraba Hajj Scheme

As it is an Islamic Banking Branch the rules are applied here:

- a. Current deposit will be received on Al-Wadiah principle & the same will not get any profit.
- b. Savings deposit will be accepted on Mudaraba principle & such deposit will bear minimum 4% of profit and maximum 9% depending on the amount and time.

Types of Accounts with Terms and Conditions

»Al- Wadiah (Current) Account:

Current account is purely a demand deposit account. There is no restriction on withdrawing money from the account. It is basically justified when funds are to be collected and money is to be paid at frequent interval. Some Important Points are as follows

- o Minimum opening deposit of TK.1000/- is required;
- o There is no withdrawal limit.
- o No interest is given upon the deposited money;
- o Minimum Tk.1000/= balance must always maintain all the time;

»Mudaraba Savings (SB) Account:

This deposit is primarily for small-scale savers. Hence, there is a restriction on withdrawals in a month. Heavy withdrawals are permitted only against prior notice. Some Important Points are as follows

- o Minimum opening deposit of Tk.5000/= is required;
- o Minimum Tk. 1000/= balance must always maintain all the time;
- o Withdrawal amount should not be more than 1/4th of the total balance at a time and limit twice in a month.
- o If withdrawal amount exceed 1/4th of the total balance at a time no interest is given upon the deposited money for that month.

» Mudaraba Term Deposit (MSTD) Account:

Normally various big companies, organizations, Government Departments keep money in MSTD account. Frequent withdrawal is discouraged and requires prior notice. The deposit should be kept for at least seven days to get interest. The interest offered for MSTD is less than that of

savings deposit. Interest is calculated based on daily minimum product and paid two times in a year. Profit rate is 4.00%.

» **Mudaraba Monthly Savings Scheme:**

Small savings can formulate large deposit. Savings increases mental power of a man, form capital and increases the confidence of a depositor. EXIMBank introduces a saving scheme with high profit for the purpose of increasing saving mentality. In this savings scheme one can deposit money in every month and will get a handsome amount of money at the end of certain period.

» **Mudaraba Monthly Income Scheme:**

In this type of scheme one can invest certain amount of money for certain period of time receiving a steady return after every certain period of time. Lowest amount of investment is Tk. 1,00,000 and the period of this scheme is 3 years. The amount of money invest should be the multiple of 1,00,000.

» **Mudaraba Multiplus Savings Scheme:**

Under this scheme the amount will be doubled in 11 years term. Compound interest is counted. This amount multiples three times after 10 years. It has the same properties as like as Super Savings Scheme.

» **Mudaraba Hajj Scheme:**

In view of smooth arrangement for performing Hajj, EXIMBank Limited has introduced its scheme under the tenure of 5, 8, 10, 15 and 20 years with nominal amount of deposit per month.

The amount of savings/deposits as per monthly installment and period is shown below-

Rate of Profit (8.00%-9.50%)

Rate of provisional profit on the above accounts are shown in bellow:

Name of Deposit	Rate of Provisional Profit
Al-Wadiah Current Deposit (CD).	0%
Mudaraba saving Account (SB).	8%
Mudaraba Short-Term Deposits (MSTD).	6%



Rate of provisional profit on various duration are shown in bellow:

Mudaraba Term Deposits	Rate of Provisional Profit
1 Month	9%
3 Months	10.5%
6 Months	11%
1 year	11.75%
2 years	12.0%
3 years	13%

Account Opening Procedure

Step 1	<p>The account should be properly introduced by any one of the following.</p> <ul style="list-style-type: none"> ↻ An existing Al-wadia Account holder of the Bank. ↻ Officials of the Bank not below the rank of an assistant officer ↻ A respectable person of the locality well known to the manager/Sub-manager of the branch concerned.
Step 2	Receiving filled up application in bank's prescribed form mentioning what type of account is desired to be opened
Step 3	<ul style="list-style-type: none"> ↻ The form is filled up by the applicant himself/ herself ↻ Two copies of passport size photographs from individual are taken; in case of firms photographs of all partners are taken. ↻ Applicants must submit required document. ↻ Application must sign specimen signature sheet and give mandate ↻ Introducer's signature and accounts number verified by legal officer
Step 4	Authorized officer accepts the application
Step 5	Minimum balance is deposited only cash is accepted



INFORMATION COLLECTED TO OPEN AN ACCOUNT

A. Individual

1. Name
2. Present and Permanent Address
3. Date of birth and age
4. Nationality
5. Tax information number (TIN- if available)
6. Passport or certificate provided by the employer
7. Photograph of the account holder
8. One photograph of the nominee duly attested by the account holder
9. Nominee declaration form and
10. Money laundering leaflet.

B. Partnership Firm

1. Information Mentioned in –A
2. Copy of Partnership Deed and
3. Mandate from the partners is essential – indicating who will operate the account.

C. Limited Company

1. Information Mentioned in –A
2. Certificate of Incorporation
3. Copy of Memorandum and Article of Association
4. Certificate of Commencement and
5. Copy of Resolution of the Board of Directors.

Cash Section

The most vital and important section of the branch is Cash Department. It deals with all kinds of cash transactions. This department starts the day with cash in vault. Each day some cash that is opening cash balance are transferred to the cash officers from the cash vault. Opening cash balance is added by cash receipts and payments. The figure is called closing balance. This balance is then added to the vault. This is the final cash balance figure for the bank at the end of any particular day.

Functions of Cash Department

Cash Payment	}	<ol style="list-style-type: none"> 1. Cash payment is made only against Cheques 2. This is the unique function of the banking system, which is known as “payment on demand” 3. It makes payment only against its printed valid Cheques
Cash Receipt	}	<ol style="list-style-type: none"> 1. It receives deposits in form of cash. 2. It collects money only its receipts forms.

Cheque Cancellation or Cash Payment Process

- Step 1
 - a. Receiving Cheque by the employee in the cash counter.
 - b. Verification of the followings by the cash Officer in the computer section.
- Step 2
 - a. Date of the Cheques (it is presented within 6 months from issue date).
 - b. issued from this branch.
 - c. Amounts in figure and sentence written does not differ.
 - d. Signature of the drawer does not differ.
 - e. Cheque is not torn or mutilated.
- Step 3 Gives pay cash seal and sends to the payment counter
- Step 4 Payment officers make payment.

Remittance Section

It consists of two types. They are:

- a. Local Remittance
- b. Foreign Remittance

Local Remittance

Carrying cash money is troublesome and risky. That’s why money can be transferred from one place to another through banking channel. This is called remittance. Remittances of funds are one of the most important aspects of the Commercial Banks in rendering services to its customers.

5.1.3.1 (a) Types of remittance

- » Between banks and non banks customer
- » Between banks in the same country

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

Ways of remitting funds

The main ways used by EXIM Bank for remitting funds are:

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

Clearing Section

It is most important Section .As a cheque payment order or bills come from a Bank within the range of Local Clearing House then it is sent for collection through Clearing House. The Cheque may be crossed or not, if a customer of EXIM Bank deposits a cheque of another Bank which is within clearing, then EXIM Bank will Credit his Account and collect it (cheque). Though the amount is credited in the customer account but will not get the money until the cheque is honored.

4.2 General banking of DBBL

Description

General Banking department generally deals with four sections. However, my work was limited to the following sections:

- 1. Account opening section**
- 2. Bills and clearing section**
- 3. Local Remittance section**
- 4. Cash Section**

Account Opening Process:

The relationship between banker and customer begins with the opening of an account by the customer. Opening an account binds the customer into contractual relationship. Infected all kinds of fraud & forgery start by opening an account. So, the bank should take extreme caution in selection customers. Under this section, DBBL Bank Assistant Officer opens different types of accounts on the request of clients. Such as:

- (a) Current Deposit (CD)
- (b) Saving Deposit (SB)
- (c) Other type

a) Current Account:

A current deposit account may be operated in several times during a working day. There is no restriction on the number and the amount of withdrawals from a current account and banker does not allow any interest on this account DBBL Banks normally prefer current account due to its cost free nature.

b) Savings account

A saving account is meant for the person of the lower and the middle classes who wishes to save a part of their income to meet their future needs and intend to earn an income from their savings. This is an interest bearing account and a reasonable rate of interest is offered, which is higher than that of short term deposit account but lower than that of fixed deposit account.

c) Other type account:

For Joint Stock companies, Association, Clubs etc:

In case of opening a current account of joint stock companies, association, clubs etc, are said to fulfill true copies of certificate of incorporation or registration (in case of companies and registered bodies only).

2

For Partnership / Proprietorship Company:

To open a current a/c on the name of any partnership or company, the following documents are required to fill up application from stating about the name and address of the firm.

We can get an idea by observing this chart

All the features are like CD A/C as no restriction imposed by the bank. The Bank offers a reasonable rate of interest.

Kinds of Account

◆ Bank activity:

After selecting the type of account, customer needs to fill up a form which is known as account opening form. After filling up account the opening form by customer the assistant officer does following job:

- Verify all information
- Entry all customer information into DBBL’s online server
- After completion of entry assistant officer it sends to Second officer/Manager for authorization.
- If Second officer/Manager satisfies with customer information he gives authorization.
- Assistant officer gets new account number for certain customer after authorization

Kinds of Accounts

Total Deposit Account	500/=
Total Current Account	1000/=
Total savings Account	1500/=

5

The procedure of opening account is given is given below:

Step 1

Receiving filled up application and signed by account holder in bank’s Prescribed form mentioning what type of account is desired to be opened

Step 2

The form is filled up by the applicant himself / herself.

- # Two copies of passport size photographs from individual are taken, in case of firms photographs of all partners are taken.(attested by the introducer)
- # Applicants must submit citizenship certificates: Photocopy of valid passport or ward commissioner certificate
- # Application must sign in A/c opening form and KYC (Know Your Customer) form
- # Introducer's signature and accounts number – verified by legal officer.
- # Nominee name, signature and photograph one copy.

Step 3

Authorized Officer accepts the application

Step 4

Minimum balance is deposited – only cash is accepted

Step 5

Account is opened and a pay-in-slip book is given

Account procedure

After fulfilling the above formalities, DBBL Bank provides the customer pay-in-slip book that customer deposit their initial deposit.

◆ Checkbook:

In online banking it is difficult to issue cheque book immediately that is why it takes one or two days. A guarantee form is taken from the account holder when his book is lost, where he indemnifies the bank in this regard. A new requisition slip is given to him for a new cheque book. Only verification of senior officer will approve in this case.

◆ ATM Card:

An account holder gets a NEXUS Debit card at free of cost after opening account. It takes two or three weeks and sends him by mail.

◆ SPECIAL CAUTION MUST BE TAKEN FOR THE FOLLOWING CUSTOMERS:

In the name of individual

The client has to fill up an account opening form. Terms and conditions are printed on the back of the form. The form contains the declaration clause, special instructions etc.

In joint name

In this type, the formality is same as individual account, but in the special instruction clause, either or survivor' or 'former or survivor' clause is marked **Proprietorship** In addition, the customer has to submit the valid Trade License and Tax Paying Identification Number (TIN) along with the application.

Partnership Firm

- i. A copy of notarized partnership deed certified by all the partners or Registered partnership deed.
- ii. Resolution of the partners regarding account opening.
- iii. Photographs attested of those who will operate.
- iv. Trade license.
- v. Mandate as to operation of the account.

Public Limited Company

- i. Certificate of Incorporation
- ii. Copy of Memorandum and Articles of Association duly certified by the Register of Joint Stock Companies.
- iii. Certificate of Commencement
- iv. Form-xii and schedule X - duly certified by the Register of Joint Stock Companies.
- v. Copy of Resolution of the Board of Directors

Private Limited Company

- i. Certificate of Incorporation
- ii. Copy of Memorandum and Articles of Association
- iii. Copy of Resolution of the Board of Directors

Special Cushions of GB

◆ Account inquiry:

A customer can obtain the statement of his account by the submission of an application in prescribed balance inquiry receipt. DBBL does not charge any amount for this statement.

◆ Transfer of an A/C:

Account holder may transfer his account from one branch to another branch. For this he/she must apply to the manager of the branch where he is maintaining account. Then manager sends a request letter to the manager of the branch where the account holder wants to transfer his account. With his request he sends original copy of account opening application and specimen Signature Card and photocopy of application for transferring the account with the balance in the account. But now-a-days customer need not transfer their account from one branch to another branch. They can make transaction in any DBBL branch with truly on-line facility.

◆ Closing of an A/C:

The closing of an account may happen:

- a. If the customer is desirous to close the account
- b. If DBBL finds that the account is inoperative for a long duration.
- c. If Garnishee Order is issued by the court on DBBL.

To close the account, the cheque book is to be returned to the bank. DBBL takes all the charges by debiting the account and the remaining balance is then paid to the customer. Necessary entries are given to the account closing register and computer.

Clearing & Bill Collection Section

Customers do pay and receives bill from their counter party as a result of transaction. DBBL collects the bills on behalf of their customers. Collection mechanisms in DBBL are clearing, Outward Bill for Collection (OBC), Inward Bills for Collection.

◆ Clearing

When the bill is within the range of the clearinghouse it is sent for collection through clearing section. As far as safety is concerned customers get crossed cheque for the transaction Crossed check can't be encashment from the counter; rather it has to be collected through banking

channel i.e., clearing. If a client of DBBL received a check of another bank that is located within the clearing range and deposit the instrument in his account at DBBL, then DBBL will collect the money through clearing house. After received the check DBBL will credit client account. However, the amount is credited in the customer a/c but he will not get the money until the check is honored.

Procedures for collection:

- a. “Received” seal is stamped on the cheque
- b. Crossing of the cheques are done
- c. Proper endorsement is given
- d. “Clearing” seal with date is given
- e. Cheques are sorted bank wise and entries are given to the software-**NIKASH2** (Provided by Bangladesh Bank)

Function in the Clearing House:

- a. The clearinghouse is an assembly of the locally operating scheduled banks for exchange of checks, drafts, and other demand instruments drawn on each other and received from their respective customers for collection.
- b. The house meets at the appointed hour on all working days under the chairmanship of the central bank. The clearinghouse sits twice in a working day.
- c. The members submit the claimable checks in the respective desks of the banks and vice-versa.
- d. Consequently, the debit and credit entries are given.
- e. At the end, the debit summation and the credit summation are calculated. Then the banks clear the balances through the check of Bangladesh Bank.
- f. The dishonored checks are sorted and returned with return memo.
- g. If the instruments are dishonored then they are sorted again and sent back to the returning house along with their return memo.
- h. Later on all the instruments of DBBL which were claimed by other banks are sorted and delivered to respective branches.

◆ **Outward Bills for Collection (OBC):**

If the bill is beyond the clearing range then it is collected by OBC mechanism. Customer deposit cheque, drafts etc. for collection, attaching with their deposit slip, Instrument within the range of clearing are collected through local clearing house, but the other which are outside the clearing range are collected through OBC mechanism. A customer of DBBL of any branch is depositing a cheque, of Sonali Bank Cox's Bazar. Now as a collecting bank DBBL will perform the following task;

Procedure:

- a. Depositing the cheque along with deposit-slip
- b. Crossing of the cheques are done indicating particular branch as collecting bank.
- c. Endorsement "Payee's A/C will be credited on realization" is given
- d. Entries are given in the Outward Clearing Register (OBC) Collecting bank can collect it either by its branch or by the drawer's bank. They will forward the bill then to that particular branch. OBC number will give on the forwarding letter. Now following procedures will take place in case of the following two cases.

Foreign remittance collects by clearing:

- Foreign remittance prepare payment order prepare/fill-up debit voucher with whole amount fill up credit voucher with whole amount fill up credit voucher by individual party amount fill up debit voucher with whole amount send PO with forwarding letter
- Fund Transfer charge fill up the debit voucher/party debit fill up the credit voucher/single credit for commission for vat
- Cash Pick up fill up cash debit voucher get at least two sign of client behind cash debit voucher verify signature get sign form manager & operational manager

Cash Section

Banks, as a financial institution, accept surplus money from the people as deposit and give them opportunity to withdraw the same by cheque, etc. But among the banking activities, cash

department play an important role. It does the main function of a commercial bank i.e. receiving the deposit and paying the cash on demand. As this department deals directly with the customers, the reputation of the bank depends much on it. The functions of a cash department are described below:

Functions of Cash Department

Cash Payment

- ↪ Cash payment is made only against cheque.
- ↪ This is the unique function of the banking system which is known as "payment on demand"
- ↪ It makes payment only against its printed valid Cheque.

Cash Receipt

- ↪ It receives deposits from the depositors in form of cash
- ↪ So it is the "mobilization unit" of the banking system
- ↪ It collects money only its receipts forms

Cash packing:

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

CHAPTER -05

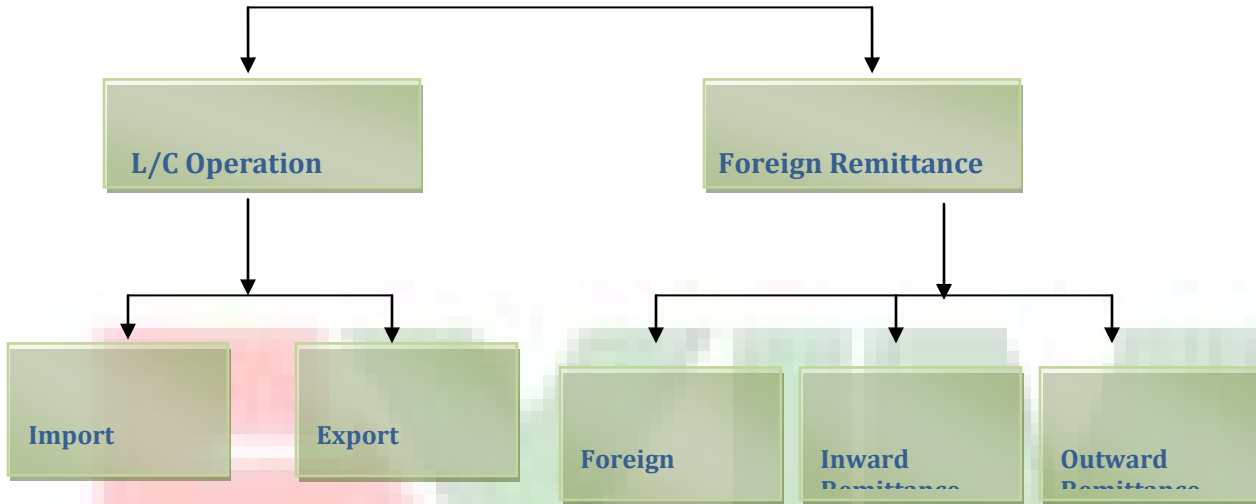
Foreign Exchange Division : EXIM Bank Vs. DBBL

5.1 Foreign Exchange Division of EXIM Bank Ltd.

It is a well known fact that money is a medium for all transaction that takes place inside the country as well as outside the country. In Bangladesh, we have the TK. Financing the internal trade and other obligation. So, the Home currency to be converted into currencies of other countries, to meet the obligation that arises out import of goods and services from other countries. That part of the economic science that deals with the conversion of Home currency into foreign currency for the purpose of setting international obligations is called Foreign Exchange. International trade and international money and capital modernists are the basis of foreign exchange dealings. Take a simple: Example if a Japanese exporter sells a machine to a Bangladeshi buyer to conclude the transaction the taka which the Bangladeshi business man has available will have to be changed in to yen, the currency sought by the supplier of the machine, or if continental banks want to place excess funds in the Eurodollar market rather than in their own domestic markets, they have to buy dollars against local currency. All claims to foreign currency payable abroad, whether Consisting of funds held (in foreign currency) with banks abroad, or bills of Cheques, again in foreign currency and payable abroad, are termed foreign exchange. All these claims play a part in the relations between a bank and its customers. In the trading of foreign exchange between banks, which is the job of the foreign exchange dealers, only foreign currency held with banks abroad is concerned. Foreign banks notes are not foreign exchange in the arriver sense. They can be converted into foreign exchange, however provided they can be placed without restrictions to the creditor of an ordinary commercial account abroad. The exchange regulations of some of some countries do not allow this conversion of bank notes into foreign reverse is nearly always permitted. A Currency, whether in foreign exchange or bank

notes is usually called convertible if the person holding it can convert it, in other freely in to any other currency.

Foreign Exchange Department:



Foreign exchange department of EXIM Bank,has been divided into two sections:

- 1). Foreign Remittance
- 2). L/C Operation

The Principal Foreign Exchange Instruments Being Used --

1. Bills of Exchange.
2. Banker's Draft or Banker's Cheque.
3. Mails or Air Mate Transfer.
4. Telegraphic Transfer.
5. Commercial Letters of Credit,
6. Traveler's Cheques.
7. Traveler's Letter of Credit.
8. Postal Money Orders.
9. Express Orders, Bank Post Remittances and Credit Cards.

5.2 Foreign Exchange Operation Procedure

The procedures, upon which foreign exchange transaction is transacted, stated in the following section:

1. The buyer and the seller conclude a sales contract providing for payment by documentary credit.
2. The buyer instructs his Bank, the issuing Bank to issue a credit in favor of the seller (beneficiary).
3. The issuing Bank asks another Bank, usually in the country of the seller to advise of confirms the credit.
4. The advising or confirming Bank informs the seller that the credit has been issued.
5. As soon as the seller receives the credit and is satisfied that he can meet its terms and conditions, he is in a position to load the goods and dispatch them.
6. The seller then sends the documents evidencing the shipment to the Bank where the credit is available (the nominated Bank) this may be the issuing Bank or the confirming Bank of a Bank named in the credit as the paying, accepting or negotiating Bank. If the credit allows for negotiation by any Bank, there will not be a "nominated Bank" and documents may be sent to any Bank willing to negotiate under the credit.
7. The Bank checks the document against the credit. If the documents meet the requirements of the credit, the Bank will pay, accept or negotiate, according to the terms of the credit. In the case of a credit available by negotiate without recourse, any other Bank including the recovers, any other Bank, including the advising Bank if it has not confirming the credit, which negotiated, will do so with recourse.
8. The Bank if other than the issuing Bank sends the documents to the issuing Bank.
9. The issuing Bank checks the documents and if they meet the credit requirements and other:
 - A. Affects payments in accordance with the terms of the credit, either to the seller if he was sent the documents directly to the issuing Bank or to the Bank that has made funds available to him in anticipation or negotiated the credit and
 - B. Reimburse in the pre-agreed manner the confirming Bank or any Bank that has paid, accepted or negotiated under the credit.

10. When the documents have been checked by the issuing Bank and fund to meet the credit requirements they are released to the buyer upon payment of the amount due or upon other terms agreed between him and the issuing Bank.

5.2.1 Forms of Documentary Credit

1. Revocable Credit

A revocable credit is one where the issuing bank at liberty to revoke i.e. cancels the credit at any time. According to UCPDC (), a revocable credit may amend or cancelled by the issuing bank at any moment and without prior notice to the beneficiary before shipment of consignment against the L/C.

2. Irrevocable Credit

An irrevocable L/C is one, which cannot be revoked, amended or modified by the bank with the concurrence of the interested parties.

PARTIES INVOLVED IN L/C

1. Importer (Buyer)/Applicant;
2. The Issuing Bank (Opening Bank);
3. The Advising Bank/Notifying Bank;
4. Exporter/ Seller (Beneficiary);
5. Confirming Bank;
6. Negotiating Bank and
7. The Paying/Reimbursing/Accepting/Remitting Bank.

Applicant:

The person / body (customer of the bank) who requests the bank (opening bank) to issue letter of credit. As per instruction and on behalf of the applicant, bank open L/C in line with the terms and conditions of the sales contract between the buyer and seller.

Opening Bank/ Issuing Bank:

The bank which open/issue L/C on behalf of the applicant/importer. Issuing bank's obligation is to make payment against presentation of documents drawn strictly as per terms of the L/C.

Advising/Notifying Bank:

The bank through which the L/C is advised/ forwarded to the beneficiary (exporter). The responsibility of advising bank is to communicate the L/C to the beneficiary after checking the authenticity of the credit. The advising bank acts only as agent of the issuing bank without having any engagement on their part.

Beneficiary:

Beneficiary of the L/C is the party in whose favor the letter of credit is issued. Usually they are the seller or exporter.

Confirming Bank:

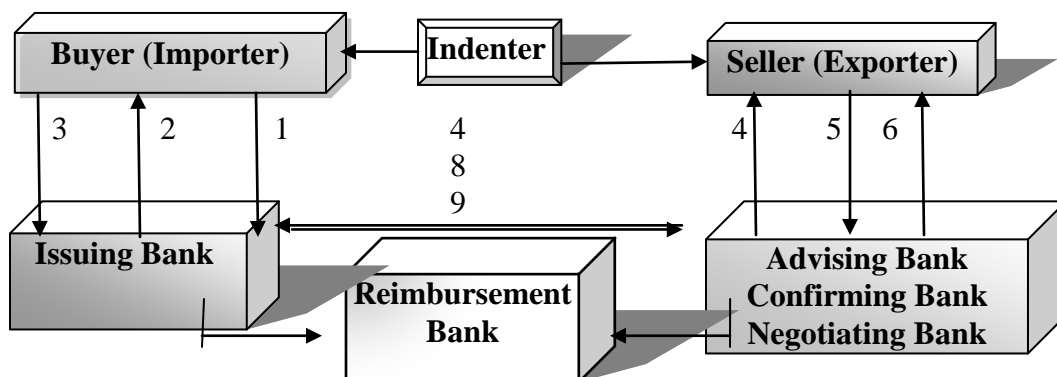
The bank, which under instruction in the letter of credit, adds confirmation of making payment in addition to the issuing bank. It is done at the request of the issuing bank having arrangement with them. This confirmation constitutes a definite undertaking on the part of confirming bank in addition to that of issuing bank.

Negotiating Bank:

The bank, which negotiate documents and pays the amount to the beneficiary when presented complying credit terms. If the negotiation of documents is not restricted to a particular bank in the L/C, normally negotiating bank is the banker of the beneficiary

Reimbursing/ Paying Bank:

The bank nominated in the credit by the issuing bank to make payment stipulated in the document, complying with the reimbursing bank



Import Section

The Import and Export trade of the country is regulated by Imports and Exports (control) Act 1950. There is a turnover of formalities which an importer has to fulfill before import goods. These formalities are explained below:

Procedures of Import:

The procedure that follows at the time of Import is as follows:

1. The Buyer and the Seller conclude a sales contract provided for payment by Documentary Credit.
2. The Buyer instructs his Bank (The Issuing Bank) to issue a Credit in favor of the Seller/Exporter/Beneficiary.
3. The Issuing Bank then sends messages to Another Bank (Advising Bank/Confirming Bank), usually situated in the country of Seller, advise or confirm the Credit Issued.
4. The Advising/Confirming Bank then informs the Seller through his Bank that the Credit has been issued.
5. As soon as the Seller receives the Credit, if the Credit satisfies him then he can reply.
6. He can meet its terms and conditions, he is in a position to load the goods and dispatch them.
7. The Seller then sends the documents evidencing the Shipment to the Bank where the Credit is available (the Nominated bank). This can be the Issuing bank or Confirming Bank, Bank named in the Credit as the paying accepting or Negotiating Bank.
8. The Bank then checks the Documents against the Credit. If the Documents meet the requirements of the Credit, the bank then pays, accepts or negotiates according to the terms of credit. In the case of a credit available by negotiation, Issuing Bank will negotiate with recourse.
9. The Bank, if other than the issuing Bank, sends the Documents to the Issuing Bank.
10. The Issuing Bank checks the Documents and if they find that the Document has met

the Credit requirements, they released to the buyer upon payment of the Amount due or other terms agreed between him and the issuing bank.

11. The Buyer sends transport documents to the carrier who will then proceed to deliver the goods.

Submission of necessary documents by exporter to the negotiating bank for securities:

As soon as the seller/exporter receives the credit and is satisfied that he can meet its terms and conditions, he is in position to load the goods and dispatch them. The seller then sends the documents evidencing the shipment to the bank. Exporter will submit those documents in accordance with the terms and conditions as mentioned in L/C.

Generally the documents observed by me in the foreign exchange department are:

1. Bill of exchange
2. Commercial invoice
3. Bill of lading
4. Certificate of origin
5. Packing list
6. Clean Report of Finding (CRF)
7. Weight list
8. Insurance cover note
9. Pre-shipment certificate

Export Selection

Literally, the term Export, we mean that carrying of anything from one country to mother. On the other hand bankers define Export as sending of visible things outside the country for dale. Export trade plays a vital in the development process of an Economy. With the Export earning, we meet our Import formalities which an exporter has to follow before and after shipment of goods. These formalities or procedures are enumerator as follows:

1. Registration of exporters

The exports from Bangladesh are subject to export trade control exercised by the ministry of commerce through chief controller of imports and exports. No exporter is allowed to export any

commodity perishable for export from Bangladesh unless he is registered with CCI & E and holds valid export registration certificate (ERC). The ERC is required to be renewed every year. The ERC number is to be incorporated on exp. From and other papers connected with exports.

2. Procedure for obtaining export registration certificate

For obtaining export registration certificate intending Bangladesh exports are required to apply to the controller/ joint controller/ deputy controller/ assistant controller of imports & exports, Dhaka / Chittagong/ Rajshahi / Khulna/ Mymensingh / Sylhet/ Comilla/ Barishal / Pabna / Bogra/ Rangpur/ Dinajpur as the case may be in the prescribed form along with the following documents:

- Nationality and assets certificate of the proprietor/ partners (directors)
- Registered partnership deed in case of partnership concern
- Bank solvency certificate
- Income tax certificate (TIN)
- Copy of valid trade license
- Copy of rent receipt of the business premises
- Member ship certificate of trade association
- Affidavit from magistrate 1st class and
- Any other certificate as required in the policy etc.

The following are the points which need to be followed while making a Export contract:

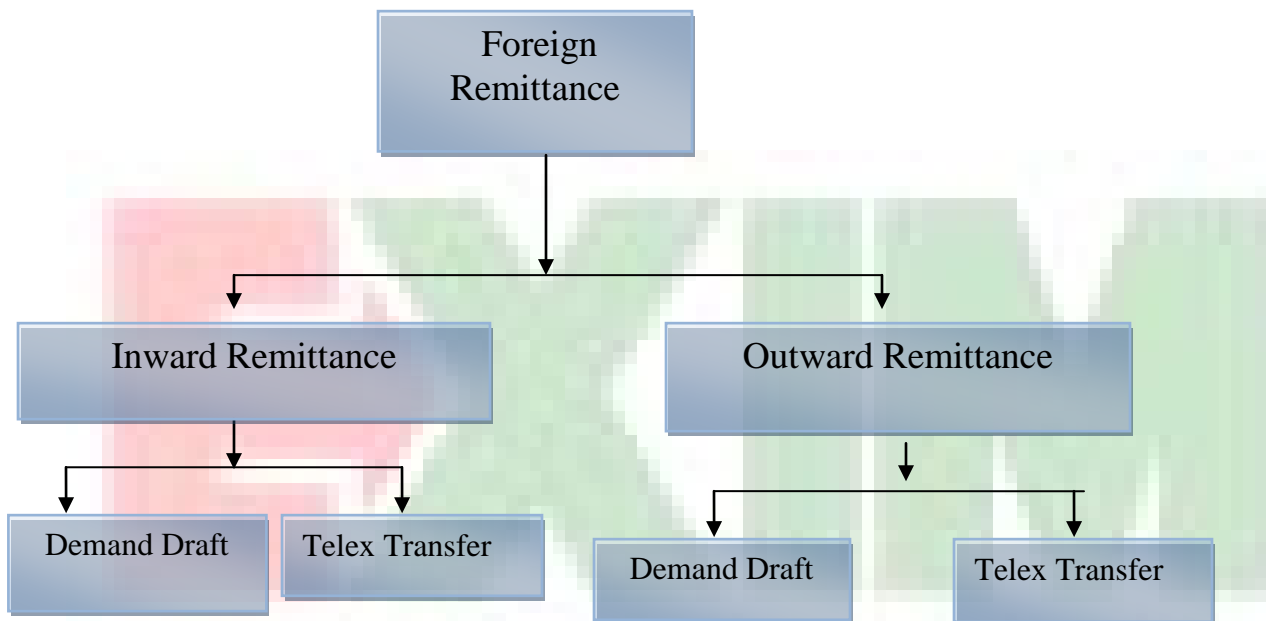
- Description of the commodity
- Quantity of the commodity
- Price of the commodity
- Shipment
- Insurance and marks and
- Arbitration
- Receiving the letter of credit



Foreign Remittance Selection

The branch facilities it's customer by conducting foreign remittance activities. There are two ways through which one can money from foreign remittance are places to another.

These are as follows:



- It Telegraphic Transfer
- Mail Transfer (MT).
- Foreign Drafts (FD).
- Payment Order (PO).
- Travelers Cheque (TC).
- Foreign Currency Notes.

Foreign Exchange Division of DBBL

Introduction:

H.E. Evitt defined “Foreign Exchange” as the means and methods by which rights to wealth expressed in terms of the currency of one country are converted into rights to wealth in terms of the currency of another country.

Foreign Exchange Department is international department of the bank. It deals with globally and facilitates international trade through its various modes of services. It bridges between importers and exporters. Bangladesh Bank issues license to scheduled banks to deal with foreign exchange. These banks are known as Authorized Dealers. If the branch is authorized dealer in foreign exchange market, it can remit foreign exchange from local country to foreign country. This department mainly deals with foreign currency. This is why this department is called foreign exchange department.

Some national and international laws regulate functions of this department. Among these, Foreign Exchange Act, 1947 is for dealing in foreign exchange business, and Import and Export Control Act, 1910 is for Documentary Credits. Governments’ Import & Export policy is another important factor for import and export operation of banks.

DBBL, **Gulshan Branch** foreign exchange department has three sub-sections. One is foreign remittance section, another is import section and the third one is export section. An AVP is the in-charge of the Foreign Exchange Department of this branch.

Foreign Trade:

Foreign trade can be easily defined as a business activity, which crosses national boundaries. These may be between parties or government ones. Trade among nations is a common occurrence and normally benefits both the exporter and importer. In many countries, international trade accounts for more than 20% of their national incomes.

Foreign trade can usually be justified on the principle of comparative advantage. According to this economic principle, it is economically profitable for the country to specialize in the production of that commodity in which the producer country has the greater comparative

advantage and to allow the other country to produce that commodity in which it has the lesser comparative advantage. It includes the spectrum of goods, services, investment, technology transfer etc. this trade among various countries calls for loose linkage between the parties dealing in trade. The banks, which provide such transactions, are referred to as rendering international banking operations. International trade demands a flow of goods from seller to buyer and of payment from buyer to seller. And this flow of goods and payment are done through Letter of Credit.

Letter of Credit:

Letter of credit (L/C) can be defined as a “Credit Contract” whereby the buyer’s bank is committed (on behalf of the buyer) to place an agreed amount of money at the seller’s disposal under some agreed conditions. Since the agreed conditions include, amongst other things, the presentation of some specified documents, the letter of credit is called Documentary Letter of Credit. The Uniform Customs & Practices for Documentary Credit (UCPDC) published by international Chamber of Commerce (1993) Revision; Publication No. 100 defines

Documentary Credit:

Any arrangement however named or described whereby a bank (the “issuing bank”) acting at the request and on the instructions of a customer (the “Applicant”) or on its own behalf,

1. is to make a payment to or to the order of a third party (the beneficiary) or is to accept and pay bills of exchange (Drafts) drawn by the beneficiary, or
2. authorizes another bank to effect such payment or to accept and pay such bills of exchange (Drafts)
3. Authorizes another bank to negotiate against stipulated documents provide that terms and conditions are complied with.

Types of Documentary Credit:

Documentary Credits may be either:

- (i) Revocable or, (ii) Irrevocable.

Revocable credit: A revocable credit is a credit that can be amended or cancelled by the issuing bank at any time without prior notice to the seller.

In case of seller (beneficiary), revocable credit involves risk, as the credit may be amended or cancelled while the goods are in transit and before the documents are presented, or although presented before payments has been made. The seller would then face the problem of obtaining payment on the other hand revocable credit gives the buyer maximum flexibility, as it can be amended or cancelled without prior notice to the seller up to the moment of payment buy the issuing bank at which the issuing bank has made the credit available. In the modern banking the use of revocable credit is not widespread.

Irrevocable credit: An irrevocable credit constitutes a definite undertaking of the issuing bank (since it cannot be amended or cancelled without the agreement of all parties thereto), provided that the stipulated documents are presented and the terms and conditions are satisfied by the seller. This sort of credit is always preferred to revocable letter of credit.

Sometimes, Letter of Credits is marked as either ‘with recourse to drawer’ or ‘without recourse to drawer’.

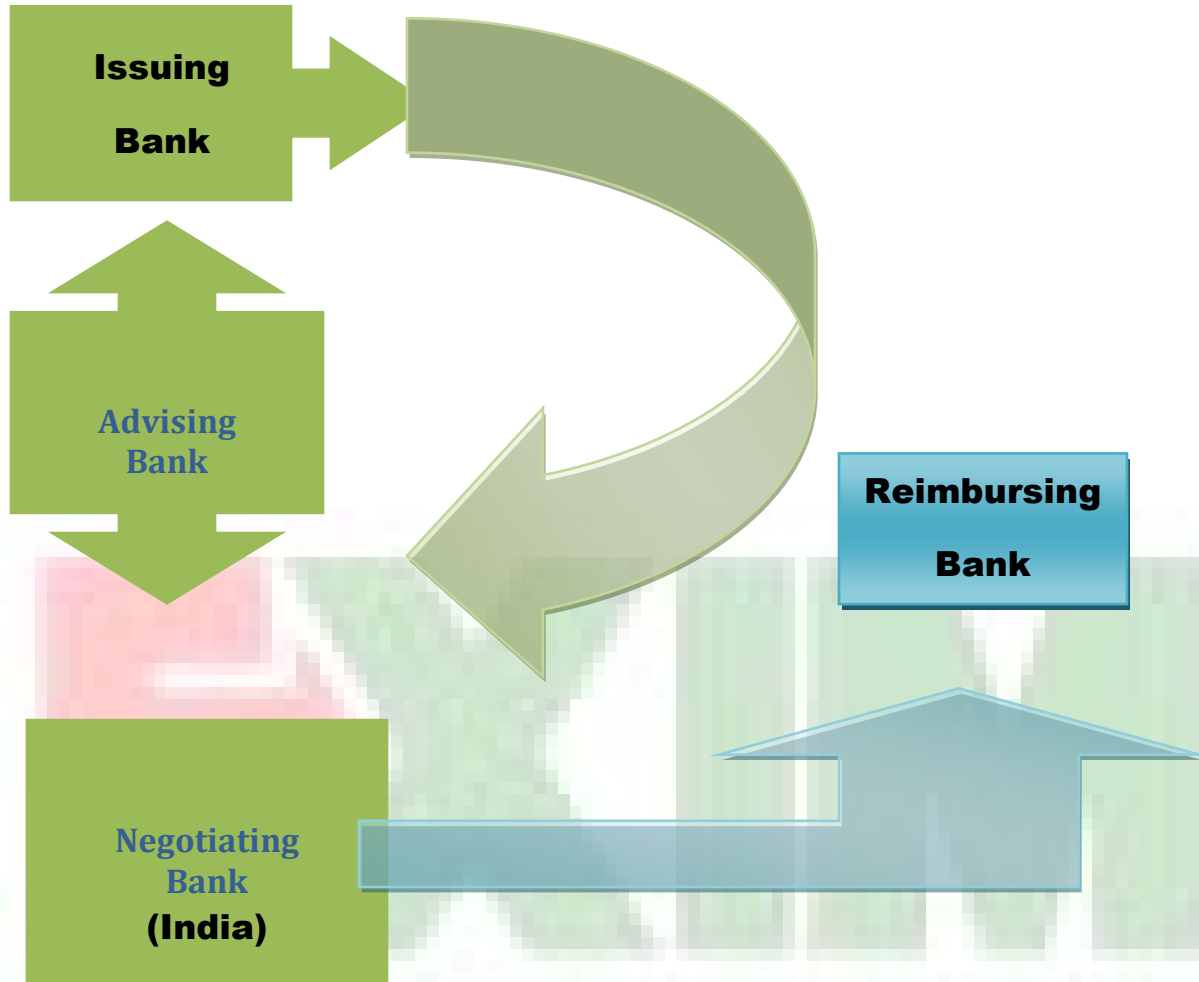
Parties to a letter of Credit:

The parties are:

- The Issuing Bank,
- The Confirming Bank, if any, and
- The Beneficiary.

Other parties that facilitate the Documentary Credit are:

- The Applicant,
 - The Advising Bank,
 - The Nominated Paying/ Accepting Bank, and
 - The Transferring Bank, if any.
- i. **Importer** – Seller who applies for opening the L/C.
 - ii. **Issuing Bank** – It is the bank which opens/issues a L/C on behalf of the importer.



- iii. **Confirming Bank** – It is the bank, which adds its confirmation to the credit and it is done at the request of issuing bank. Confirming bank may or may not be advising bank.
- iv. **Advising / Notifying Bank** – is the bank through which the L/C is advised to the exporters. This bank is actually situated in exporter’s country. It may also assume the role of confirming and / or negotiating bank depending upon the condition of the credit.
- v. **Negotiating Bank** – is the bank, which negotiates the bill and pays the amount of the beneficiary. The advising bank and the negotiating bank may or may not be the same. Sometimes it can also be confirming bank.
- vi. **Paying / Accepting Bank** – is the bank on which the bill will be drawn (as per condition of the credit). Usually it is the issuing bank.
- vii. **Reimbursing bank** – is the bank, which would reimburse the negotiating bank after getting payment – instructions from issuing bank.

Some Important Documents of L/C:

Forwarding: Forwarding is the letter given by the advising bank to the issuing bank. Several copies are sent to the issuing bank. All copies including original should be kept in the bank.

Bill of Exchange: According to the section 01, Negotiable Instruments (NI) Act-1881, A “bill of exchange” is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay [on demand or at fixed or determinable future time] a certain sum of money only to or to the order of a certain person or to the bearer of the instrument. It may be either at sight or certain day sight. At sight means making payment whenever documents will reach in the issuing bank.

Invoice: Invoice is the price list along with quantities. Several copies of invoice are given. Two copies should be given to the client and the other copies should be kept in the bank. If there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client. If any original invoice contains the custom’s seal, then it cannot be given to the client.

Packing List: Packing list is the letter describing the number of packets and there size. If there are several copies, then two copies should be given to the client and the remaining should be kept in the bank. But if there is only one copy, then the photocopy should be kept in the bank and the original copy should be given to the client.

Bill of Lading: Bill of Lading is the bill given by shipping company to the client. Only one copy of Bill of Lading should be given to the client and the remaining copy should be kept in the bank.

Certificate of Origin: Certificate of origin is a document describing the producing country of the goods. One copy of the certificate of origin should be given to the client and the remaining copy should be kept in the bank. But if there is only one copy, then the photocopy should be kept in the bank and the original should be given to the client.

Shipment Advice: The copy mentioning the name of the insurance company should be given to the client and the remaining copies should be kept in the bank. But if only one copy is given, then the photocopy should be kept in the bank and the original copy should be given to the bank.

Import Section:

Imports of goods into Bangladesh is regulated by the ministry of commerce and industry interims of the Import and Export (Control) Act, 1910, with import policy orders issued by annually, and Public Notices issued from time to time by the office of the Chief Controller of Import and Export (CCI & E). Through the process of import some vital but which are inadequate in our country products are imported to meet the local needs of the people.

Import Mechanism:

To import, a person should be competent to be an ‘importer’. According to Import and Export (Control) Act, 1910, the officer of Chief Controller of Import and Export provides the registration (IRC) to the importer. After obtaining this, the person has to secure a letter of credit authorization (LCA) from Bangladesh Bank. And then a person becomes a qualified importer. He requests or instructs the opening bank to open an L/C.

Source of Finance:

Import may be allowed under the following sources of finance:

- (a) Cash-
 - i. cash foreign exchange (balance of the foreign exchange reserve of Bangladesh Bank);
 - ii. Foreign currency accounts maintained by Bangladeshi Nationals working/living abroad.
- (b) External economic aid.
- (c) Commodity exchange.

Import Procedures:

An importer is required to have the following to import through DBBL---



- i. Applicant has to apply for opening L/C by a prescribed form.
- ii. Applicant has to submit the Letter of Indent or Letter of Proforma Invoice.
Letter of Indent: Many sellers have their agent in seller's country. If the contract of buying is made between the buyers and the agent of the sellers then Letter of Indent is required.
Letter of Proforma Invoice: If the contract is made directly between the buyers and the sellers then Letter of Proforma Invoice is needed.
- iii. Applicant has to submit IRC (Indentors Registration Certificate). It is a certificate being renewed every year. This certificate is necessary if the contract is made between the buyers and the agents of the sellers. IRC is of two types – COM and IND. COM is given for commerce purpose and IND is given for industrial purpose.
- iv. Applicant has to submit LCAF (Letter of Credit Authorization Form).
- v. Applicant has to submit insurance document.
- vi. Applicant has to prepare FORM-IMP.
- vii. Recently, there has been made a provision to give a certificate named TIN (Tax Payers Identification Number). Taxation department issues this certificate.
- viii. Then after proper scrutiny bank will open an L/C.

While opening L/C, importer must keep certain percentage of the document value in the bank as margin.

Procedures of Opening L/C to Import:

To open an L/C, the requirements of an importer are:

- a. He must have an account in DBBL.
- b. He must have Importers Registration Certificate (IRC).
- c. Report on past performance with other bank. DBBL collects this report from Bangladesh Bank.
- d. CIB (Credit Information Bureau) report from Bangladesh Bank.
- e. A proposal approved by the meeting of executive committee of the bank. It is necessary only when the L/C amount is small or there is no limit.



CHAPTER -06

Investment Division of EXIM bank Vs. Loan & Advance of DBBL

6.1 Investment Division of EXIM Bank Ltd.

For any bank, loans and advances constitute the largest portion of asset section in Balance Sheet. Investment division of financial institutions plays a vital role in developing the national economy. Without such support development for a country like Bangladesh were difficult to imagine. The main objective of EXIM Bank Limited is to boost up the economy by providing adequate support to the market through its investment division.

Investment Products

- » Corporate Finance
- » Commercial Finance
- » Industrial Finance
- » Project Finance
- » Lease Finance
- » Syndicate Finance
- » Hire Purchase Finance
- » Real Estate Finance

Loan And Investment Policy Of EXIM Bank

In a bank all loans are its investment but all investments are not loans. Banks make both loans and investment for different purposes. The dual purposes of loans and investments are liquidity and profitability. More loans mean more risks and more profit while more investments mean more liquidity but less profit.

Investments are made in more liquid and less profitable instruments while loans are made at higher profit on less convertible security. Investments are generally made in government

instruments with strong liquidity. More investments in highly secured and liquid instruments would ensure safety with less profit while more loans could make a bank vulnerable but very profitable. Thus a balance between liquidity (investment) and profitability (loans) needs to be arrived at judiciously by each and every bank.

General Policy Guidelines

- » **EXIMBank** makes loan to reputed clients.
- » Encourages lending to socially desirable, nationally important and financially visible sector.
- » Satisfactory security and collateral is required including source of repayment both primary and secondary source.
- » **EXIMBank** may consider term loans with maturity up to five years.
- » **EXIMBank** extends credit facilities to the area, which the branch located and size and ability of its staff to supervise and monitor the same also considered.
- » Maximum size of the loan portfolio.
- » The Banking Corporation Act 1991 restricts lending to any single obligor or a group of companies up to 155 of the capital funds without having approval from Bangladesh Bank. With the Bangladesh Bank the maximum limit can go up to 100% of the capital of the bank.

Types of Loans And Advances

There are two types which are given below-

1. Industrial credit:

Industrial credits are given for industrial purpose. The sector where some processes are involved is called industry, such as shape of material. Industry can be two types

- a. Manufacturing industry- cement, steel factory etc.
- b. Service industry- hotel, transport etc.

Industrial credit is given for two purposes:

- » Term loan- fixed assets financing.
- » Working capital- current assets financing.

2. Commercial Credit:

Commercial credits are given for trading purpose where no process is involved. EXIM lends support towards development of trade, business and other commercial activities in the country.



Forms of Loans and Advances

The making of loans and advances has always been prominent and profitable function of a bank. Sanctioning credit to customers and others out of the funds at its disposal is one of the principle services of a modern bank. Advances by EXIM Bank are made in different forms Such as:

- o Overdraft
- o Cash Credit
- o Term Loan
- o Staff Loan
- o Bills Portfolio
- o Packing Credit
- o Bank Guarantee
- o Commercial Loan

Commercial Loan:

- PAD(Payment Against Documents)
- LIM(Loan against Imported Merchandise)
- LTR(Loan against Trust Receipts)

Types of Borrower

1. Single/individual
2. Joint holder
3. Proprietorship firm
4. Partnership firm
5. Private Limited Company

Mode of Investment

» Mudaraba

It is a form of partnership of profit where one party provides funds while the other provides expertise and management. The first party is called the Sahib-al-Maal and the latter is referred as the Mudarib. Any profits acquired are shared between two parties on a pre-agreed basis, while capital is due to the breach of trust by the mudarib

» Bai-Muazzal

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

» **Bai-Murabaha**

Bai-Murabaha may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods (permissible under Islamic Shariah and the law of the land) to the buyer at a cost plus agreed profit payable in cash or any fixed future date in lump sum or by installments. The profit marked up may be fixed future lump sum or in percentage of the cost price of the goods.

» **Musharaka**

Musharaka is a contract of partnership between two or more individuals or bodies in which all partners contribute capital, participate in the management, share the profit in proportion to their capital as per pre-agreed ratio and bear the loss, if any in proportion to their capital/equity ratio.

» **Izara Bill Baia**

Izara bill baia is a special type of contract which has been developed through practice. Actually, it is a synthesis of three contracts Shirkat, Izara and Sale. When two or more persons supply equity, purchase an asset own the same jointly and share the benefit as per agreement and bear the loss in proportion to their respective equity, the contract is called Izara Bill Baia Contract.

» **Wazirat Bill Wakala**

Wazirat Bill Wakala may be defined as a contract between a buyer and a seller under which the seller sells in advance in the certain commodities sells products permissible under Islamic Shariah and the law of the land to the buyer at an agreed price payable an execution of the said, contract and the commodities/products are delivered as per specification, size, quality, quantity at a future time in a particular price. In other word Wazirat Bill Wakala is a sale where by seller undertake to supply some specific commodities or products to the buyer at a future time in exchange of an advance price fully paid on the spot.

» **IBP**

Payment made through purchase of inland bills/cheques to meet urgent requirement of the customers falls under this type of investment is adjustable from the proceeds of bills/cheques purchased for collection. It falls under the category ‘Commercial Lending’.

» **FDBP (Foreign Documentary Bill Purchased)**

Payment made to customers through purchase/negotiation of foreign documentary bills falls under this head. This temporary investment is adjustable from the proceeds of the shipping/export documents. It falls under the category ‘Investment on Export’.

» **LDBP (Local Documentary Bill Purchased)**

Payment made against documents representing sell of goods to local export oriented industries that are deemed as export and which are denominated in Local Currency/Foreign currency falls under this head. This temporary liability is adjustable from proceeds of the bill. Lending Risk Analysis (LRA) the principal function of the Bank is to lend. Lending comprises a very large position of Bank’s total assets and forms the backbone of the Bank. Sound lending is very important for profitability and success of a bank. For the sake of sound lending it is necessary to develop a sound policy and modern lending techniques have to be adopted to ensure that loans are safe and the money will come back within the time set for repayment

Documents Required For Procuring Loan Proposal

The client should supply the following documents

- a. TIN certificate of the client.
- b. Bank statement for last two years.
- c. Up to date trade license.
- d. Present liability position of the company and owners.
- e. Name and address of the Sister concern
- f. Export and import performance.
- g. Personal information in a prescribed form.
- h. Balance sheet for the last three years.
- i. Memorandum and Articles of the Association signed by the Managing director.
- j. Profile of directors and partners.

Loan Disbursement

Loan is allowed for a single purpose where the entire amount may be required at a time or in a number of installments within a period of short span. After disbursement of the loan amount, there will be only repayment by the borrower. A loan once repaid in full or in part, cannot be drawn again by the borrower. Entire amount of loan debited to the loan account in the name of the customer and is paid to him through his STD/CD Account. Sometimes loan amount is disbursed in cash.

6.2 Investment Division of DBBL

Loan & Advance of DBBL

Life Line: The services

To sustain in the highly competitive market, DBBL has been endeavoring to come up with new products which are essential for individual and family life. Life line is not an exception. This is a product category specially designed to meet up the need of everyday life. DBBL considers the product line in the following way:

“A complete series of personal credit facilities to add more color in very step of your life”

The life line products can be divided into two parts, namely clean credit line and secured credit lines.

Clean Credit Lines

This type of credit line does not require any cash security or any personal guarantee.

Health Line: health line credits are given mainly for hospitalization or other emergency medical needs or to purchase body fitness equipments

Education Line: education loans are given for Higher education purposes, for tuition fees or other Educational expenses and to purchase of computer etc.

Professionals Line: targeted to purchase of Professional equipments and for Office renovation/decoration

Marriage line: Marriage line credit are designed to meet marriage expenses for himself/herself and Marriages in the family

Travel Line: travel line credits are given for Honeymoon trip, abroad or in the country or for any Family trip, abroad or in the country

Festival Line: To enjoy festive period Gift for the family / in laws / relatives

Dreams come True line: these are special credit lines designed to purchase TV, Fridge, Furniture, Home Theatre, Motor Cycle, AC etc. Or to decorate/renovate own Home/Car.

Care Line: care loans are for the fulfillment of parents need/dream and to purchase economy car for the family

General Line: if there is any other legitimate purpose which does not fall under the above specific lines, then DBBL calls it general line loans.

Secured Credit Lines:

Consumers enjoy flexible facilities with minimum security it requires.

Auto Line: Auto loan is for purchasing a new / re-conditioned car or Refinancing of availed car

Home Line: Home loan is usually disbursed for the following categories:

- To purchase a flat
- Refinancing of owned house property
- Home renovation
- Extension / construction of building

Full Secured Lines: for family purpose or any other valid purposes, full secured loans are disbursed.

Risk Management of DBBL

Risk management

In this section a summarized position of various risks facing DBBL while conducting its business and operations and steps taken by the Bank to effectively manage and mitigate such risks are discussed.

Risk Management Framework

Risk is defined by DBBL as risk of potential losses or foregone profits that can be triggered by internal and external factors. Therefore, the objectives of risk management are identification of potential risks in our operations and transactions, in our assets, liabilities, income, cost



and off-balance sheet exposures and independent measurement and assessment of such risks and taking timely and adequate measures to manage and mitigate such risks within a risk-return framework. In DBBL, only calculated risks are taken while conducting banking business to strike a balance between risk and return. Risk is clearly identified, mitigated or minimized and if possible eliminated to protect capital and to maximize value for shareholders. It is also ensured that on-balance sheet and off-balance sheet risks taken by the Bank are consistent with risk appetite and short term as well as long term strategic objectives of the Bank. A wide range of tools and techniques are used to address & mitigate all kinds of inherent and potential risks in banking operations. The Bank attaches highest priority to establish, maintain and upgrade risk management infrastructure, systems and procedures. In this regard, sufficient resources are allocated to improve skills and expertise of relevant banking professionals to manage the risk effectively. The policies and procedures are approved by the Board and assessed on a regular basis to bring these to the level of satisfaction required to manage & mitigate the risks adequately and consistently. Ultimate responsibility for effective risk management lies with the Board of Directors of DBBL. The Board itself and through delegated authority to various committees of the Board, like Audit Committee and Executive Committee, sets principles and limits, review and monitor various risks to assess adequacy of system and to ensure that the Bank is operating within approved systems

Risk Management Procedure

Approved predetermined policies and guidelines to ensure that risks are properly addressed and protected for sustainable development of the Bank, there are approved policies and procedures covering all the risk areas i.e. Credit risks, operational risks and market risks. These are formulated taking into account Bangladesh Bank's Guidelines on managing Core Risks on Credit Risk Management, Internal Control & Compliance, Asset and Liability Management, Foreign Exchange Risk Management, Information Technology Risk Management and Money Laundering Risk Management as well as the business environment in which the Bank operates, specific needs for particular type of operations or transactions and international best practice. These policies are regularly reviewed and updated to keep pace with the changing operating environment, technology

and regulatory requirement. Meticulous compliance with the established procedures are ensured to satisfy that the Bank is operating within approved procedures and limits and that risks are within tolerable limits to effectively ensure long term solvency and sustainable growth of the Bank.

Types of Risks

Credit Risk

Credit risk is the most significant and inherent risk in banking business. Every loan exposure or transaction with counterparty involves the Bank to some degree of credit risks. Credit Risk Management is at the heart of the overall risk management system of the Bank. It is designed and continuously updated to identify, measure, manage and mitigate credit risk to maintain and improve quality of loan portfolio and reduce actual loan losses and to ensure that approved processes are followed and appropriate due diligence are made in approving new credit facilities and renewals. Early warning system Operation and performance of loans are regularly monitored to trigger early warning system to address the loans whose performance show any deteriorating trend enabling the Bank to grow its credit portfolio in a sustainable way to ensure higher quality and lower risk with the ultimate objective to protect the interest of depositors and shareholders.

Market risk

Market risk is the risk of losses in on and off-balance sheet positions arising from movements in market price such as changes in interest rate and price of equity, foreign exchange and commodity.

Liquidity, interest rate and foreign exchange risks

The Treasury Division manages the liquidity, interest rate and foreign exchange risks with oversight from Asset-Liability Management Committee (ALCO) comprising senior executives of the Bank. ALCO is chaired by the Managing Director. The Committee meets at least once in a month. The Board approves all risk management policies, sets limits and reviews compliance on a regular basis. The overall objective is to provide cost effective funding to finance the asset growth and trade related

transactions, optimize the funding cost, increase spread with the lowest possible liquidity, maturity, foreign exchange and interest rate risks.

Liquidity risks

Liquidity risk is the risk that we may not meet our financial obligation as they become due. Liquidity risks also include our inability to liquidate any asset at reasonable price in a timely manner. It is the policy of the Bank to maintain adequate liquidity at all times in both local and foreign currencies. Liquidity risks are managed on a short, medium and long-term basis. There are approved limits for credit / deposit ratio, liquid assets to total assets ratio, maturity mismatch, commitments for both on-balance sheet and off-balance sheet items and borrowing from money market to ensure that loans & investments are funded by stable sources, maturity mismatches are within limits and that cash inflow from maturities of assets, customer deposits in a given period exceeds cash outflow by a Comfortable margin even under a stressed liquidity scenario.

Foreign Exchange Risk

Foreign exchange risk is potential loss arising from changes in foreign currency exchange rate in either direction. Assets and liabilities denominated in foreign currencies have foreign exchange risks. The Bank operates its foreign exchange and money market activities under a centralized and single functional area. DBBL's dealing room is equipped with advanced technology and experienced personnel. Bank's Exchange Rate Committee meets on a daily basis to review the prevailing market condition, exchange rate, exposure and transactions to mitigate foreign exchange risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequacy or failure of internal processes, systems and people or from external events.

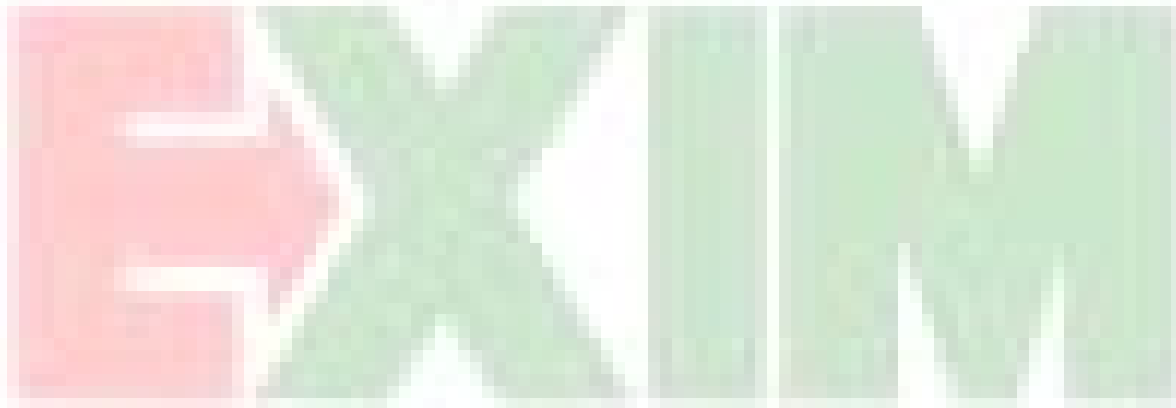
Internal Control & Compliance Risk

The Board of Directors approved updated policy guidelines on Internal Control & Compliance Risk (ICC) management thereby restructuring the organizational chart of the Bank in accordance with the instructions of Bangladesh Bank for managing core risks. In line with the aforesaid policy guidelines, Bank's own working manual on ICC has been approved by the Board of Directors and the manual is now in operation. Internal Control &

Compliance Division of the Bank under direct supervision of Audit Committee of the Board has been implementing detail guidelines on ICC risk management to assess and mitigate risks

Money Laundering Risk

In order to prevent money laundering, Money Laundering Prevention Act, 2002 was enacted in our country to give tight rein on money laundering process. Bangladesh Bank undertook a project in the year 2003 to review the global best practices in the risk areas in view of globalization of business and identified 5 (five) core risks for implementation by the banks which included, among others, Money Laundering Risk.





CHAPTER -07

Findings & Conclusion

7.1 Findings

Since This report focuses on the differences between Islamic banking and conventional banking studying two different banks(EXIM bank ltd as an Islamic Bank and DBBL as conventional bank) It finds out numerous differences in various areas. These are;

Differences of philosophy & principles

Characteristic	Islamic banking system followed by EXIM bank Ltd.	Conventional banking system followed by DBBL
Business Framework	Functions and operating modes are based on Shariah and Islamic banks must ensure that all business activities are in compliance with shariah requirements.	Functions and operating modes are based on secular principles, not religious laws or guidelines.
Interest charging	Financing is not interest (Riba) oriented and should be based on risk-and-reward sharing.	Financing is interest oriented, and a fixed or variable interest rate is charged for the use of money
Interest on deposits	Account holders do not receive interest(riba) but may share risk and rewards of investment made by the Islamic bank	Depositors receives interest and a guarantee of principle payment
Risk sharing in equity financing	Islamic banks offer equity financing with risk sharing for a project or venture. Losses are shared on the basis of equity participation, where as profit is shared on the basis of pre-agreed ratio.	Risk sharing is not generally offered but is available through venture capital firms and investment banks, which may also participate in management
Restrictions	Islamic banks are allowed to	Traditional banks may finance any



	participate only in economic activities that are Shariah compliant.	lawful product or service
Zakat	One of the functions of the Islamic Banks is to collect and distribute zakat.	Traditional banks do not collect and pay any religious tax
Penalty on default	Islamic banks are not allowed to charge penalties for their enrichment. They may however allow imposition of default or late-payment penalties on the grounds that these penalties discourage late payments or defaults, which impose administrative costs on bank for processing and collecting the amount owed. Penalties may be donated to a charity or used to offset collection cost.	Traditional banks normally charge additional money (compound interest) in case of late payment
Customer Relationship	The status of client is that of partner and investor	The status of a client is one of creditor and debtor
Shariah supervisory Board	Each Islamic bank must have a supervisory board to ensure that all its business activities are in line with Shariah's requirement	Traditional banks do not have such requirements. Only Bangladesh Bank control over the activities.
Statutory Requirements	An Islamic bank must be compliance with the statutory requirements of the central bank of the country in which it operates and also Shariah's guidelines	An traditional banks must be in compliance with the statutory Requirements of the Central bank of the country in which it operates and in some places, the banking laws of state or other localities.

2. Differences of operational activities

General banking Division: EXIM Bank Vs. DBBL

Since both banks are commercial bank they relatively follow same procedures in performing general banking activities. Both have four separate sections such as 1) Account opening section 2) Cash Section 3) clearing section and 4) remittance section. Only a little differences exist here under account opening section in the types of account.

EXIM bank ltd maintains different types of accounts through this department. Such as:

- ↻ Al –Wadiah (Current Deposit) account.
- ↻ Mudaraba Savings (SB) Deposit account.
- ↻ Mudaraba Short Term Deposit (MSTD).
- ↻ Mudaraba Monthly Savings Scheme.
- ↻ Mudaraba Monthly Income Scheme.
- ↻ Multiplus Savings Scheme.

On the other hand, **DBBL** maintains following types of account;

1) Current Account:

A current deposit account may be operated in several times during a working day. There is no restriction on the number and the amount of withdrawals from a current account and banker does not allow any interest on this account DBBL Banks normally prefer current account due to its cost free nature.

2) Savings account

A saving account is meant for the person of the lower and the middle classes who wishes to save a part of their income to meet their future needs and intend to earn an income from their savings .This is an interest bearing account and a reasonable rate of interest is offered, which is higher than that of short term deposit

3) Other types of account

- a) For Joint Stock companies
- b) Association, Clubs etc
- c) For Partnership / Proprietorship Company

2. Foreign Exchange Division : EXIM Bank Vs. DBBL

Bai murabaha import bill (MIB) vs. against import bills (Bills under L/C)

Bai murabaha import bill (MIB)- in **Exim Bank Ltd.** this type of investment is given through the Bai-Murabaha principle, where the bank imports specific goods as per client's order and payment is made by the bank against lodgment of shipping documents of goods imported through L/C of the bank.

Against import bills/BLC- in **DBBL** here after the lodgment of shipping documents received from foreign banks against the L/C established by the importer's bank, advance is made.

Murabaha post import(MPI) Vs. Loan against imported merchandise(LIM)

Murabaha post import(MPI) in *Exim Bank* whereas the importers apply for investment facility against imported goods after shipment, for payment of the invoice values of the goods to the seller/ supplier including custom duty, VAT and other expenses. In such a case, *Exim Bank Ltd* allows a Bai-Murabaha investment facility (contract of buy & sell with predetermined cost price and mark up declared separately) under single deal concept where investment is made for releasing goods from custom by the bank. Here the bank has control on goods by pledge and later bank hands over the goods to the client after the cash payment.

Loan against imported merchandise(LIM) in *DBBL* under this type of loan imported merchandise bank release goods through the nominated clearing agent and holds the possession of goods. Importer takes delivery of the goods from the bank's godown against cash payment.

Murabaha trust receipt (MTR) Vs. Trust receipt (TR)

MTR- investment in *Exim Bank Ltd* allowed for retirement of shipping documents and release of goods through L/C fall under this head. But the basic difference is that here investment is made through Bai-Murabaha mode where according to contract(of predetermined price & profit disclosed separately) bank will import for client and release the goods from custom by payment and make delivery of the goods to the client by hypothecation with trust that bank will pay at agreed amount in future.

BAIM (P.C.) vs. packing credit

BAIM (P.C)-in the Bai-Muazzal mode of investment, *Exim Bank* ltd imports raw materials as per order of the client and under hypothecation delivers the goods to the client for continuing the manufacturing process and according to the contract. The client will make repayment within a fixed time at a fixed rate of profit.

Packing Credit under *DBBL* is a pre-shipment export finance for purchasing raw materials for manufacturing, processing, packaging and exporting finished goods. The credit is granted against L/C or a firm contract in favor of borrower.

3. Investment vs. Loan & advance Division: EXIM Bank Vs. DBBL

Terminology: Exim bank Ltd vs. DBBL

Loan and credit department in Exim bank Ltd is termed as “*investment division*” whereas is “*loan and advance*” in DBBL. The following table shows same division used in different terminologies:

Modes of Investment in Exim Bank Ltd.	Modes of Loan & advance in DBBL
Mudaraba	1. Life Line: The services
Bai-Muazzal	2. Clean Credit Lines
Bai-Murabaha	Health Line, Education Line, Professionals
Musharaka	Line, Marriage line, Travel Line, General Line,
Izara Bill Baia	Dreams come True line, Care Line, Festival
Wazirat Bill Wakala	Line
FDBP (Foreign Documentary Bill Purchased)	3. Secured Credit Lines
LDBP (Local Documentary Bill Purchased)	Auto Line, Home Line

BAIM (hypo) Vs. Cash credit

BAIM (hypo): The bank will buy goods and then sell it to the client. Bank also can engage an agent for to buy the goods or can engage the client as an agent of bank. In this case, Exim bank will have the title of the goods and client will enjoy the possession of the same according to the rules of hypothecation.

C.C (hypothecation): In this case, DBBL lends the money to the client under hypothecation where the bank will have the title of the goods and client will enjoy the possession of the same goods.

Overdraft: Exim Bank Ltd Vs. DBBL

Overdraft: Overdraft is an arrangement between a banker and his customer by which the later is allowed to withdraw over and above his credit balance in his current account. Exim bank ltd as an Islamic bank does not provide this type of facilities as it is not supported by Shariah. Whereas DBBL provide this facilities.

BAIM (FO) Vs.Loan against DPS/APS

Baim(FO)-Exim bank ltd provides this kind of short term investment by the head BAIM (FO) which is investment against financial instruments, which may also call lien in regular banking but the difference is here the client get investment on the mode of Bai-Muazzal.

Loan against DPS/APS-under DBBL provides loans against financial instruments like lien on FDR/PSP/BSP/Insurance policy/shares etc. This is a short term loan or working capital for temporary accommodation of fund to the clients.

Izara/Izara Bill Baia Vs.Term loan

Izara/Izara Bill Baia- under the mode Izara, any asset owned by the bank, by creation, acquirement or building –up is rented out is called Izara or leasing. Exim Bank buys the asset/property and give it as lease to the client and collect rents at a determined rate for using the asset. At the end of the leased period the asset may be sold to the client at an agreed price.

Term loan- it is an investment which is payable for one to five years, usually for capital expenditure such as construction of factory building, purchase of new machineries, modernization of plant etc. This type loan is also given by the DBBL to the retail customers for buying cars, flats and home durables etc.

7.2 Conclusion

Islamic banking system has tremendous potentiality and prospect in Bangladesh. The Islamic banking concept pioneered by Islamic Bank Bangladesh Ltd. has popularized the this system so much that most proliferate and distinguished banks both national and multinational open their Islami banking wings such as Standard Chartered, HSBC, The City Bank, Dhaka Bank etc. are reported to be successfully performing shariah based banking.

Exim Bank as an Islamic Banking has experienced a phenomenal growth and expansion in Bangladesh in the backdrop of strong public demand and support for the system along with its gradually increasing popularity across the world. Though it has strong public demand and support, people of our country still have less awareness about Islamic Banking system and they are supporting Islamic Banking system because of their religious belief without understanding how it is different from the Conventional Banking system (DBBL).

Islamic Banks should develop awareness about Islamic Banking among the clients more effective efforts like seminars and get-together along with different motivational programs should be taken and implemented. The Islamic banks also should introduce more PLS based products and innovative facilities rather than imitating the conventional facilities and make the clients educated about the banking system.

So based on secondary data and related study of both banks as well as my three month practical observation It is concluded that there is a significant differences between two EXIM bank ltd and DBBL in respect to operation, principles and philosophy though they serve themselves as a commercial bank.



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