

BRAC University

Brac business School

Intern Report

**General Idea About Investment of Al-Arafah
Islami Bank Limited**

Prepared For
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Subject: Report on General Idea about Investment of Al-Arafah Islami Bank Limited.

Dear Madam,

I have got opportunity of practical working in Bangladesh development bank limited and prepare an in internship report on General Idea About Investment of Al-Arafah Islami Bank Limited (AIBL). I was assigned as a BBA student, which was the part of my academic program. In the preparation of this report, I have studied various documents and have gathered practical knowledge.

In this report, I have tried to give my best effort. There may be some shortcomings. I would be grateful if you consider those form excusable point.

I therefore, request and hope that you would be kind enough to accept my evaluation and oblige thereby.

Sincerely yours

Acknowledgement

It is great privilege to express our gratitude to our creator Allah for such great opportunity to be in touch with Al-Arafah Islami Bank Limited (AIBL) for the following days. We also have to put our heartened feelings and gratitude for the kindness and assistance that was provided to me to complete our assigned report as on the topic **“General Idea About Investment.”** In preparing the proposed report we have taken great assistance support and guidance from the employee of Al-Arafah Islami Bank Limited, Gulshan Branch.

I express my heart full thanks to all the employee of Al-Arafah Islami Bank Limited (AIBL) especially to Mr. Zakir Anam (Senior Vice President & Manager) and Mr. Javed Tarek Khan (Vice President & Second Officer) who gave us necessary information and excellent guidance to prepare this internship report.

I am very grateful to Mr Asraful Kabir (Executive Officer of Invesyment Division), Mr. Imran Hasan (Executive Officer) & Mr. Md. Asifur Rahman Asif (Officer) for their hearty co-operation to learn about AIBL **“General Idea About Investment”** as well.

We also like to thanks all the other employees of all level for their beloved manner and attitude that they had shown to us during the staying in the Branch.

Executive Summary

This report is prepared as requirement of the internship of BBA program of BRAC University. This report focuses Three months working experiences in Gulshan Branch of Al-Arafah Islami Bank Limited. This report will give a clear idea about activities and operational strategies of (AIBL). This report focuses on **“General Idea About Investment”** of AIBL. Especially this report focuses on mode of investment, loan and non-performing loan of AIBL.

Al-Arafah Islami Bank Limited (AIBL) was established in September'27, 1995 with a clear manifesto of demonstrating the operational meanings of participatory economy, banking and financial activities as an integral part of an Islamic code of life. The philosophy of Al-Arafah Islami Bank Limited is to establish as egalitarian society based on the principle of social justice and equity. As an integral part of this process Al-Arafah Islami Bank introduced measures to abolish interest and charge or pay fixed interest on loans or deposits. Interest of pre determined interest on deposits; the depositors participate in the profit of the bank as an agreed ratio. Whereas, interest based conventional banks pay a fixed interest on savings and time deposits and grant loans with interest for any purpose.

Basically AIBL is an Islamic Bank based on **“ISLAMIC SHARIAH”**. It follows the alternative concept of Al-Arafah Islamic Banking. Which represents unique human approach to credit and banking based on profit-oriented economy devoid of interest, in this regard AIBL has introduced a number of income generating programs for the millions of urban and rural poor. With the objective in view AIBL has formulated a profitable live in a batter society with greater security and peace. AIBL is opening in a three sectors banking system, such as formal, non-formal and voluntary sector. General banking, Investment and foreign exchange are operated under the formal sector.

Development management of Waqf and mosque properties, management of in heritage properties, and joint venture project for management of non-profit foundations, charitable trusts and organizations are executed under the voluntary sector.

Table of Content

| Serial No. | Content Details | Page No. |
|------------------------------------|---|----------|
| Part – 01 | | |
| Introduction | | |
| 1.1 | Background Of The Report | 2 |
| 1.2 | Objective Of The Study | 2 |
| 1.2.1 | General Objectives | 2 |
| 1.2.2 | Specific Objectives | 2 |
| 1.3 | Scope of the report | 3 |
| 1.4 | Methodology | 3 |
| 1.5 | Sources Of Data | 3 |
| 1.5.1 | Primary Sources | 4 |
| 1.5.2 | Secondary Sources | 4 |
| 1.6 | Limitations of the report | 5 |
| Part -02 | | |
| Overview of AIBL | | |
| 2.1 | Background Of The Company | 7-8 |
| 2.2 | As Al-Arafah Islami Bank Different From Other Bank (Conventional bank) | 8 |
| 2.3 | Vision Of AIBL | 9 |
| 2.4 | Mission Of AIBL | 9 |
| 2.5 | Commitments of AIBL | 9 |
| 2.6 | Objective Of AIBL | 10 |
| 2.7 | Main Focus of AIBL In 2012 Is On | 10-11 |
| 2.8 | Special Features Of AIBL | 11 |
| 2.9 | Line Of Business Of AIBL | 11 |
| 2.10 | Branches of AIBL | 12 |
| 2.11 | Form Of AIBL | 13 |
| 2.12 | Organogram Of AIBL | 14 |
| 2.13 | Division Of AIBL (Gulshan Branch) | 15 |
| Part -03 | | |
| Product and Service Of AIBL | | |
| 3.1 | Product of AIBL | 17 |
| 3.1.1 | Deposit accounts of AIBL | 17-20 |
| 3.1.2 | Investment product of AIBL | 20 |
| 3.2 | Services of AIBL | 20 |
| Part-04 | | |
| Investment | | |
| 4.1 | Overall idea of Investment | 22 |
| 4.1.1 | Investment Of AIBL (Gulshan Branch) | 22 |

| | | |
|-------------------------------|---|-------|
| 4.1.2 | Investment division of AIBL | 23 |
| 4.1.3 | Investment Principles & Investment Products | 24-30 |
| 4.1.4 | Mode Of Investment | 30-34 |
| 4.2 | Consumer financing | 35 |
| 4.2.1 | Eligibility of Investment | 35-36 |
| 4.2.2 | Process of Loan Sanction | 36 |
| 4.2.3 | Documentation | 36-37 |
| 4.3 | Product of Consumer Financial Schemes | 37 |
| 4.3.1 | Consumer Investment Scheme | 37-40 |
| 4.3.2 | Auto/ Car Investment Scheme | 40-42 |
| 4.3.3 | Personal Investment Scheme | 42-45 |
| 4.3.4 | Consumer Financial Scheme | 45-48 |
| 4.3.5 | House Finance Investment Scheme | 48-50 |
| 4.4 | Idea about loan | 50 |
| 4.4.1 | Loan Classification | 50-51 |
| 4.4.2 | Categories of Loan | 51-52 |
| 4.4.3 | Non-performing Loan | 53-54 |
| 4.4.4 | Reasons for Non-Performing Loan | 54-55 |
| 4.4.5 | Effect of NPL | 55-56 |
| 4.5 | Management of Non-performing Loan | 57 |
| 4.5.1 | Early Alert System | 57 |
| 4.5.2 | Non-Performing Account Management | 57 |
| 4.5.3 | Transfer of Non-Performing Account to recovery department | 58 |
| 4.5.4 | Non performing Investment Provisioning policy | 59 |
| 4.5.5 | Non-performing write off policy | 59 |
| 4.5.6 | Rescheduling Of Non-Performing Investment | 59 |
| Part-05 Conclusion | | |
| 5.1 | Recommendation | 61 |
| 5.2 | Conclusion | 62 |
| 5.3 | Bibliography | 63 |

Part – 01

Introduction



AL-ARAFAH ISLAMI BANK LIMITED

1.1 Background Of The Report

This report is a comprehensive study prepared as a requirement for the completion of the Bachelor of Business Administration (BBA) of BRAC University from BBS department. The primary goal of report is to provide an opportunity for translation of theoretical conceptions in real life situation. The program covers a period of 3 months comprehensive study about the banking system of Al- Arafah Islami Bank in Dhaka, Gulshan Branch. This comprehensive study titled “An Analysis of Investment of Al-Arafah Islami Bank Limited” prepared under the guideline of the supervisor Asphia Habib. As a requirement for the completion of the BBA program I need to submit this report, which would include an overview of the Investment of AIBL was attached with and elaboration of the project I were supposed to conduct during the study period.

1.2 Objective Of The Study

The program of the internship program is to familiarize students with real business situation, to compare them with the business theories and at last stage make a report on assign task. Objectives regarding this study are as follows:

1.2.1 General Objectives:

- 🏠 The general objective of this report is to fulfill the requirement of internship report.
- 🏠 To earn practical experience and knowledge about the banking operation and corporate functions performed by Al- Arafah Islami Bank Limited

1.2.2 Specific Objectives:




- 🏠 To submit a brief description about the performance of Al- Arafah Islami Bank Limited.
- 🏠 To make general evaluation of AIBL activities among different professionals.
- 🏠 To understand the various products and services the bank offers and to understand the mechanism of the services.
- 🏠 To analyze the Investment of the bank to evaluate the performance.
- 🏠 To know about the various products and services of AIBL

1.3 Scope of the report

This report helps me to understand the clear real time experience about the total management of AIBL, like background, As Al-Arafah Islami Bank different from other bank (Conventional bank), vision, mission and commitment Of AIBL, objectives main focus in 2012, Special Features, Line Of Business, Branches of AIBL, form, organogram and division Of AIBL, product and services functions, and investment performance. The scope is also limited to investment of Gulshan branch, investment principles & investment products, mode of investment, eligibility of investment, process of loan sanction, documentation, product of consumer financial schemes, loan classification, categories of loan, non-performing loan, reasons for non-performing loan, effect of NPL and management of non-performing loan of AIBL. It helps me to understand, how the bank manages its total processes. It also helps me to understand how they deal with the customer.

1.4 Methodology

To prepare this report I preferred different types of method that is suitable. Mainly, report is based on theoretical explanations. To collect information I used different type of primary and secondary sources. To present report I use different method. They are:

-  Theoretical explanations
-  Table
-  Different type of chart

1.5 Sources Of Data:

In order to make the report more meaningful and presentable, two sources of data and information have been used widely. I have collected both primary and secondary data.

1.5.1 Primary Sources

When searching in the field directly to collect data was called primary sources of data. I collected data from primary sources using the following method:

Interview method

- Personal investigation with bankers.
- Face to face communication with employees of the AIBL.

Observation method

- Personal experience gained by visiting, different desks.
- By observing banker work.

1.5.2 Secondary Sources

The secondary data had been collected from the MIS of AIBL. To clarify different secondary sources such as office memo, operating Islamic shariah manuals, circulation & publication used by the AIBL in this regard.

Internal Sources

- Bank's Annual Report 2011
- Islamic Shariah Manual

External Sources

- Newspaper
- Previous reports and journals relevant to the banking industry.

- Different books, articles and periodicals related to the banking sector.
- Relevant AIBL paper and published documents.
- Periodicals published by Bangladesh Bank.

1.6 Limitations of the report

There are some limitations in our study. We faced some problems during the study which we are mentioning them as below-

Lack of time:

The time period of this study is very short. I had only 12 weeks in my hand to complete this report, which was not enough. So I could not go in depth of the study.

Secondary information:

There was a lack of proper secondary information for Al-Arafah Islami Bank Limited and its product. Annual report, policy guidelines, website and other related documents do not cover full and sufficient information.

Insufficient data:

In order to guard the secrecy of the bank, Al-Arafah Islami Bank is not interested to disclose some certain information that is required to prepare this report.

Certainty

There was some sort of differences between the data collection from different sources of information of the same topic.

Lack of Co-operation:

As the bank officers are so much busy that it difficult for them to co-operate with me, which is also a constraint for this report.

Lack of experience:

There was lack of experience in collecting information, doing analysis and taking assessment of the related topics. However as time passed by many of these limitations faded.

Part- 02

Overview of AIBL



العرفة اسلامى بنك لميتيد
AL-ARAFAH ISLAMI BANK LIMITED

2.1 Background Of The Company

Al-Arafah Islami Bank started its journey on 18 June 1995 with the said in mind and to introduce a modern banking system based on Al-Quran and Sunnah. The opening ceremony took place on 27 September 1995. A group of established, dedicated and pious personalities of Bangladesh are the architects and directors of the bank. Among them a noted Islamic scholar, writer, economist and ex-bureaucrat of Bangladesh Government MR. A. Z. M Shamsul Alam is the founder and chairman of the bank. His continuous inspiration and progressive leadership provided a boost for the bank in getting a foothold in the financial market of Bangladesh. A group of 20 noted and dedicated Islamic personalities of Bangladesh are the member of Board of Director of the bank. Wisdom of the directors, Islamic bankers and the wish of Almighty Allah make Al-Arafah Islami Bank Limited. It is most modern and leading bank in Bangladesh. New products are the tool of the bank to achieve success. The bank has diverse array of product and services to satisfy customer needs. The bank has achieved a continuous profit and declared a good technology.

Now AIBL is one of the Best-Rated banks in Bangladesh. It is in 6th position in CAMELS rating. The bank is committed to contribute significantly to the national economy. It has made a positive contribution towards the socio-economic development of the country with 100 branches.

| AIBL Profile | |
|-------------------------------------|----------------------------------|
| Date of Registration | 18 th June 1995 |
| First Branch | Motijheel Branch, Dhaka |
| Opening Ceremony | 27 th September, 1995 |
| Authorized Capital | 10,000.00 Million |
| Paid-Up Capital | 5,893.37 |
| Local Partnership Of Capital | 100% |
| Equity | 11,989.11 Million |
| Number Of Branches | 100 (Up to December 2012) |

| | |
|-------------------------------|-------------------|
| Deposit | 82,186.98 Million |
| Investment | 77,714.95 Million |
| Number of Employees | 1,807 |
| Number of Shareholders | 54,267 |

Table 01: AIBL Profile

2.2 As Al-Arafah Islami Bank Different From Other Bank (Conventional bank)

There are differences between the Conventional bank and Islamic bank. They are-

| | Conventional Bank | Islamic Bank |
|--|--|---|
| i. The function and operating modes | Based on fully manmade principle. | Based on the principle of Islamic Shariah. |
| ii. Aim | Maximizing profit without restriction. | Maximizing profit but subject to Shariah restriction. |
| iii. Growth | Make no effort to ensure growth with equity. | Make effort to ensure growth with equity. |
| iv. Charge additional money | In case of defaulter. | No provision taken. |
| v. Zakat | Does not consider. | Consider. |
| vi. Interest rate | Not depend on profit or loss. | Depend on profit or loss on the mode of finance used (mudarabah, mushakara). |
| vii. Mortgage | In order to purchase property the customers borrow money and repay it with an additional amount over the period of time. | The customer and the bank share become the joint owner of the property in proportion to their share in purchasing the property. For the time being customer manage to purchase the entire share of bank. Ultimately, customer becomes the sole owner. |

2.3 Vision Of AIBL

- 🕌 To be a pioneer in Islami Banking in Bangladesh and contribute significantly to the growth of the national economy.

2.4 Mission Of AIBL

- 🕌 Achieving the satisfaction of Almighty Allah both here & hereafter.
- 🕌 Proliferation of Shariah Based Banking Practices.
- 🕌 Quality financial services adopting the latest technology.
- 🕌 Fast and efficient customer service.
- 🕌 Maintaining high standard of business ethics.
- 🕌 Balanced growth.
- 🕌 Steady & competitive return on shareholders' equity.
- 🕌 Innovative banking at a competitive price.
- 🕌 Attract and retain quality human resources.
- 🕌 Extending competitive compensation packages to the employees.
- 🕌 Firm commitment to the growth of national economy.
- 🕌 Involving more in Micro and SME financing.

2.5 Commitments of AIBL

- 🕌 Ours is a customer focused modern Islamic Banking sound and steady growth in both mobilizing deposit and making quality Investment to keep our position as a leading Islami bank in Bangladesh.
- 🕌 To deliver financial services with the touch of our heart to retail, small and medium scale enterprises, as well as corporate clients through our branches across the country.
- 🕌 Our business initiatives are designed to match the changing trade & industrial needs of the clients.

2.6 Objective Of AIBL

Al-Arafah Islami Bank Limited believes in its uncompromising commitment to fulfill its customer needs and satisfaction and to become their first its customer choice in banking. The bank is committed to run all its activities as per Islamic Shariah. AIBL, its steady progress and continued success has earned lots of reputation that made AIBL is one of the leading Private Banks of the country.

- 🕌 Its aims are to introduce a welfare-oriented banking system and also establish equity and justifies in the field of all economic activities.
- 🕌 Investment is made through different mode permitted under Islamic Shariah
- 🕌 All the activities of AIBL are conducted on interest-free system according to Islamic Shariah.
- 🕌 It plays a vital role in human resource development and employment-generation, particularly for the unemployed youths.
- 🕌 Investment income of bank is shared with the Mudaraba depositors according to ensure a reasonably fair rate of return on their depositors.
- 🕌 Its aims are to achieve balanced growth & development of the country through investment operation, particularly in the less development areas.
- 🕌 It extends co-operative to the poor, helpless and low income group of people for their economic enlistment particularly in rural areas.

2.7 Main Focus of AILB In 2012 Is On

- 🕌 To reduce the non-performing assets
- 🕌 Increase foreign remittance.
- 🕌 Up-gradation of online banking.
- 🕌 Introduce credit card.
- 🕌 Diversify Business & product in case of both deposit and investment.
- 🕌 Already establish 8 ATM booths in various important locations and want to open more.
- 🕌 To maintain more shariah compliant.

- 🕌 Opening of 5 SME Branches.
- 🕌 Dividend is Stable.
- 🕌 Developing skill man power through different training.

2.8 Special Features Of AIBL

- 🕌 All activities of AIBL are conducted according to Islamic Shariah where profit is given to the client. In case of AIBL profit is legal alternative to interest.
- 🕌 According to the needs and demands of the society and the country as a whole the bank invests money to different Halal business, like creating jobs, implementing development projects taken by the Government and developing infrastructure.
- 🕌 The bank's investment policy follow different modes that are approved by Islamic Shariah based on Quran & Sunnah.
- 🕌 The bank is committed towards establishing welfare oriented banking system, economic enlistment of the low income people, create employment opportunities.
- 🕌 The bank is committed to establish an economic system through social justice and equal distribution of wealth.
- 🕌 The bank is contributing to Al-Arafah English Medium Madrasha and AIBL Library.

2.9 Line Of Business Of AIBL

- 🕌 Investment banking (capital market operation in DSC & CSE)
- 🕌 International Foreign Trade Finance (Import & Export)
- 🕌 Foreign exchange dealing (currency dealing & remittance)
- 🕌 Corporate finance
- 🕌 SME banking
- 🕌 Personal Banking
- 🕌 Transport Investments
- 🕌 Broker house
- 🕌 Merchant banking
- 🕌 House building investments (staff &commercial)

2.10 Branches of AIBL

AIBL started its working at 161; Motijheel C/A Dhaka with a Branch named Motijheel Branch on 27th September, 1995. It was the first & main Branch of the bank. The head office of the bank was situated at the same holding of Mitijheel Branch since its establishment but from January, 2007. It has started its working at its own premises 36 Dilkusha (6th, 7th, 8th & 9th floor), Dhaka-1000. The age of the bank is 17 years. During this short period of time the bank has established 100 branches over the country. Thus it makes a smooth networking inside the country. The number of Branches according to division wise:

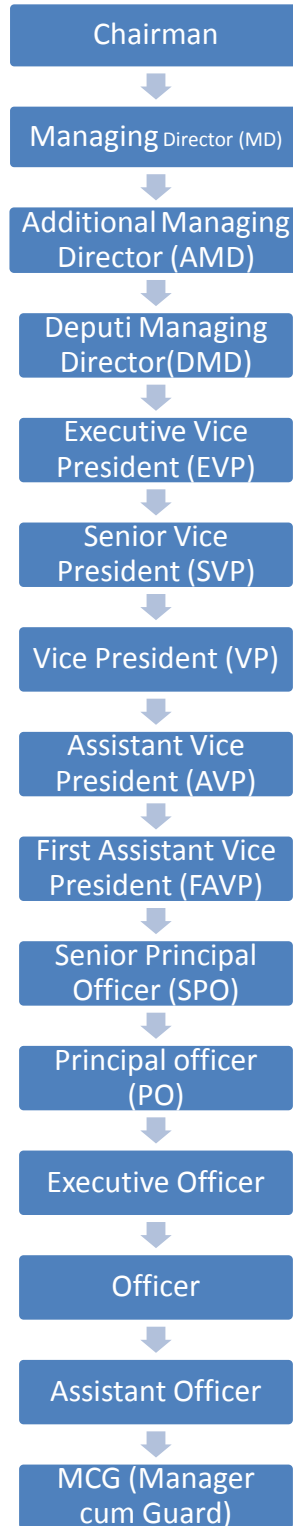
| Division | NO. of Branches |
|----------------------------|------------------------|
| Dhaka Division | 48 |
| Chittagong Division | 22 |
| Rajshahi Division | 7 |
| Khulna Division | 6 |
| Sylhet Division | 8 |
| Barishal Division | 5 |
| Rangpur Division | 4 |
| Total | 100 |

Table 02: Branches of AIBL

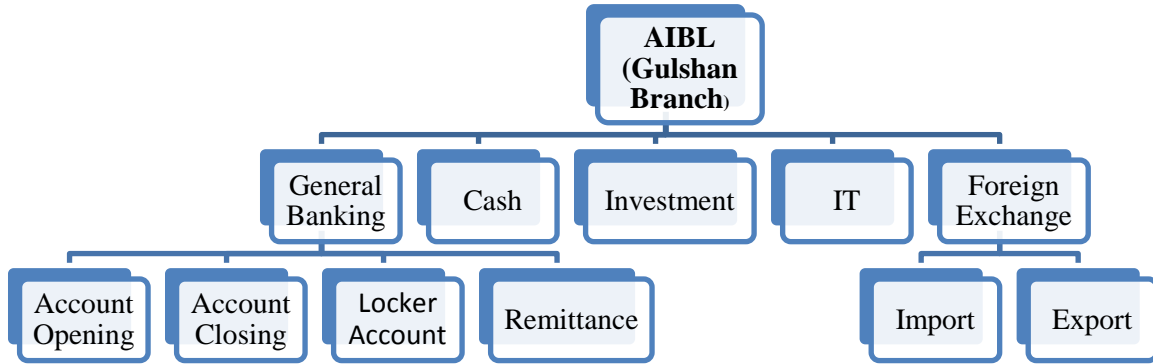
2.11 Form Of AIBL



2.12 Organogram Of AIBL



2.13 Division Of AIBL (Gulshan Branch)



PART 03

PRODUCT AND SERVICE OF AIBL



العرفة اسلامي بنك لميتيد
AL-ARAFAH ISLAMI BANK LIMITED

3.1 Product of AIBL:

3.1.1 Deposit accounts of AIBL

Mudaraba Term Deposit Savings (MTDR)

- To open this account one have to must deposit minimum Tk.500/= as an opening deposit.
- Up to Tk.5000/= no charges are deducted from this account
- An estimate profit of 4% is given under this scheme.

Al-Walediah Current Accounts (AWCD)

- This kind of account does not provide any profit on total balance; usually business persons or organizations open this kind of account. These kinds of accounts provide the facility of unlimited times of withdrawal of money.
- The current account is denoted as CD account.
- To open this account one have to must deposit minimum Tk.2000/= as an opening deposit.
- No profit is paid on current A/C holder.
- Statement of current A/C is provided monthly to the A/C holder. If needed they give it more than one time according to client. It is free of cost.
- Current A/C can be operated by cheque.

Monthly Installment Based Term Deposit (ITD)

- An exciting to save monthly a certain amount and get attractive return along with estimated profit after tenure.
- Duration of the deposit will be 2, 3, 5, 8, 10 or 12 years along with installment amount of either Tk 200/=, 300/=, 500/=, 1000/=, 2000/=, 5000/=, 10,000/=.
- Profit will be calculated on daily basis upon one's deposit.
- Any person above 18 can open this scheme. ITD can be opened on behalf of a minor.

- Installments can be deposited in any working day that is not fixed. Even installment may be deposited in advance.

Saving Investment Deposit

- Deposit is accepted by monthly installment
- After expiry of the term double amount of such savings is given without any collateral security.
- By savings deposit any one can take business venture on utilization the amount saved.

Savings Bond Deposit

- Introduce savings bonds for tk. 10,000/=, tk.25,000/=, tk. 100,000/=
- It may be for 3, 5 or 8 years.
- Tax will be considered on the deposited amount along with profit.

Monthly Profit Based Term Deposit Scheme

- To get profit on monthly base.
- It is applicable for resident (individual/ company) and non-resident
- Deposit amount is one lack or multiple
- Minimum duration is 5 years.
- Tax will be considered on the deposited amount along with profit.
- Profit will be given from the next month's first working day.

Monthly Hajj Deposit (MHD)

- One can open only one Hajj account in his/her name.
- Duration is one year to 20 years.
- Installment amount depend on the duration.

Termed Hajj Deposit (THD)

- One can open Hajj account in his/her name or in the name of any predecessors or close relatives.
- One can open an account in the name of minor or a child.
- If the Hajj account is opened in the name of other person that person fails to go for unavoidable reason or dies, one can do Badla Hajj by withdrawing this deposit.
- Duration is 5 years to 20 years.
- Separate form has to be filled up to open Termed Hajj deposit.
- Tax will be considered on the deposited amount along with profit.

Monthly Installment Based Marriage Investment Scheme (MIS)

- Installment size from tk.250/=, tk.500/= or tk. 1000/= according to desire.
- Tax will be considered on the deposited amount along with profit.
- Profit is given according to daily-stay basis.

Mudaraba Lakhpoti Deposit Scheme (LDS)

- Maturity period 3, 5, 8, 10 or 12 years.
- Profit is given according to daily-stay basis.
- Tax will be considered on the deposited amount along with profit.
- Monthly installment can be deposited on any working day.

Mudaraba Millionaire Deposit Scheme (MMDS)

- Monthly installment can be deposited on any working day.
- Monthly installment may be tk.24,400/=, tk.17,530/=, tk.13,500/=, tk.10,800/=, tk.8,800/=, tk.5,400/=, tk.4,100/=, tk.2,870/=, tk.1,700/=
- Profit is given according to daily-stay basis.
- Tax will be considered on the deposited amount along with profit.

Mudaraba (Special) Pension Deposit Scheme (MSPDS)

- Maturity period 5, 10 or 15 years.
- Profit is given according to daily-stay basis.

- Tax will be considered on the deposited amount along with profit.
- Monthly deposit from tk. 500/=, tk. 1000/= or any multiple of tk. 1000/=.




Mudaraba Kotipoti Deposit Scheme (MKDS)

- Any person above 18 can open this scheme. MKDS can be opened on behalf of a minor.
- Tax will be considered on the deposited amount along with profit.
- One can take advantage of 80% of his/her deposit as investment.

3.1.2 Investment product of AIBL

-  Investment in Agriculture Sector
-  Investment in Industrial Sector
-  Investment in Business Sector
-  Investment in Foreign Trade
-  Investment in Construction and Housing
-  Investment in Transportation Sector
-  Hire Purchase Shirkatul Melk (HPSM)
-  Investment Schemes in Masque and Madrasa (MMIS)
-  Village and Small Investment Schemes (GSIS)
-  Small Enterprise Investment Schemes (SEIS)
-  Consumer Investment Schemes (CIS)

3.2 Services of AIBL

-  ATM Card Service
-  Online Banking
-  Locker Service

Part-04

Investment

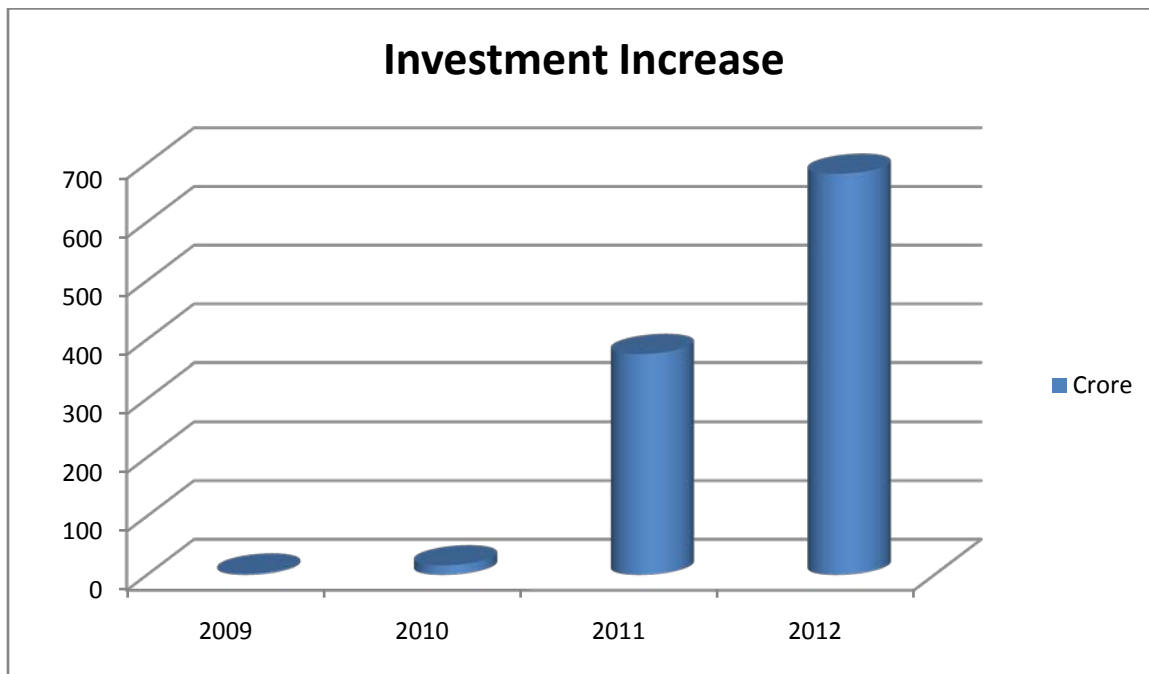


العرفة اسلامى بنك لميتيد
AL-ARAFAH ISLAMI BANK LIMITED

4.1 Overall idea of Investment

4.1.1 Investment Of AIBL (Gulshan Branch)

As known to all Al-Arafah Islami Bank Limited follows Islamic Shariah. The bank emphasizes on halal business. Al-Arafah Islami Bank Limited does not invest in loans and fixed interest securities. It can invest ordinary share only while interest based bank can invest in loans and different kinds of securities. The customer and the bank share become the joint owner of the property in proportion to their share in purchasing the property. For the time being customer manage to purchase the entire share of bank. Ultimately, customer becomes the sole owner. Now a day Al-Arafah Islami Bank Limited is one of the leading in our country. Gulshan branch of AIBL was opened in September, 2009. The total investment of Gulshan branch in 2009 is about 2 crore, in 2010 is about 16 crore, in 2011 is about 375 crore and in 2012 is about 682 crore only. Within 3 and half years this branch improves a lot.



4.1.2 Investment division of AIBL

Investment division divided into two parts. They are: investment monitoring unit and investment recovery unit.




Investment monitoring unit: According to the name Investment monitoring unit observe investment recovery unit’s work. Either recovery unit did right thing or not. After doing recovery unit work investment monitoring unit just monitor recovery unit work.


Investment recovery unit: Investment recovery unit recover the loan money to the client. This unit head talk with the client and decide either they disburse loan to the client or not.


According to Gulshan branch, though they called them two units. But according to my observation I don’t see two unit’s works are different. Investment monitoring unit and investment recovery unit do their work jointly.

4.1.3 Investment Principles & Investment Products








Islamic banks do not directly deal with money. They run business with money. The funds of Islamic banks are mainly invested in following modes:

 **Mudaraba:** Mudaraba is a shared venture between labor and capital. Here bank provides with entire capital and the investment client conducts the business. The bank, provider of capital, is called Sahib-Al-Maal and the client is called Mudarib. The profit is distributed between the bank and the investment client at a predetermined ratio. If any loss cause in that business the bank has to bear the entire loss.

 **Musharaka:** Musharaka means partnership business. Every partner has to provide more or less equity funds in this partnership business. Both the bank and the investment client reserve the right to share in the management of the business. But the bank may opt to permit the investment client normally conducts the business. The profit is divided between the bank and the investment client at a predetermined ratio. If any loss cause in that business both the bank and the investment client have to bear the loss according to capital ratio.

 **Bai-Murabaha:** Contractual buying and selling at a mark-up profit is called Murabaha. In this case, the client requests the bank to purchase certain goods for him. The bank purchases the goods as per specification and requirement of the client. The client receives the goods on payment of the price which include mark-up profit as per contract. Under this mode of investment the purchase/ cost price and profit are to be disclosed separately.

The following conditions are essential in the contracts of Murabaha. The respective contracts must include the following aspects regarding the goods:

-  Number/Quantity
-  Quality
-  Sample
-  Price and amount of prifit
-  Date of supply/ time limit
-  Place of supply
-  Who will bear the cost of supply?

■ Timeframe for payment

🏡 **Bai-Muajjal:** Bai-Muajjal means sale for which payment is made at a future fixed date or within a fixed period. In short, it is sale on credit. It is a contract between a buyer and seller under which the seller sells certain specific goods which is under Shariah and Law of the country, to the buyer at an agreed fixed price payable at a certain fixed date in lump sum or within a fixed period by fixed installments. The seller may also sell the goods purchased by him as per order and specification of the buyer.

In bank's perspective, Bai-Muajjal is treated as a contract between the bank and the client under which the buyer pays the price of the goods in advance on the client specific goods, purchase as per order and specification of the client at an agreed price payable within a fixed future date in lump sum or by fixed installments.

The following conditions are essential in the contracts of Bai-Muajjal. The respective contracts must include the following aspects regarding the goods:

- Number/Quantity
- Quality
- Sample
- Price and amount of profit
- Date of supply/ time limit
- Place of supply
- Who will bear the cost of supply?
- Timeframe for payment

🏡 **Salam and Parallel Salam:** Salam means advance purchase. It is a mode of business under which the buyer pays the price of the goods in advance on the condition that the goods would be delivered at a particular future time. The seller supplies the goods within the fixed time.

Parallel Salam is a Salam contract where by the seller depends, for executing his obligation, on receiving what is due to him- in his capacity as purchase from a sale in a previous Salam contract, without making the execution of the second Salam contract dependent on the execution of the first one.

The following conditions are essential in the contracts of Salam. The respective contracts must include the following aspects regarding the goods:

- Number/Quantity
- Quality
- Sample
- Price and amount of profit
- Date of supply/ time limit
- Place of supply
- Who will bear the cost of supply?
- Timeframe for payment

Istisna and Parallel Istisna:

Istisna: Istisna is contact executed between a buyer and a seller. The seller pledges to manufacture and supply certain goods according to specification of the buyer. An Istisna agreement is executed when a manufacturer or a factory owner accepts a proposal placed to him by a person or an Institution to produce certain goods for a latter at a certain negotiated price.

Here, the person giving the order is called Mustasni, the receiver of the order is called Sani and the goods manufactured as per order is called Masnu.

An order placed for manufacturing or producing those goods which under prevailing customs and practice are produced will be treated as Istisna Contract.

Condition & characteristics if Istisna are enumerated below:

- The concerned agreement must contain the detail, such as the type, class, quantity and features of the goods to be produced, so that no misunderstanding is created later on.
- The price has to be settled, payment time and modes thereof is to be predetermined.
- When, where and on whose cost the goods to be supplied has clearly mentioned.
- If agreed by both parties, payment may be made in advance to the seller in part or in full or may be deferred to be paid in due agreed time.
- Generally timeframe is not mandatory for supplying the goods under Istisna agreement. It may be executed without determining timeframe. But in case of bank, timeframe for supplying goods must be determined to avoid any dispute in future.
- Condition for imposing stipulated compensation may be included in the Istisna agreement against the party who breaches the terms of the agreement causing the other suffer. But no compensation would be imposed on any party if it happens for any valid reason or unavoidable circumstances.
- As per opinion of the contemporary jurists, the compensation in case of Istisna may be treated as legal income.

Parallel Istisna: If it is not stipulated in the contract that the seller himself would produce the goods and services, then the seller enter into another contract with third party for getting the goods and services produced by the third party. This type of contract is called Parallel Istisna. This may be treated as a sub-contract. The main features of this contract are:

- The original Istisna contract remains valid even if the Parallel Istisna contract fails and the seller will be legally liable to produce the goods and services mentioned in the Istisna contract.
- Istisna and Parallel Istisna contracts are treated as two separate contracts.
- The seller under the Istisna contract will remain liable for failure of the sub-contracts.

Ijara: The mode under which any asset owned by the bank, by creation, acquirement or building-up is rented out is called Ijara. Another name of Ijara is leasing. In this mode, the lease pays to the bank rents at a determined rate for using the asset and returns the same to the bank at the expiry of the agreement. The bank retains absolute ownership of the assets in such a case. However, at the end of the leased period, the asset may be sold to the client at an agreed price.


Ijarah Muntahia Bittamleak: Under this mode, the bank purchases vehicles, machineries and instrument, building, apartment etc. This mode allowed clients to use those on payment of fixed rents in installments with the ultimate objective to sell the asset to the client at the end of the rental period. The client acquires the ownership of the asset subject to full payment of all the installments.


Hire Purchase Musharaka Mutanaqisa (HPMM): Hire-purchase Musharaka Mutanaqasa means purchasing and acquiring ownership by one party by sharing in equity and paying rents for the rest of the equity held by the bank. Under this mode, the bank and client on contract basis jointly purchase vehicles, machineries, building, apartment etc. the client uses the portion of the assets of the assets owned by the bank on rental basis and acquires the ownership of the same assets by way of paying banks portion of the equity on the assets in installments together with its rents as agreed upon.


The features of this mode are given below:


- The client applies to the bank expressing his/her wishes to purchase the assets and the bank accords its approval after proper evaluation.
- The client deposits his/her share of equity with the bank after obtaining approval and the bank pays total price of the assets together with its equity.
- Before purchasing of the assets an agreement is executed stipulating the actual prices, monthly rents, price of the bank's portion of the assets, payment schedule and installment amount and the nature of the security.
- The bank shall rent out its own portion of the assets to the client as per terms & conditions of the agreement.

- The client pays off in installments bank's portion of equity on the assets together with its fixed rent as per the terms and conditions of the agreement.
- With the payment of installment by the client, the ownership of the bank in the assets gradually diminishes, while that of client increases.
- The amount of the rent receivable by the bank reduces gradually proportionate to the increase in the ownership of the client on the assets.
- The client acquires full ownership of the goods after payment of the entire dues of the bank.
- The client may acquire the full ownership of the asset before expiry of the deal by paying off the entire dues of the bank.
- The rent remains payable in proportion to bank's ownership, if the client fails to pay the due installment.
- The bank can take of the assets under its control, if the client fails to pay the due installment.
- The ownership of the assets remains with the bank until the entire equity provided by the bank together with the fixed rent is fully paid off. On full payment adjustment of bank's dues, it transfers the ownership to the client.
- The amount which the bank receives as rent is its income. The rent should not treat as a part of the equity in any way.

 **Direct Investment:** Under this mode, the bank can under its full proprietorship conduct business by directly investing in the industries, trading and transport. In these cases, the profit fully goes to the bank.

 **Investment Auctioning:** Selling by auction of those assets acquired by the bank through direct investment is called investment auctioning. Generally the bank establishes industrial units by direct investment, makes the same operationally profitable and then sells out on auction. This mode of investment is very helpful for industrialization of the country.

 **Quard:** It is a mode to provide financial loan with the stipulation to return the principal amount in the future without any increase thereon.

 **Quard Hassan:** This is a benevolent loan that obliges a borrower to repay the lender the principal amount borrowed on maturity. The borrower, however, has the discretion to reward the lender for his loan by paying any amount over and above the amount of the principal provided there will be no references in this regard.

If the bank provides its client any loan, it can receive actual expenditure relating to the loan as service charge only once. It cannot charge annually at a present rate.

If a loan is provided against the money deposited by a client in the bank, it has the right not to pay any profit against the amount of money given as loan. But profit should be paid on the rest of the amount deposited as per previous agreement.

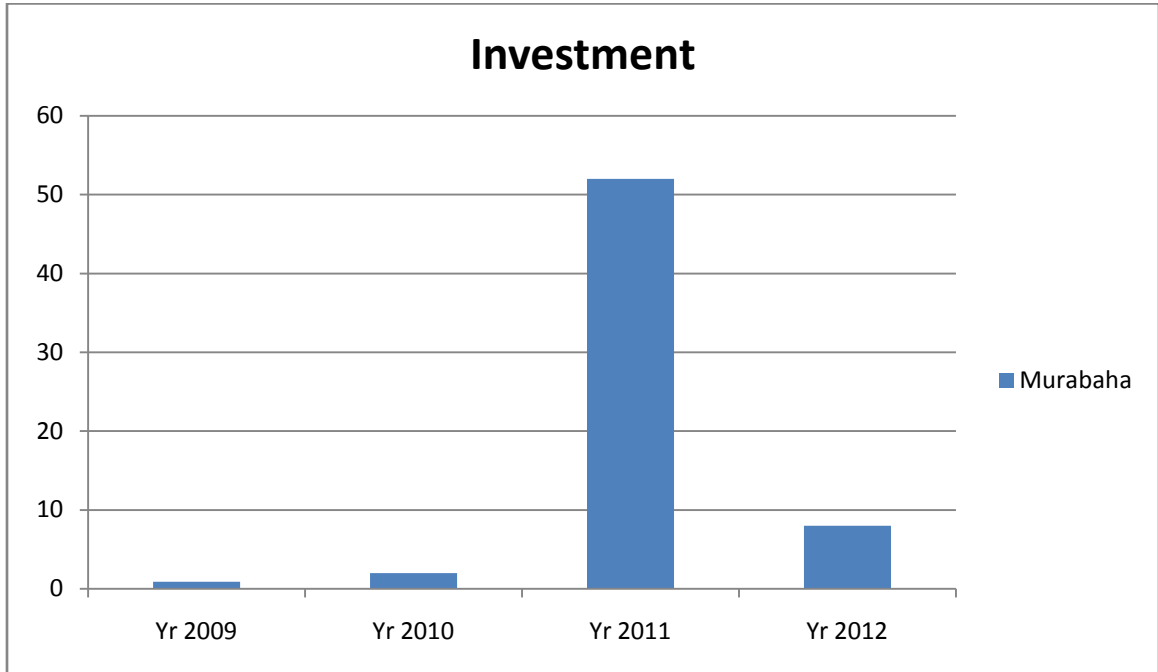
4.1.4 Mode Of Investment

Murabaha

In Murabaha mode investment there was 90 lack in 2009. In 2010 it was in 2 crore and in 2011 it was in 52 crore. But investment decrease in 2012 it is only 8 crore.

Under Murabaha there is only one mode. It is:





Murabaha (Post Import)

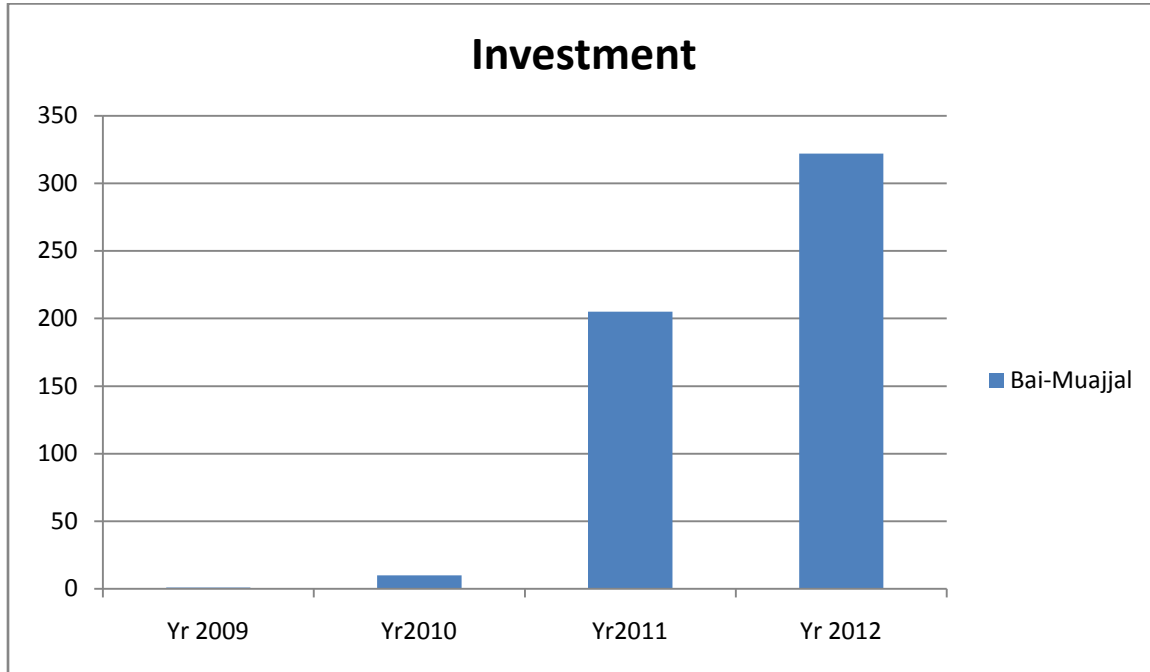


 **Bai-Muajjal**

In Bai-Muajjal mode investment in 2009 was about 1 crore, in 2010 about 10 crore, in 2011 about 205 crore and in 2012 about 322 crore. In 2011 and 2012 Bai-Muajjal mode’s investment increases a lot.

Under Bai-Muajjal there are several investment modes. They are:





-  **Bai-Muajjal (CIS)**
-  **Bai-Muajjal (General)**
-  **Bai-Muajjal (Against Work Order)**
-  **Bai-Muajjal Real Estate**

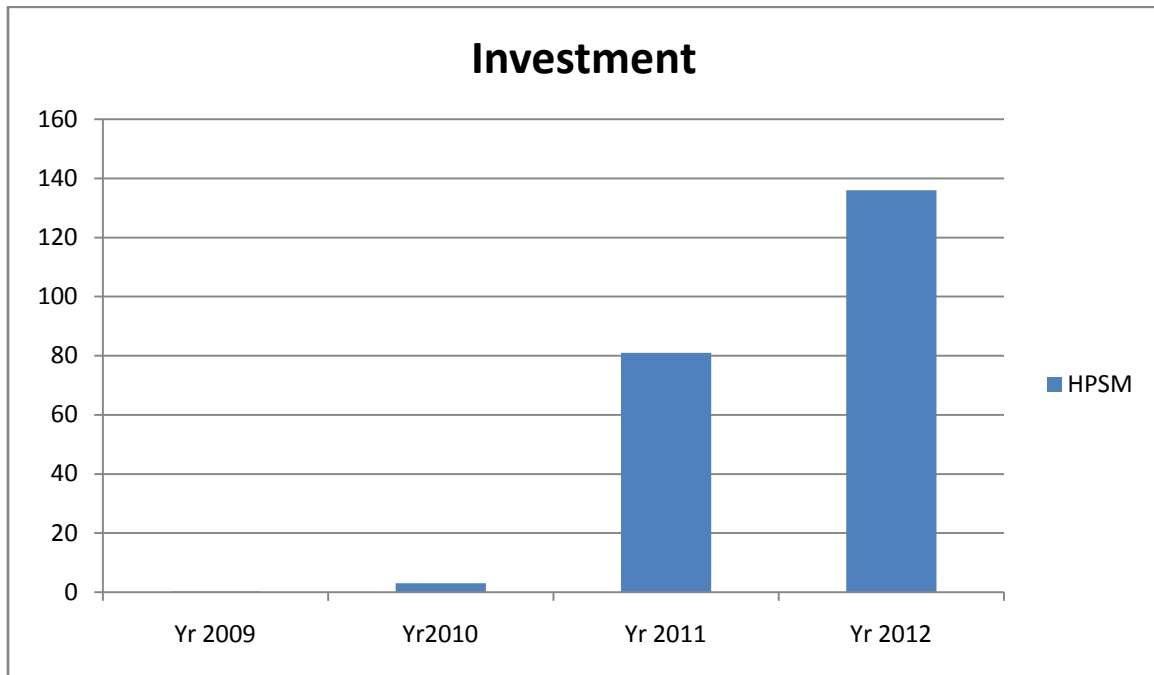


 **Hire Purchase Under Shirkatul Meelk or H.P.S.M.**

In Hire Purchase Under Shirkatul Meelk or H.P.S.M. mode investment in 2009 was about 20 lack, in 2010 about 3 crore, in 2011 about 81 crore and in 2012 about 136 crore. In 2011 and 2012 Hire Purchase under Shirkatul Meelk or H.P.S.M. mode’s investment increases a lot.

Under HirePurchase under Shirkatul Meelk or H.P.S.M. there are several investment modes. They are:

-  **H.P.S.M. (General) short term**
-  **H.P.S.M. (Real Easte)**
-  **H.P.S.M. (Transport)**
-  **H.P.S.M. (Machinery)**

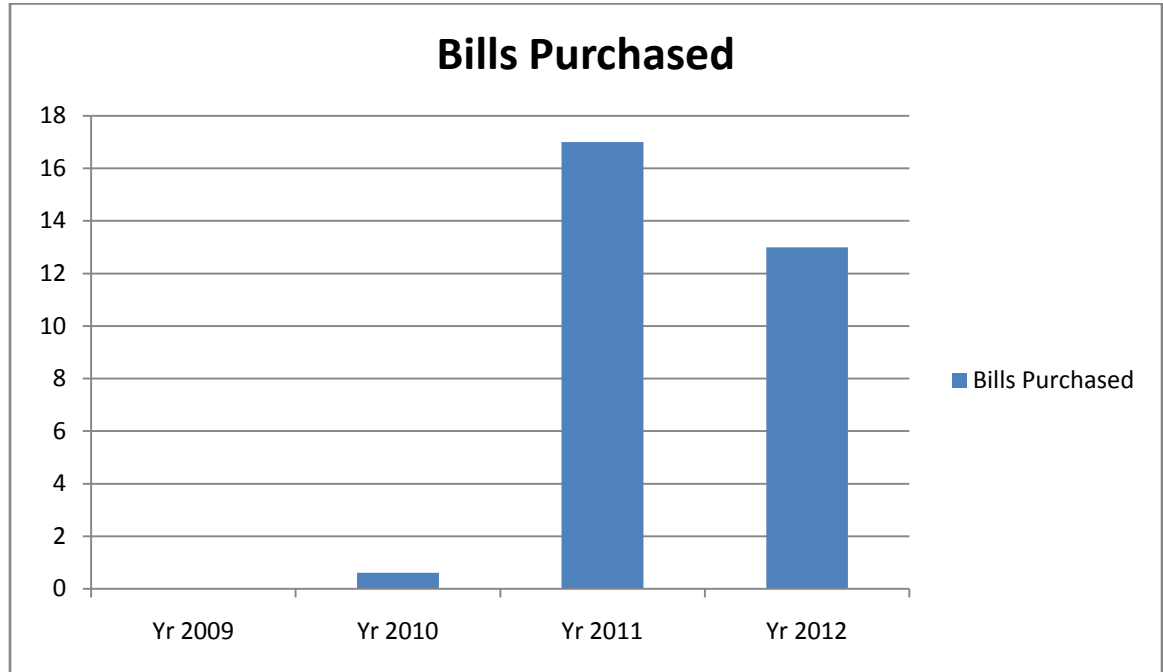


 **Bills Purchased**

In 2009 there was no investment in Bills Purchase mode. In 2010 it was in 61 lack. In 2011 it was 17 crore but in 2012 it was in 13 crore. In 2009 Bills Purchase mode was nil. In 2010 and 2011 it was increasing but 2012 it decreased.

Under Bills Purchased there are few modes. They are:

- **Quard Against Inland Bills (QIB)**
- **Foreign Bills Purchased (FBP)**
- **Bai-Muajjal Wes Bill**
- **Bai Istisna**
- **Trust Receipt**



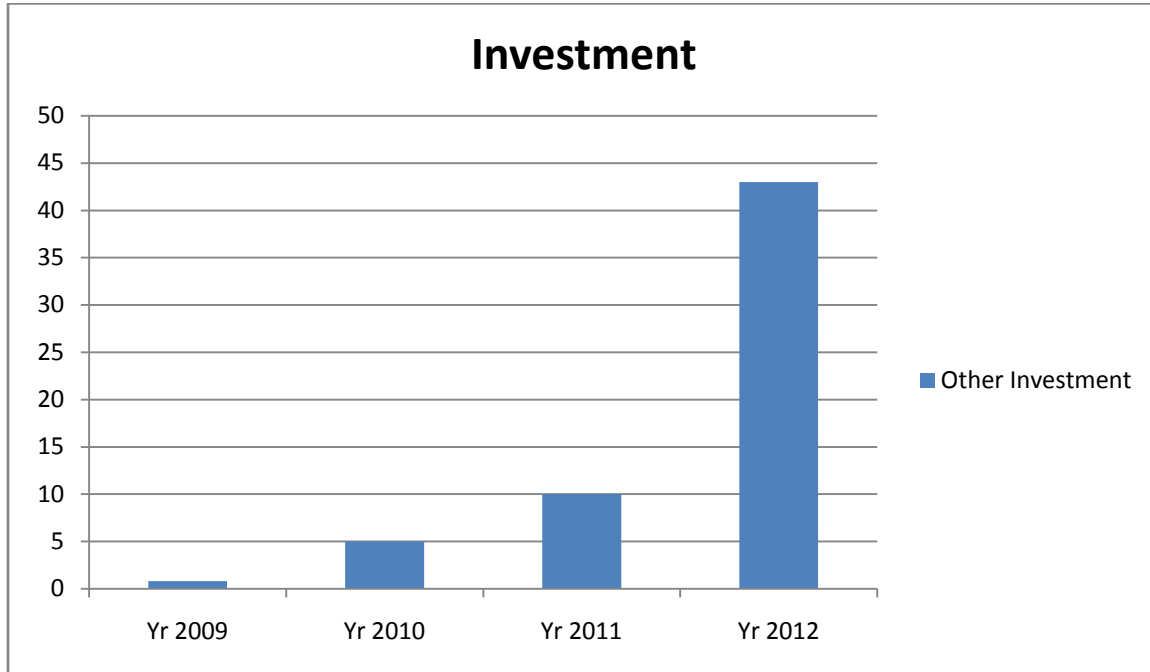
Other Investment

In 2009 there was only 80 lack. In 2010 Other Investment was 5 crore. In 2011 it was 12 crore. In 2012 it was 43 crore. From 2009 to 2012 it was increasing but in 2012 Other Investment was increased a lot.

Under Other Investment there are few modes. They are:

 **Quard Against MTDR**

 **Quard Against Car**



4.2 Consumer financing

4.2.1 Eligibility of Investment

- 🏠 **Age:** The age of the client must be within 21 years to 65 years.
- 🏠 **Nationality:** The client must be Bangladeshi.
- 🏠 **Income source:** The client must have a permanent source of income. In case of service holder, applicants must have 3 years unexpired service for outsider and 2 years unexpired service for the officials of AIBL. And applicant must be permanent officials and 3 years continuous service. The officials of AIBL must have 2 years services and permanent employee.
- 🏠 **TIN:** The client should have valid TIN number.

- 🕌 **Bank Account:** The client must have Mudarabah Savings Account or Al-Walia Current Account with AIBL.
- 🕌 **CIB Report:** CIB report must be obtained from Bangladesh Bank before finalization of the proposal.

4.2.2 Process of Loan Sanction

- 🕌 At first any people come to the bank who wants to take loan from the bank talk with the investment head. If investment head is satisfied he advises the client to come up with application and discusses with the manager and second man of the bank. The client comes up with the application where he mentioned with the loan money what he will do. Mention that he must have an account on Al-Arafah Islami Bank. The client has to mortgage valuable assets against his loan. Loan amount is up to 80% of the mortgage assets.
- 🕌 Branch investment officer collect CIB (Credit Information Bourous) from head office through Bangladesh Bank. Client is defaulted in any bank or not that is mentioned in CIB Report.
- 🕌 Bank's lawyer and the manager and second man visit the mortgage asset. Then prepare a legal opinion and survey report. In survey there are mentioned:
 - Owner of the land
 - Position of the land
 - Value of the land
- 🕌 After doing this, all documents send to the head office. After approving loan head office send sanction letter and NOC (no objection letter).

4.2.3 Documentation

Documentation is important for investment. Investors have to sign each and every paper. Documentation must be completed by the branch before disbursement. They are given below:

- 🕌 Bai-Muajjal/ HPSM agreement

- 🏠 Letter of appointment of the investment client
- 🏠 Demand promissory note
- 🏠 Letter of undertaking
- 🏠 Letter of guarantee
- 🏠 Letter of hypothecation
- 🏠 Irrevocable letter of authority to sell hypothecated goods
- 🏠 Letter of disbursement
- 🏠 Purchase schedule
- 🏠 Cash memo in the name of bank
- 🏠 Letter of declaration
- 🏠 Letter of set-off
- 🏠 Letter of installment
- 🏠 Letter of continuity
- 🏠 Cheques for payment of individual installments and one undated cheque for the whole investment amount are to be obtained. Preference is to be given for obtaining cheque of the account through income / salary is routed
- 🏠 Sanction advice duly accepted by the client
- 🏠 Registered mortgage of collateral security as per norms/ rules as stipulated in the investment risk management policy, investment operation manual and product program guideline of the respective products of consumer financing schemes of the bank

4.3 Product of Consumer Financial Schemes

4.3.1 Consumer Investment Scheme

The objective of the scheme is to increase standard of living & quality of life of the Service holder and any employed/ self employed who pay tax and have a reliable source of income by allowing investment facilities to purchase various house hold articles.

- 🏠 **Purpose:** A personal investment scheme that support purchase of various consumer durables such as Television, Refrigerator, Air Condition, Washing Machine, Gas Cooker, Computer, Electric Generator, IPS, UPS and other house hold furniture and so on.

🏠 Maximum amount of investment:

- without collateral security upto Tk.300,000/=
- with collateral from Tk. 300,001/= to Tk. 1000,000/=

🏠 Tenure:

- Minimum 12 months
- Maximum 48 months
- Repayment will be equal monthly installment

🏠 Equity (Bank : Client):

- Maximum investment equity ratio of 80: 20.

🏠 Investment burden ratio:

- Minimum 33% based on net monthly income.

🏠 Mode of investment:

- Bai-Muajjal (CIS)

🏠 Rate of return and other charges:

- Rate of return: 15% on net investment
- Risk fund: 2% for one time only on net investment which will be realized at the time of disbursement.
- Supervision charge: 1% on net investment (one time during investment)
- For the employees of AIBL: rate of return will be 13% and no risk fund and supervision charge to be imposed.

🏠 Minimum service/ length of business of self employed individual

- For service holder applicant must have 3 years unexpired service for outsiders and 2 years unexpired service for the officials of AIBL.

- And applicant must be permanent officials and 3 years continuous service including the officials of AIBL/ continuous services of experienced banker joins from other bank.
- For self employed individual, a business record of minimum 4 years.

Security:

- Hypothecation over purchased assets
- Personal guarantee of superior or in equivalent rank or controlling officer of the applicant in case of service holder.
- In other cases personal guarantee of 2 persons (preferably any valued customer of AIBL) acceptable to the bank.
- Personal guarantee of any one of the following nearest relatives spouse, father, mother, brother, aged/matured children.
- Personal guarantee of the investment client.
- Post dated cheques for monthly installment.
- One updated cheque for full investment value including full profit to be taken in advance.
- Sufficient collateral security to be obtained to secure the investment (for above Tk.3 lack to Tk. 10 lack) as per existing norms & practice.

Any one or more of the following security may be taken as additional security

- Wage earner's development bonds
- Fixed deposit receipts
- Other form of bank deposits
- ICB unit certificates
- Corporate undertaking or corporate guarantee from reputed and creditworthy organizations.

Verification of personal details and quotation

Detail of an application to be verified before approval is accorded.

- Letter from employer with details of employment and salary.
- Investment client and guarantor details (address- both present and permanent, all telephone numbers residence, office & mobile no.)
- Personal net-worth statement
- Quotation of the item to be purchased.
- Bank statement.

Substantiation/ certification of income

Proper certificate of income is mandatory. All or any of the following original copy of documents is acceptable for the purpose:

- Last tax return.
- Bank statement of last 6 months.
- Personal net-worth statement.
- Any other document that may stand as a proof of income.

4.3.2 Auto/ Car Investment Scheme

The bank will allow car investment to any Bangladeshi individual for private/ personal use who has the means and capacity to repay bank investment. In specific terms, these could be salaried executives of govt. & renowned non-govt. organization, any tax paying businessmen or any employed or self employed/ any tax-paying individual having a reliable source of income.

 **Purpose:** Purchase of new or reconditioned vehicles for personal use only.

Maximum amount of investment:

- Tk.2,000,000/=

Tenure:

- Maximum 72 months
- Repayment will be equal monthly installment

 **Equity (Bank : Client):**

- Maximum investment equity ratio of 80: 20.

 **Investment burden ratio:**


- Minimum 33% based on net monthly income.

 **Investment to price ratio:**

- Investment amount not exceed 80% of vehicles price.

 **Mode of investment:**

- HPSM (CIS)

 **Rate of return and other charges:**

- Rate of return: 15% on net investment
- Risk fund: 2% for one time only on net investment which will be realized at the time of disbursement.
- Supervision charge: 1% on net investment (one time during investment)

 **Security:**

- Hypothecation over car / vehicles.
- Joint registration of the car.
- First party comprehensive insurance of the car (policy must be renewed every year and copy of the policy must be submitted by the bank).
- Personal guarantee of any one of the following nearest relatives spouse, father, mother and an individual having minimum solvency/ income not less than that of the investment client supported by income proof.
- Personal guarantee of the investment client.
- Post dated cheques for each 6 monthly installment.

- One updated cheque for full investment value including full profit to be taken in advance.
- Sufficient collateral security: Additional collateral security may be obtained against the investment.

Other document

- Irrevocable letter of authority to repossess the vehicles.
- Ownership transfer form signed by customer.
- Letter of offer with full terms and conditions stated therein and duly accepted.

Disbursement pre-condition

- Comprehensive insurance coverage and registration document must be in place before disbursement of investment. For example: giving the pay order to the supplier of the vehicles.

Verification of personal details and quotation

Detail of an application to be verified before approval is accorded.

- Letter from employer with details of employment and salary.
- Investment client and guarantor details (address- both present and permanent, all telephone numbers residence, office & mobile no.)
- Personal net-worth statement
- Car Quotation.
- Bank statement.

Substantiation/ certification of income


Proper certificate of income is mandatory. All or any of the following original copy of documents is acceptable for the purpose:

- Last tax return.
- Bank statement of last 6 months.
- Any other document that may stand as a proof of income.

4.3.3 Personal Investment Scheme

Personal investment shall be allowed for miscellaneous personal financial requirement of salaried or self-employed people living in the cities where the bank has its operation. It is a clean or unsecure investment in the sense that only security in the type of investment products is:

- Letter of introduction from employer.
- Transfer of monthly salary and assignment of terminal benefits.
- Personal guarantee taken from specific section of people.

 **Purpose:** The customer has to declare the purpose of the investment. Purposes may be as follows:

- Marriage expenses and purchase of gold ornaments
- Hospitalization or other emergency medical needs
- Educational expenses
- House renovation
- Setting up tube-well
- Mobile /telephone set
- Bicycle and purchase of miscellaneous household appliances.

 **Maximum amount of investment**

- Without collateral security, upto Tk.300,000/=

 **Tenure:**

- Minimum 12 months
- Maximum 48 months
- Repayment will be equal monthly installment

 **Equity (Bank : Client):**


- Maximum investment equity ratio of 80: 20.

 **Investment burden ratio:**

- Minimum 35% based on net monthly income.

 **Mode of investment:**

- Bai-Muajjal (CIS)

 **Rate of return and other charges:**

- Rate of return: 15% on net investment
- Risk fund: 2% for one time only on net investment which will be realized at the time of disbursement.
- Supervision charge: 1% on net investment (one time during investment)
- For the employees of AIBL: rate of return will be 13% and no risk fund and supervision charge to be imposed.

 **Minimum service/ length of business of self employed individual**

- For service holder applicant must have 3 years unexpired service for outsiders and 2 years unexpired service for the officials of AIBL.
- And applicant must be permanent officials and 3 years continuous service including the officials of AIBL/ continuous services of experienced banker joins from other bank.
- For self employed individual, a business record of minimum 4 years.

 **Security:**

- Hypothecation over purchased assets
- Personal guarantee of superior or in equivalent rank or controlling officer of the applicant in case of service holder.
- In other cases personal guarantee of 2 persons (preferably any valued customer of AIBL) acceptable to the bank.

- Personal guarantee of any one of the following nearest relatives spouse, father, mother, brother, aged/matured children.
- Personal guarantee of the investment client.
- Post dated cheques for monthly installment.
- One updated cheque for full investment value including full profit to be taken in advance.

 **Any one or more of the following security may be taken as additional security**

- Wage earner's development bonds
- Fixed deposit
- Other form of bank deposits
- ICB unit certificates
- Corporate undertaking or corporate guarantee from reputed and creditworthy organizations.

 **Verification of personal details and quotation**

Detail of an application to be verified before approval is accorded.

- Letter from employer with details of employment and salary.
- Investment client and guarantor details (address- both present and permanent, all telephone numbers residence, office & mobile no.)
- Personal net-worth statement
- Quotation of the item to be purchased.
- Bank statement.

 **Substantiation/ certification of income**

Proper certificate of income is mandatory. All or any of the following original copy of documents is acceptable for the purpose.



- Last tax return.
- Bank statement of last 6 months.
- Any other document that may stand as a proof of income.


4.3.4 Consumer Financial Scheme

It is for the professionals only like doctor, engineers, computer, professionals and lawyer. This scheme is used to support their small scale purchase of different equipment, tools and small machineries for installation at their business sites. This particular product is of inherently safe nature as the target customers will be the established doctors, engineers or highly qualified other professionals of the society.


Customer segment

Any Bangladeshi in the following professions as self employed or salaried people:




-  Doctor or medical professionals, Engineers, IT professionals
-  Lawyer, Management Consultants

 **Purpose:** For purchase of items to support professional needs of above customer segment, for example: X-ray machine, medical beds, ultra-sonogram machine, engineering/mechanical tools, laptop, Photostat machine or set up an office.

Maximum amount of investment:

-  Tk.2,000,000/=

Tenure:

-  Minimum 12 months
-  Maximum 60 months
-  Repayment will be equal monthly installment

Equity (Bank : Client):


-  Maximum investment equity ratio of 80: 20.

Investment burden ratio:

-  Minimum 33% based on net monthly income.

 **Mode of investment:**

- HPSM (CIS)

 **Rate of return:**

- 15% on net investment

 **Minimum service/ length of business of self employed individual**

- For service holder applicant must have 3 years unexpired service.
- And applicant must be permanent officials and 3 years continuous service.
- For self employed individual, a business record of minimum 2 years.

 **Security:**

- Collateral security to be obtained to secure the investment as per existing norms and practice.
- Hypothecation over purchased assets.
- Insurance over bank assets (policy must be renewed every year and copy of the policy must be submitted to the bank).
- Personal guarantee of the client.
- Personal guarantee of any one of the following nearest relatives spouse, father, mother, brother, and an individual having minimum income not less than that of the investment client supported by income proof.
- Personal guarantee of the investment client.
- Post dated cheques for each 6 monthly installment.
- One updated cheque for full investment value including full profit to be taken in advance.

 **Any one or more of the following security may be taken as additional security**

- Wage earner's development bonds
- Fixed deposit
- Other form of bank deposits

- ICB unit certificates
- Corporate undertaking or corporate guarantee from reputed and creditworthy organizations.

Verification of personal details and quotation

Detail of an application to be verified before approval is accorded.

- Letter from employer with details of employment and salary.
- Investment client and guarantor details (address- both present and permanent, all telephone numbers residence, office & mobile no.)
- Personal net-worth statement
- Quotation of the item to be purchased.
- Bank statement.

Substantiation/ certification of income

Proper certificate of income is mandatory. All or any of the following original copy of documents is acceptable for the purpose.

- Last tax return.
- Bank statement of last 6 months.
- Any other document that may stand as a proof of income.

4.3.5 House Finance Investment Scheme

Housing is one of the fundamental needs of people. AIBL has introduced this scheme to ease the housing problem in urban and semi urban areas and to make arrangement for comfortable accommodation by construction of new houses, extension of houses already constructed of any individual, any salaried executive or officer of govt., renowned private and non- govt. organization, any tax paying retired official, any tax paying reputed businessmen, any employed or self employed tax paying individual having a reliable source of income shall be eligible to apply for availing investment facilities under the scheme.

Maximum amount of investment:

■ Tk.7,500,000/=

 **Tenure:**

- Maximum 240 months
- Repayment will be equal monthly installment

 **Equity (Bank : Client):**


- Maximum investment equity ratio of 80: 20.

 **Investment burden ratio:**

- Minimum 33% based on net monthly income.

 **Mode of investment:**

- HPSM (CIS)

 **Rate of return and other charges:**

- 15% on net investment

 **Minimum service/ length of business of self employed individual**

- For service holder applicant must have 5 years unexpired service and must be permanent officials and 5 years continuous service.
- For self employed individual, a business record of minimum 4 years.

 **Security:**

- Registered mortgage with registered power of attorney of land in favor of bank of house etc. against installment will be allowed.
- Personal guarantee of the client.
- Personal guarantee of any one of the following nearest relatives spouse, father, mother, brother, aged/matured children.
- Post dated cheques for each 6 monthly installments.

- One updated cheque for full investment value including full profit to be taken in advance.

Verification of personal details, collateral security and quotation

Detail of an application to be verified before approval is accorded.

- Assess the genuineness of collateral security and integrity of the title documents.
- Investment client and guarantor details (address- both present and permanent, all telephone numbers residence, office & mobile no.)
- Sight plan, approved plan etc. to be verified.
- Verify that the applicant must be citizen of Bangladesh.
- Personal net-worth statement
- Quotation of the item to be purchased.

Substantiation/ certification of income

Proper certificate of income is mandatory. All or any of the following original copy of documents is acceptable for the purpose.

- Last tax return.
- Bank statement of last 6 months.
- Personal net-worth statement.
- Any other document that may stand as a proof of income.

4.4 Idea About Loan

4.4.1 Loan Classification

Loan classification is a process by which the risk or loss potential associated with the loan account of a bank on a particular date is identified and quantified to measure accurately the level of reserve to be maintained by the bank to provide for the probable loss on account those risky loan.

Like other bank, all types of loan of Al-Arafah Islami Bank Limited following four scales:

■ **Unclassified:** Repayment is irregular. The unclassified amount is about 36 crore according to year 2012. The companies are Bashundhara Chemical, Otobi Ltd and so on.

Unclassified has two parts. They are:

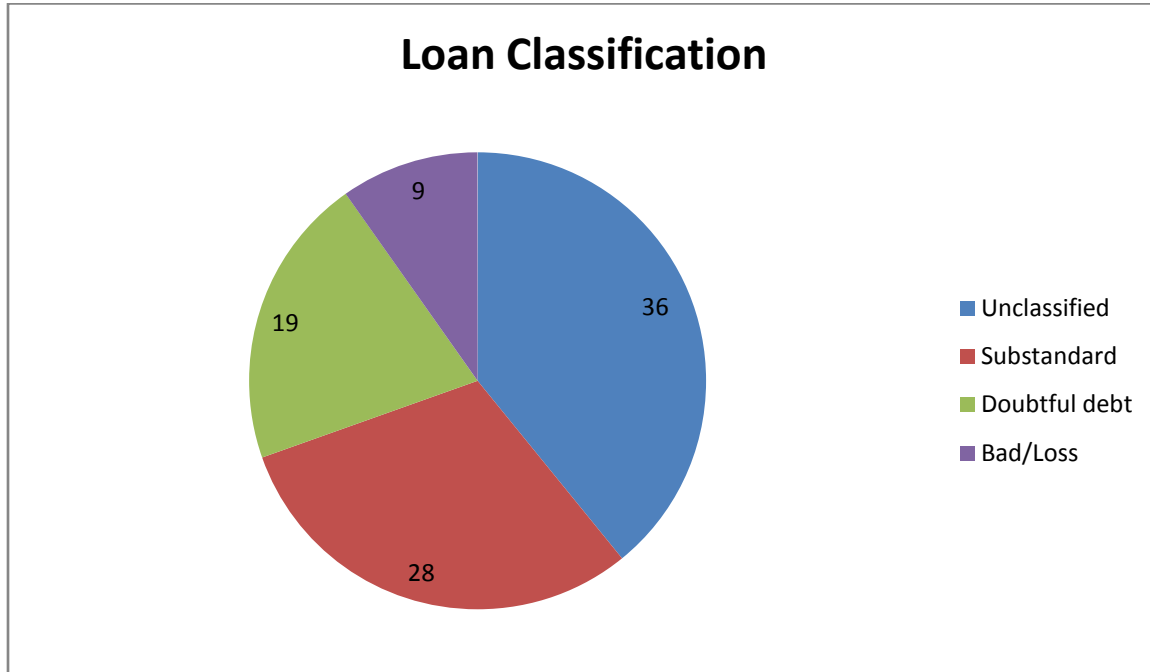
- 1) **Stand over:** 0 to 2 months
- 2) **Special mentioned account:** 2 to 3 months.

■ **Classified:** Classified has two parts. They are:

1) **Substandard:** Repayment is stopped or irregular but there has reasonable prospect of improvement. The substandard amount is about 24 crore in year 2012. The companies are Ramisha Import & Export Ltd. And so on. Time limit of substandard is 4 to 6 months.

2) **Doubtful debt:** Unlikely to be repaid but there is special collection efforts that may result in partial recovery. The doubtful amount of AIBL is about 19 crore in year 2012. The companies are Spread Printing And Packaging, T&A Technology, Delta Printing And Packaging and Chemitan Trading House. Time limit of doubtful debt is 6 to 9 months.

3) **Bad/Loss:** There is very little chance of recovery. That is also known as classified. Classified amount of AIBL is about 9 crore according to year 2012. The companies that are under classified are Bestec Construction, Bestec Corporation, Ramisha Enterprise and Momo Enterprise. Time limit of bad/ loss is over 10 months.



4.4.2 Categories of Loan


All types of loan will be grouped into four categories. They are:

Continuous Loan: AIBL provide this loan for one year. Any time of the investor can take his/ her loan amount. Under continuous loan there are: Bai-Muajjal (general), Bai-Muajjal (against work order), Bai-Muajjal Real Estate (short term) and Quard Against TDR.


Next Maximum Months From Rescheduling Date:

| If the loan is> 1 st Rescheduling | SS 18 months | DF 12 months | BL 12 months | Down Payment | |
|--|-----------------|-----------------|-----------------|----------------------------------|-----------------------------------|
| | | | | Over Due Amount | Rate of Down Payment |
| | | | | Upto Tk. 1.00 Crore | 15% |
| | | | | Above 1.00 Crore Upto 5.00 Crore | 10% (But not less than 15.00 Lac) |
| | | | | Above 5.00 Crore | 5 % (But not less than 50.00) |

| | | | | |
|---------------------------------|-----------|-----------|-----------|---|
| | | | | Lac) |
| 2 nd Rescheduling | 12 months | 09 months | 09 months | 30% of Over Due Installment or 20% of Outstanding Loan Amount |
| 3 rd Rescheduling | 06 months | 06 months | 06 months | 50% of Over Due Installment or 30% of Outstanding Loan Amount |

 **Demand Loan:** According to the demand of the client AIBL provide this loan. Under demand loan there are: Marabaha (post import), Trust receipt, Quard Against Inland Bills (QIB), Foreign Bills Purchased (FBP) and Bai Istisna. Next Maximum Months From Rescheduling Date:

| If the loan is> | SS | DF | BL | Down Payment |
|---------------------------------|-----------|-----------|-----------|-------------------------------|
| 1 st Rescheduling | 12 months | 09 months | 09 months | Same as Continuous Loan |
| 2 nd Rescheduling | 09 months | 06 months | 06 months | |
| 3 rd Rescheduling | 06 months | 06 months | 06 months | |

 **Fixed Term Loan:** Under fixed loan there are: Bai-Muajjal CIS (staff), Bai-Muajjal (general), Hire Purchase (SHBS), Hire Purchase Real Easte (short term), H.P.S.M short term (general), H.P.S.M short term(transport), H.P.S.M Machinery (short term), H.P.S.M Machinery (long term), H.P.S.M Real Easte (long term). Next Maximum Months from Rescheduling Date:

| If the loan is> | SS | DF | BL | Down Payment |
|---------------------------------|-----------|-----------|-----------|--|
| 1 st Rescheduling | 24 months | 18 months | 18 months | 15% of Over Due Installment or 10% of Outstanding Loan Amount |
| 2 nd | 18 months | 12 | 12 | 30% of Over Due Installment |

| | | | | |
|---------------------------------|-----------|--------------|--------------|---|
| Rescheduling | | months | months | or 20% of Outstanding Loan Amount |
| 3 rd Rescheduling | 12 months | 09 months | 09 months | 50% of Over Due Installment or 30% of Outstanding Loan Amount |

 **Short-Term Agricultural and Micro Credit:** Gulshan branch of AIBL don't provide this loan.

4.4.3 Non-performing Loan


In short non-performing loan is called NPL. A sum of borrowed money debtor has missed his/her schedule payment for at least 90 days or 3 months is called non-performing loan. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms and condition between client and bank. A non-performing loan is either default or close to being in default. If debtor start to pay his/her loan then it is not under non-performing loan.


A loan is non-performing when payments of interest and principal are past due by 90 days or more, or at least 90 days or 3 months of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days or 3 months overdue. In other words, a loan is usually considered to be non-performing after it has been in default for three consecutive months

Non-performing loan is no longer producing income for the bank. Bank holds non-performing loans in their portfolio. They choose right buyer to sell them to other investors in order to get rid of risky assets and clean up their balance sheet. Bank must be careful to sale of non-performing loan because they can have numerous financial implications, including affecting the company's profit and loss and tax situation.


Consider NPL ratio, a smaller NPL ratio indicate smaller loss for the bank. If it is larger NPL ratio mean larger losses for the bank as it writes off bad loan. Some banks are interested to invest money in higher risk sector. They want to get more profit by disbursing high-quantity of loan and charging borrower higher interest rate. Higher risks takers earn more profit. However, the large numbers of NPL have large number of side effects.


4.4.4 Reasons for Non-Performing Loan


 **Intentionally:** One who intentionally do not repay the loan. As it is known to all they take this money for business purpose or buying-selling. But they do not do that. Instead he/she has intention to lout a big amount of money from the bank.

 **Mutual understanding with higher management:** One takes loan from bank with the help of higher level officer. They divide loan money between them. Instead they have intention to lout a big amount of money from the bank. For example, Hallmark case with Sonali Bank.


 **Economy Fall of the Country:**

 **Exchange rate fall:** If dollar rate is increasing and taka rate is decreasing. That may cause economy fall of the country.

 **Political unrest:** Because of political restrain economy fall of our country for example, Hortal hamper production, that's why company are not able to shipment their product in time. As a result they don't earn as much as they assume.

 **Lack of raw material:** It is related with the political restrain. Political restrain cause obstacles in communication. That's why raw material doesn't reach timely according to the need of manufacturer.

From the above reasons, economy falls of the country.

 **Market down:** One who take loan for any specific goods. But that goods market is down. Customers are not interested to buy those goods. Client is not able to earn that

much money as they assume. Client who takes from the bank he is not able to repay his loan timely.

🏡 **Natural Calamities:** Sometimes natural calamities also cause loan to default. One takes loan from bank. Because of natural calamities he/she is not able to supply his/her goods to the client in time.

🏡 **Same product in market:** Now there is more than one company who produce same product. As a result debtor who takes loan from bank, he/she is not able to get success by that product.

4.4.5 Effect of NPL

There are some effects of NPL that are given below:

🏡 There is a negative relationship between non-performing loan and performing loan. If there is increase of non-performing loan that hamper the performing loan.

🏡 Non-performing loan cause efficient problem on banking sector. If non-performing loan increase that discourage bank's management to invest money. They lend less money than demand.

🏡 Non-performing loan stopped money cycling. After one party return money, bank management can lend money to the other party. If that party is failure to return money bank is not able to lend it another. Slow flowing of cash always has negative impact on any business.

🏡 Non-performing loan cause earning reduction for the bank. If lender is not able to repay money that hamper bank's earnings. Interest earning gets stopped. But cost of fund and cost of management are not stopped. The existing lending price has to be increased to run the management cost along with cost of fund. Suddenly increased rate of interest makes hard the return bank money for a performing borrower.

- 🕌 If non-performing loan is increasing that also cause capital erosion. Capital erosion also hampers economic growth. As a result of poor economic condition.
- 🕌 Non-performing loan affects opening of LC. International importers always healthy condition of the exporter's bank. If bank's health condition is worse that affects the opening of new LCs. Low rate of LCs makes low bank earning.
- 🕌 NPL creates the credit crunch situation. Credit crunch is a phenomenon that banks ration loan disbursement and new credit commitment that add more risk. Credit crunch also increase the rate of NPL.
- 🕌 As we know bank's work is to take money from one and give it to another. That person who take loan from bank he is not able to repay it. After a certain period bank have to pay money that keep in bank. Because of NPL it affects bank's re-balancing action.

4.5 Management of Non-performing Loan

4.5.1 Early Alert System

- 🕌 An early alert account is one that has risks or potential weakness of a material nature requiring monitoring supervision or close attention by management.
- 🕌 If the weaknesses are left uncorrected, they may result deterioration if the repayment prospects for the investment accounts at some future with prospect of being downgraded to IRG-file.
- 🕌 Investment monitoring department will identify the weaknesses of the investment accounts, report promptly to the IRM, and take proactive corrective measures immediately on a continuous basis.
- 🕌 Monitoring department will prepare an early alert statement within 7 days of identification of investment account and issue to concern branches and to the IRM.
- 🕌 IRG cell will update the IRG grade as soon as possible and no delay should be taken to refer the problem accounts to IRM.


- 🏡 The relationship management will contact regularly to the customers for developing account status.
- 🏡 Monitoring department will identify the investment accounts which are going to be classified within next 30 days report to the IRM and managing direction for the prompt action.
- 🏡 Monitoring department shall closely monitor early alert identified accounts and contact regularly and the investment clients so that the accounts can be regularized.

4.5.2 Non-Performing Account Management




- 🏡 Management of non-performing accounts will be assigned to recovery unit who will be responsible for coordinating and administering action plan for recovery of NPL account.
- 🏡 Recovery management to serve as the primary customer contact after the investment account is downgraded.
- 🏡 The IRM will assist recovery management to implement the appropriate strategies.

4.5.3 Transfer of Non-Performing Account to recovery department

- 🏡 An investment account downgraded as sub-standard will be transferred to the Recovery Management/ Recovery Management from the Monitoring Department along with a request for action (RFA) in format and a handover/downgrade checklist.
- 🏡 The recovery department / recovery unit will review all documents, meet the customer and prepare a review report within 15 days of transfer.
- 🏡 The initial review report should include documentation issues; investment structuring weakness, proposed workout strategy, security issues as per Instruction Circular no.INV/130 dated 08022005 regarding Eligible Securities and should seek approval for provisioning that is necessary.
- 🏡 The recovery unit should ensure that the following is carried out when an account as sub standard or worse.

- a) Facilities are withdrawn or repayment is demanded as appropriate. Any drawings or advances should be restricted and only approved after careful scrutiny and approval from appropriate executives within IRM.
 - b) CIB reporting is updated according to Bangladesh Bank guideline and the Investment Client's Risk Grade is changed as appropriate.
 - c) Loan loss provisions are taken based on Force Sale Value (FSV).
 - d) Loans are rescheduled in conjunction with the Large Loan Rescheduling guideline of Bangladesh Bank. Any rescheduling should be based on projected future cash flows and should be strictly monitored.
 - e) Prompt legal action is taken if the client is uncooperative.
-  The recovery department / unit will prepare a quarterly review report to update the status of the action / recovery plan review and assess the adequacy of provisions and modify the bank's strategy as appropriate.

4.5.4 Non performing Investment Provisioning policy

-  Bangladesh Bank issued BRPD Circular No. 05 on June 2005 under the caption "Master Circular-Loan Classification and Provision" with detail guideline for provisioning against classification investment. The circular is enclosed in annexure-16.
-  AIBL follow the Bangladesh Bank's master circular and its subsequent amendments in provisioning against classified investment.
-  Investment recovery department will ensure the implementation of investment write off policy.

4.5.5 Non-performing write off policy

- 🏠 Bangladesh Bank issued BRPD Circular No. 02 on January 13, 2003 under the caption “Loan Write off Policy” with detail guideline for classification.
- 🏠 Bank will follow the Bangladesh Bank’s circular and its subsequent amendments in write off classified investment.
- 🏠 Investment recovery department will ensure the implementation of investment write off policy.

4.5.6 Rescheduling Of Non-Performing Investment

- 🏠 Bangladesh Bank issued BRPD Circular No 01 on January 13, 2003 under the caption “Loan Rescheduling Policy” with detail guideline for rescheduling of classified investment. The circular is enclosed in annexure-18.
- 🏠 Bank will follow the Bangladesh Bank’s circular and its subsequent amendments in rescheduling of classified investment.
- 🏠 Investment recovery department will ensure the implementation of investment write off policy.

Part-05

Conclusion



AL-ARAFAH ISLAMI BANK LIMITED

5.1 Recommendation

- 🕌 Al-Arafah Islami Bank Limited has lacking of branches all over the Bangladesh. For this reasons, customers have to visit long distance to continue their bank activities. They can open more branches that can attract more customers.
- 🕌 As we know ATM card is the modern innovation in banking industry. ATM helps to get money as soon as possible. Recently they opened only 8 ATM booths in Dkaha. That is not sufficient. AIBL should concentrate on ATM card.
- 🕌 AIBL should concentrate in increasing its profit earning capacity.
- 🕌 Bank should provide more foreign exchange and other sort of facilities to new customers, new entrepreneurs, new businessmen or new companies.
- 🕌 Bank should increase their office space and take more care in interior decoration.
- 🕌 Al-Arafah Islami Bank should promote introduce its Unique Selling Proposition, the Islamic Visa Card service in order to obtain better customer response.
- 🕌 AIBL should give more emphasize on their marketing effort and try to their sales force.
- 🕌 AIBL should try to attend different type of target customers.
- 🕌 Bank should introduce training courses for their employee in order to develop human resource according to the Islami Bank Training & Research Academy.
- 🕌 AIBL should carry out more promotional activities to make aware about their offers.
- 🕌 AIBL is absent in TV, print media, bill boards and sponsorships. The bank should advertise about itself and its offers so that it can attract more customers that will increase the business volume of the bank.

5.2 Conclusion










The management of Al-Arafah Islami Bank Limited is quite confident that, with their competitive market strategy, high standard of customer service and loyal employees, they shall continue to successfully grow and increase their business and profit. Al-Arafah Islami Bank Limited continues to accelerate its business growth through existing and new relationships. Its business units will function within the confines of policies and procedures which are consistent with its underlying values and principals as a leading banking institution.

Al-Arafah Islami Bank Limited is a premier banking institution of the country. It integrates the latest technology into every facet of its operations. But recently there have been a problem with their online banking functions. The online banking system of Al-Arafah Islami Bank Limited is being upgraded into a world class system. But the temporary loss of the online function is hampering its image. Even then the development of the bank is going on according to its goal.

One thing that I come to know from the employee in Gulshan Branch there was no non-performing loan till 2012. That means its creditor is so smart they can repay their loan. As it has less the amount of loan losses, the more the income will be from credit operations. The more the income from credit operation the more will be the profit of the Al-Arafah Islami Bank Limited.

The Bangladeshi banking market is a highly competitive market. In our country the banking sector is growing up very rapidly. So every bank faces this stiff competitive situation. In this competitive market, Al-Arafah Islami Bank Limited has done better to earn quite a good amount of profit in the banking sector.

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