

Competitive Analysis Between

Islamic Banking &
Conventional Banking

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Subject: **Submission of internship report**

Dear Sir

This is my pleasure to submit my internship report on “Future Leader of Banking Sector In Bangladesh, A Study on Islamic Banking @ IBBL”. It was a great opportunity for me to acquire knowledge and experience in respect of the functions, procedures and operational activity, other than my topic of study.

I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report. Without your help, this report would have been impossible to complete. With deep gratitude, I also acknowledge the help provided by Md. Tanjelur Rahman, Senior Officer, Islami Bank Bangladesh Ltd. for providing me utmost supervision during my internship in the organization.

I have concentrated my best efforts to achieve the objectives of the assignment study and hope my endeavor will serve the purpose. However, I will always be ready to provide any further clarification that you may require. To prepare the report I have collected what I believe to be most relevant information to make my report as analytical and reliable as possible.

Thank you again for your support and patience.

Yours Sincerely

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List of Abbreviations

IBBL	Islami Bank Bangladesh Limited
RDS	Rural Development Scheme
ATM	Automated Teller Machines
EMI	Equal Monthly Installment
CIB	Credit Information Bureau
CRO	Customer Relationship Officer
GDP	Gross Domestic Product
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions.
IFSB	Islamic Financial Service Board
IAIB	International Association of Islamic Banks
OIC	Organization of Islamic Conference
MOU	Memorandum of Understanding PPG Product Program Guide
ROA	Return on Asset
IIFM	Islamic Interbank Fund Market
ISRB	Islamic Economic Research Bureau
BIBA	Bangladesh Islamic Bankers Association
IBCF	Islamic Banks Consultative Forum
BB	Bangladesh Bank
IDB	Islamic Development Bank

Executive Summary

This report is titled as “Comparative Analysis between Islamic Banking & Conventional Banking” is submitted as a partial requirement for the fulfillment of MBA Program.

This report is prepared based on analyzing the Functions like routine activities and administrative work, the training and development program of IBTRA & the practical experiences appraised from the employees of IBBL.

I have tried my best to provide the best accurate and true information regarding the report and its relevant information's without which the report is not considered to be completed.

The report is basically divided into several parts based on report criteria. The Different parts of the report are Objective, scope and limitations of the study, organization overview, findings and analysis of the Functions, Recommendations and conclusion. Which is chronologically organized and can easily understandable?

Chapter 1

1.1 Introduction

Islamic Banking is shariah compliant financing. More than 500 institutions are functioning in 65 countries. The Quantum of Islamic Finance is \$2.0 trillion (assets) which is expected to touch \$5.0 trillion mark by 2019. It has a growth rate of 18% with more than 38 million clients; which is expected to grow rapidly in coming years. More than 120 Institutions & 50 Universities around the world are offering degree programs specializing on Islamic Finance and Banking Education.

1.2 Objective

The prime objective of the study is to fulfill the course requirement and to know about banking functions like General Banking, Investment & Foreign Exchange. This report seeks to explore the reasons behind the success of Islamic Banks in the recent past, what are the reasons behind the 17 more banks in the pipe line for conversion.

To explore the reasons I have selected IBBL (the only bank in Bangladesh to secure its spot to the top 1000 global banks) to know how Islamic Banks run interest free banking system, what are the difference between profit and interest, how Islamic banks invest & earn profits.

Secondary Objective:

- ✓ Reasons behind the success of Islamic Banks.
- ✓ What is Interest free banking system, Is it possible?
- ✓ Difference between profit & loss?
- ✓ How Islamic Banks Invests and earn profit.
- ✓ To know about the management system of Islamic Bank.
- ✓ What is the reason behind their huge customer base without having a marketing department?

1.3 Scope of Study

Learning knowledge becomes worthy and useful when it is implemented in the practical field. That is why learned people say, “Theoretical knowledge tests its perfection with application” or “Theoretical education must be backed by real life practice”. The importance of practical knowledge along with academic education is increasing day by day. For this the report has been introduced as an integral part of MBA degree. We are very much delighted to have the opportunity to prepare this report.

The collected data and information has been tabulated, processed and analyzed carefully and report has been prepared on the basis of Practical experiences during the internship period in IBBL branches.

This shorted duration is not adequate for experiment research world. The study would have been more informative and determined, if adequate time could have been utilized. However it is felt that the findings represented a partial view of Islami Bank Bangladesh Limited of it's in house activities & functions.

1.4 Methodology

The methodology of this report is totally different from conventional reports. We have emphasized on the practical observation. Almost the entire report consists of our practical observation. While preparing the report, I have collected information from the following sources:

Two sources of data and information have been used widely:

Primary sources of data:

- Face to face conversation with the official of IBBL
- Practical deskwork.

Secondary sources of data:

- Website of Bangladesh Bank, IBBL, IBTRA and other essential websites.
- Text Book- Guidelines about Islamic Economics, Banking & Finance
- Library Study
- Newspaper Articles

1.5 Limitation of Our Study

This Research Project work was prepared carefully with full concentration to avoid any kind of misinformation or mistakes. But still like all other research work this report may also have some limitations.

From our view some obstacles in this report are given bellow:

- Primary and Secondary data were not available in organized form.
- This report was prepared in very tight time schedule.
- Lack of opportunity to access to internal data
- Legal action related information was not available.

Chapter 2

Concept of Islamic Banking

2.1 Definition of Islamic Bank

Islamic Banking means **Shariah Compliant Finance**. We know finance is the flow of fund from surplus unit and subsequently transfer the same to the deficit unit. Here Sharia Compliant states the guidelines.

Shariah is the set of rules derived from both the Holy Quran and the authentic traditions (Sunnah) of the Prophet (peace be upon him) and the scholarly opinions (Ijtihad) based on Quran and Sunnah” – IDB

The legal system developed and established by the close associates of the prophet (PBUH) and the scholars and jurists through ages, in the light of teachings of the holy Quran and Sunnah and on the basis of their own Ijma and Qiyas is known as Shariah

According to Imam Ghazali, “The very objective of the shariah is to promote the well-being of the people, helping in every welfare and preventing from harm.”

Yousuf Al Karzavi “The instinctive/ inherent goal/Maqasid/ objective of shariah is to ensure the welfare and prevention of ill-being/ evil.”

Islamic banking is the financing activities which will try to ensure the welfare of people and at the same time it will try to prevent and eliminate the ill- being / evil practices.

What is Islamic Bank?

“Islamic Bank is a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations.”

– The general Secretariat of the Organization of the OIC

OIC’s definition consists of two approaches –

1. Commitment to the principles of Islamic Shariah (Maqasid/ Objective)
2. Banning of receipt & payment of interest (Mechanism)

2.2 Historical Background of Islamic Banking

Islamic banking came from the concept of – “Ownership of Allah (SWT) where Man is trustee (khalifah)” The development movement of Islamic Banking can be looked at into 4(four) stages period.

1) The First Stage (1950-1969)

- i. The first attempt to establish Islamic Financial Institution took place in Pakistan in the late 1950.
- ii. 1962 | Pilgrims Savings Corporation, Malaysia.
- iii. 1963 | Savings Bank in Mitgamar, Egypt by Ahmad al Najjar, The pioneer in Islamic Banking.
- iv. 1969 | Tabung Haji, Malaysia

2) The second Stage (1970-1979)

- i. 1970 | Foreign Ministers of OIC countries agree to establish Islamic Banks in the Muslim Countries.
- ii. 1973 | Finance Ministers of OIC countries decided to form an international Islamic Bank.
- iii. 1974 | Finance Ministers of OIC countries signed a charter to establish Islamic Development Bank.
- iv. 1975 | Islamic Development Bank, Jeddah
- v. 1975 | Dubai Islami Bank
- vi. 1977 | Faisal Islamic Bank, Sudan; Kuwait Finance House
- vii. 1978 | Jordan Islamic Bank for Finance & Investment
- viii. 1978 | The House Building Corporation of Pakistan; National Investment Trust; Mutual Trust Funds of Investment Corporation of Pakistan.

3) The third stage (1980- 1989)

1980 | Bangladesh Bank sent a representative to study the operation of several Islamic banks abroad. Bangladesh foreign minister proposed in 11th OIC meeting to establish Islamic common market and banking

1981 | The president while addressing the 3rd Islamic Summit Conference held at Makkah suggested: “The Islamic Countries should develop a separate banking system to facilitate trade and commerce.”

4) The fourth stage (1990 onwards)

The fourth stage where we are now and witnessing the stage of consolidation and strengthening its operations.

- i. 1990 | the agreement of association signed in Algiers for the establishment of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions).
- ii. 1991 | AAOIFI was registered in Bahrain as an International autonomous non-profit making corporate body
- iii. 3rd November 2002 | The Islamic Financial Service Board (IFSB) was established
- iv. IFSB Started its operation in 10th March, 2003 in Malaysia
- v. Jaiz Bank Plc, the first ever non-interest (Islamic) bank in Nigeria was established in 2011 with the technical support of IBBL.

2.3 Islamic Banking & Bangladesh

Banking plays an important role in the economy of any country. 80% of population of Bangladesh is Muslims and Bangladesh is also one of the largest Muslim countries of the world. People of Bangladesh have strong faith and belief on Allah and Prophet(SM). They like to lead their lives as per Quran and Sunnah. But there was no Islamic banking system in our country before March 13, 1983. IBBL is the first Islamic Bank in south East Asia who operates its banking activities on the basis of profit-loss sharing system.

2.3.1 Islamic Banking Bangladesh Scenario

8 Eight Full Fledged Islamic Banks



IBBL (1983)



ICB (1987)



AIBL (1995)



SIBL (1995)



Sahjalal (2001)



EXIM (2004)



FSIB (2009)



Union Bank Ltd
Union (2013)

More banks are in the pipe line of conversion



Bank Alfalah



HBL
HABIB BANK
حبيب بنك



city bank
making sense of money



HSBC



AB Bank



Standard
Chartered



Prime Bank Limited
a bank with a difference

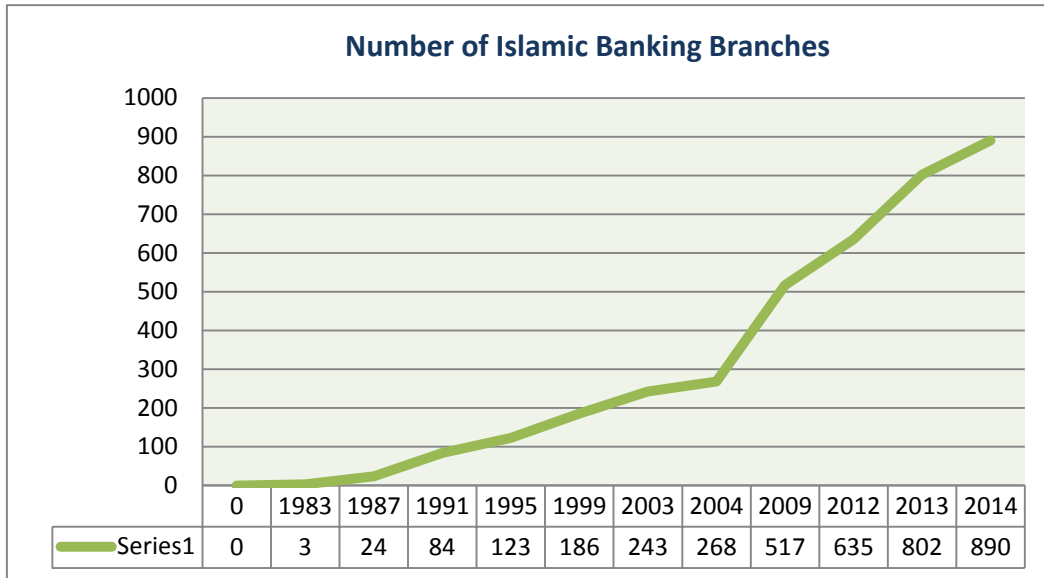


DHAKA BANK
LIMITED
EXCELLENCE IN BANKING

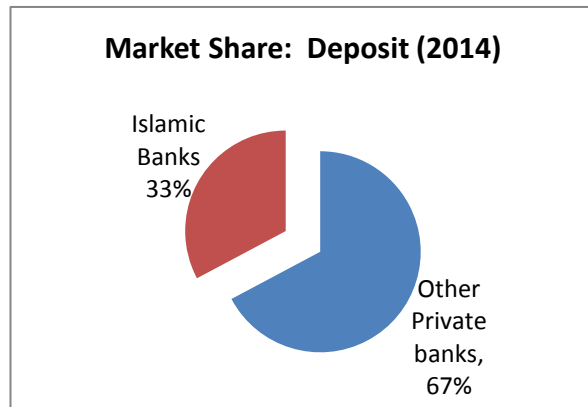
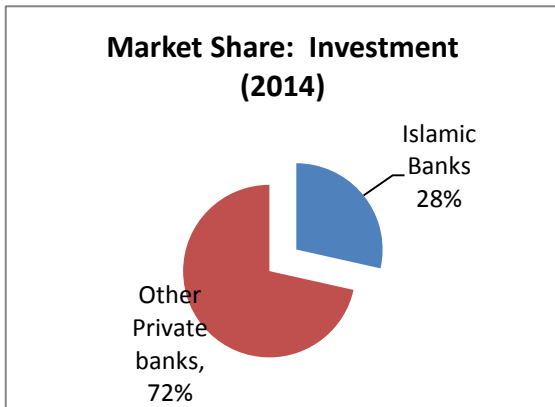


17 Banks having Islamic branches/ windows

2.3.2 Development of Islamic Banking: Network



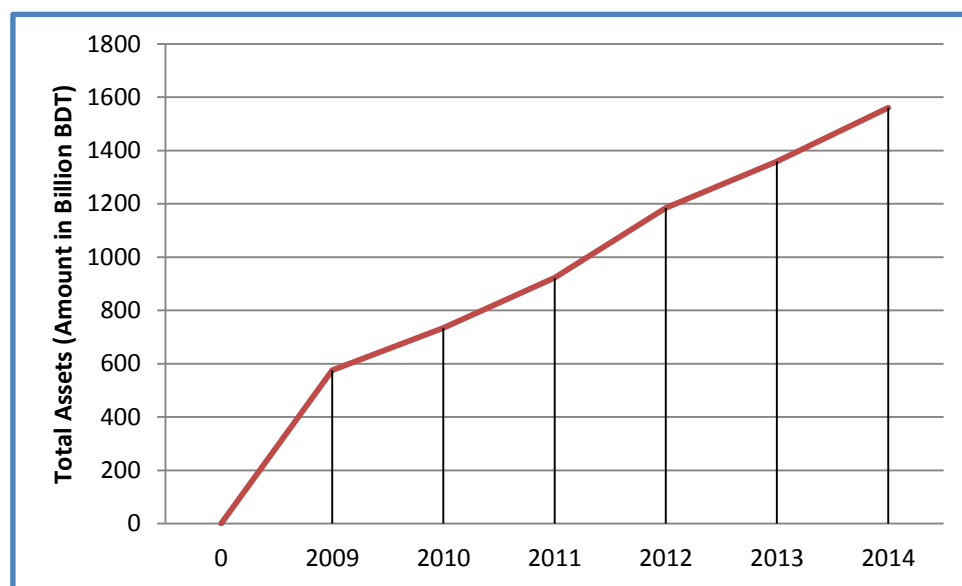
2.3.3 Development of Islamic Banking: Deposit & Investment



Total Deposit of Islamic Banks is TK.1,44,149 Crore. Which is equivalent to 32.78% of total Deposit of Private Commercial Banks or 20.46% of total Deposit of Banking Sector of Bangladesh.

Total Investment of Islamic Banks is TK.1,23,950 Crore.

2.3.4 Development of Islamic Banking : Assets



Asset Size doubled in last 4 years

2.3.5 Selected Ratios of Islamic Banks and the Banking Sector (2013)

Ratio	Overall Banking Sector	Islamic Banking Sector
Return on Asset	0.90	0.89
Return of Equity	10.70	11.71
Net Profit Margin	2.10	3.32
Profit Income to Total Asset	7.74	9.79
Investment- Deposit Ratio	71.18	84.13
Capital Adequacy Ratio	11.50	12.00
Classified Investment to investment	8.90	4.20
Classified Investment to Capital	59.80	39.88

Type of Bank	Amount of CSR Expenses During the year 2013
Full Fledged Islamic Bank	118
Conventional Banks	324
Total	442

2.3.6 Summary of Islamic Banking: Bangladesh Scenario

- ❑ One fifth of country's Banking Sector Under Islamic System
- ❑ 18% average asset growth in last 5 years
- ❑ 35% of 38 million Global Islamic Banking Clients (11.70 million)
- ❑ 50% of Global Islamic Micro Finance
- ❑ Total Deposit of Islamic Banks is 1,44,149 crore.
- ❑ 32.78% of Total Deposit of Private Commercial Banks
- ❑ 20.46% of Total Deposit of Banking Sector of Bangladesh.
- ❑ Total Investment of Islamic Banks is TK 1,23,950 Crore
- ❑ 32.78% of Total Investment of Private Commercial Banks
- ❑ 17.15% of Total Investment of Banking Sector of Bangladesh.

2.4 Islamic Banking Regulation

Organizations promoting Islamic Banking

1. Islamic Economic Research Bureau (IERB) 1976
2. Bangladesh Islamic Bankers Association (BIBA) 1979
3. Islamic Banks Consultative Forum (IBCF) 1995
4. Central Shariah Board for Islamic Banks of Bangladesh (2001)

Regulatory Steps for Islamic Banking

1. Provision made in Bank Company Act 1995
2. Bangladesh Government Islamic Investment Bond 2004
3. Guidelines for Islamic Banking 2009
4. Islamic Interbank Fund Market – IIFM 2012
5. Separate inspection department for Islamic Banks 2013
6. Refinance Facilities to Islamic Banks for SME 2013
7. IFSB-BB seminar on Islamic Finance 2013
8. Meeting of Islamic banks with parliamentary standing committee
9. Meeting of Islamic bankers with BB Governor

Chapter 3

Islami Bank Bangladesh Limited (IBBL)

3.1 Background

In August 1974, Bangladesh signed the Charter of Islamic Development Bank and committed itself to reorganize its economic and financial system as per Islamic Shariah.

In January 1981, Late President Ziaur Rahman while addressing the 3rd Islamic Summit Conference held at Makkah and Taif suggested, "The Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce." This statement of Late President Ziaur Rahman indicated favorable attitude of the Government of the People's Republic of Bangladesh towards establishing Islamic banks and financial institutions in the country. Earlier in November 1980, Bangladesh Bank, the country's Central Bank, sent a representative to study the working of several Islamic banks abroad.

In November 1982, a delegation of IDB visited Bangladesh and showed keen interest to participate in establishing a joint venture Islamic bank in the private sector. They found a lot of work had already been done and Islamic banking was in a ready form for immediate introduction. Two professional bodies -Islamic Economics Research Bureau (IERB) and Bangladesh Islamic Bankers' Association (BIBA) made significant contributions towards introduction of Islamic banking in the country. They came forward to provide training on Islamic banking to top bankers and economists to fill-up the vacuum of leadership for the future Islamic banks in Bangladesh. They also held seminars, symposia and workshops on Islamic economics and banking throughout the country to mobilize public opinion in favor of Islamic banking.

Their professional activities were reinforced by a number of Muslim entrepreneurs working under the aegis of the then Muslim Businessmen Society (now reorganized as Industrialist & Businessmen Association). The body concentrated mainly in mobilizing equity capital for the emerging Islamic bank.

At last, the long drawn struggle to establish an Islamic bank in Bangladesh became a reality and Islami Bank Bangladesh Limited was established in March 1983 in which 19 Bangladeshi national, 4 Bangladeshi institutions and 11 banks, financial institutions and government bodies of the Middle East and Europe Including IDB and two eminent personalities of the Kingdom of Saudi Arabia joined hands to make the dream a reality.

Islami Bank Bangladesh Limited (IBBL) is considered to be the first interest free bank in Southeast Asia. It was incorporated on 13-03-1983 as a Public Company with limited liability under the companies Act 1913. The bank began operations on March 30, 1983.

The establishment of Islami Bank Bangladesh Limited was on March 13, 1983 as the true reflection of this inner urge of people, which started functioning with effect from March 30, 1983. This Bank is the first of its kind in Southeast Asia. It is committed to conduct all banking and investment activities on the basis of **interest-free profit-loss sharing system**. In doing so, it has unveiled a new horizon and ushered in a new silver lining of hope towards materializing a long cherished dream of the people of Bangladesh for doing their banking transactions in line with what is prescribed by Islam. With the active co-operation and participation of Islamic Development Bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and the Gulf countries, Islami Bank Bangladesh Limited has by now earned the unique position of a leading private commercial bank in Bangladesh.

3.2 Overview of IBBL

Islami Bank Bangladesh Limited is a well-known organization which is reflecting the mass banking example in Bangladesh. With highly reputed knowledge and concern in banking sector, Islami bank is doing its tremendous business expansion with outstanding performance in deposit and remittance.

Bangladesh is a mass populated country where poverty level is highly significant with a developing sign in economic. Although there are lots of banks in Bangladesh to invest to earn and finally to serve customers the people of Bangladesh but the efficiency in serving the mass poor population is not significant toward development. In this case, Islami Bank Bangladesh Ltd. is quite different with tagging message AMAR BANK. This specific tag shows the real concinnity toward mass population who are not only poor but also doing their best to develop their life with country prosperity.

Another targeting issue is the majority of Muslim. Most people in Bangladesh are the follower of Islam. Overall mass population is pious toward their religious activity. Islami bank has targeted their values and views according to Islami Shariah which represent the Islami process to continue the business terms. That's another secret view behind the success of Islami Bank Bangladesh Ltd. Not only the Muslims but also people from other religion have chosen IBBL as their preference.

3.2.1 IBBL's Vision

The vision of IBBL is to always strive to achieve superior financial performance, be considered a leading Islamic Bank by reputation and performance.

- Our goal is to establish and maintain the modern banking techniques, to ensure soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professional, working for the benefit of people, based upon accountability, transparency and integrity in order to ensure stability of financial systems
- We will try to encourage savings in the form of direct investment
- We will also try to encourage investment particularly in projects which are more likely to lead to higher employment.

3.2.2 Mission of IBBL

- ✓ To established Islamic Banking through the introduction of welfare oriented banking system and also ensure equity and justice in the field of all economic activities.
- ✓ Achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less development areas of the county.
- ✓ To encourage socio-economic development and financial services to the low income community particularly in the rural areas.

3.2.3 Strategic Objectives

- ✓ To ensure customers' satisfaction.
- ✓ To ensure welfare oriented banking.
- ✓ To establish a set of managerial succession and adopting technological changes to ensure successful development of an Islamic Bank as a stable financial institution.
- ✓ To prioritize the clients welfare.
- ✓ To emerge as a healthier & stronger bank at the top of the banking sector and continue stable positions in ratings, based on the volume of quality assets.
- ✓ To ensure diversification by Sector, Size, Economic purpose & geographical location wise Investment and expansion need based Retail and SME/Women entrepreneur financing.
- ✓ To invest in the thrust and priority sectors of the economy.
- ✓ To strive hard to become a employer of choice and nurturing & developing talent in a performance-driven culture.
- ✓ To pay more importance in human resources as well as financial capital.
- ✓ To ensure lucrative career path, attractive facilities and excellent working environment.
- ✓ To ensure zero tolerance on negligence in compliance issues both sharia'h and regulatory issues.
- ✓ To train & develop human resources continuously & provide adequate logistics to satisfy customers' need.
- ✓ To be excellent in serving the cause of least developed community and area.
- ✓ To motivate team members to take the ownership of every job.
- ✓ To ensure development of devoted and satisfied human resources.
- ✓ To encourage sound and pro-active future generation.
- ✓ To achieve global standard.
- ✓ To strengthen corporate culture.
- ✓ To ensure Corporate Social Responsibilities (CSR) through all activities.
- ✓ To promote using solar energy and green banking culture and echo logical balancing.

3.2.4 Core Values

- ✓ Trust in Almighty Allah
- ✓ Strict observance of Islamic Shariah
- ✓ Highest standard of Honesty, Integrity & Morale
- ✓ Welfare Banking
- ✓ Equity and Justice
- ✓ Environmental Consciousness
- ✓ Personalized Service
- ✓ Adoption of Changed Technology
- ✓ Proper Delegation, Transparency & Accountability

3.2.5 Commitments

- ✓ To Shariah
- ✓ To the Regulators
- ✓ To the Shareholders
- ✓ To the Community
- ✓ To the Customers
- ✓ To the Employees
- ✓ To other stakeholders
- ✓ To Environment

3.3 Nature of Business

The Islami Bank Bangladesh Limited is pioneer in introducing Shariah based interest free utilize banking in Bangladesh with a mission to establish welfare oriented banking system and to ensure equity and justice in the field of all economic activities. All of its activities are directed on the principles of Islamic Shariah. There is Shariah council, which is entrusted with the responsibility for ensuring that the activities of the bank are being conducted on the precepts of Islam. **IBBL** is one of the leading first generation private sector banks in Bangladesh, which provides all kinds of commercial banking service.

3.4 Functions of IBBL

Islamic banks render almost similar services to their customers conventional banks do. However, differences exist in administering incentives for deposits and charging for capital investments, in so far as techniques of calculating the incentive or the cost of the capital are concerned. Like a conventional bank, the Islami bank also accepts deposits from customers and advances loans. The bank invests its funds for short as well as long term deposits. The Islami bank also acts as a custodian of its customers and performs all foreign transactions on behalf of them. The functions of Islami Bank Bangladesh Limited are as under:

- ✓ To maintain all types of deposit accounts.
- ✓ To make investment.
- ✓ To conduct foreign exchange business.
- ✓ To extend other banking services.
- ✓ To conduct social welfare activities through Islami Bank Foundation.

3.5 Branches of IBBL in Bangladesh

Islami Bank Bangladesh Limited conduct it is business very successfully. It is one of the largest banking systems in Bangladesh. It has many branches around the country. It is started the journey with only one branch which is situated in the heart of the Motijheel. Now at this moment it is belong 279 Branches among the private sector Banks in Bangladesh.

3.6 Capital Structure

Islami Bank Bangladesh Limited is a Joint Venture Public Limited Company engaged in commercial banking business based on Islamic Shariah with 63.09% foreign shareholders. It is listed with Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. Authorized Capital of the Bank is Tk. 20,000.00 Million (\$257.23 Million) and Paid-up Capital is Tk. 14,636.28 Million (\$188.25 Million) having shareholders as on 30th June 2013. Islami Bank Bangladesh Ltd. (IBBL) is the pioneer of Islamic banking in Bangladesh. It became incorporated on March 13, 1983. It has 41.77% local and 58.23% foreign shareholders.

3.7 Management of IBBL

Islami Bank Bangladesh Limited is being managed by Board Directors comprising foreigners and local. An Executive committee is formed by the Board of Directors for efficient and smooth operation of the Bank. Besides, a Management Committee looks after the affairs of the Bank.

Management Structure of IBBL

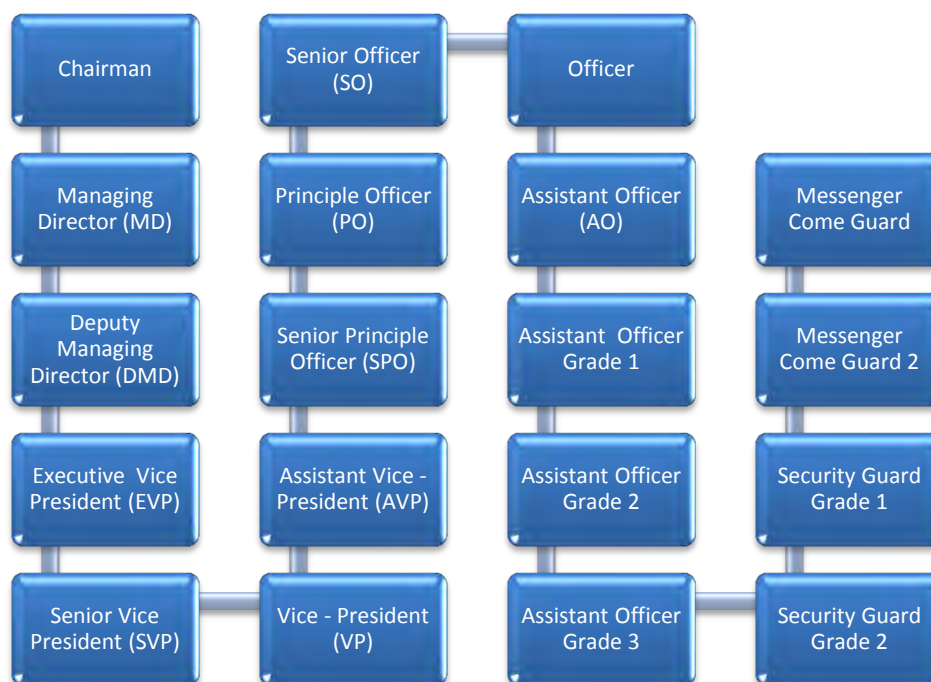


Figure 1.1: Management structure of IBBL

Chapter 4

Overall Performance of IBBL

4.1 Corporate Information of IBBL

The Incorporation	13th March 1983
Inauguration of 1st Branch (Local office, Dhaka)	30th March 1983
Formal Inauguration	12th August 1983
Share of Capital	
Local Shareholders	41.77%
Foreign Shareholders	58.23%
Authorized Capital	Tk. 10,000.00 million
Paid-up Capital	Tk. 7,413.00 million
Deposits	Tk. 265,193.00 million
Investment (including Investment in Shares)	Tk. 255,178.00 million
Foreign Exchange Business	Tk. 277,739.00 million
Branches	
Total number of Branches	297
-SME Service Centers	20
Number of AD Branches	43
Number of Shareholders	5216

4.2 Financial Analysis: Paidup Capital & Reserve

The Authorized Capital of the Bank is and Paid-up capital is in --. The Paid-up Capital was Taka 67.50 million in 1983. The Reserve Fund of the Bank has been increasing steadily. on 31st December 1983, it was Taka 0.36 million and stood at

31-12-2014	16,099.91 million
30-09-2014	16,099.90 million
30-06-2014	16,099.9 million
31-12-2013	14,636.28 Million
31-12-2012	12,509.64 Million
30-09-2012	12,509.64 Million

Source: http://www.islamibankbd.com/abtIBBL/paidup_capital.php

Performance of IBBL as on 31.07.2015 at a glance

SL	Particulars	Position as on 31.12.2014	Position as on 31.07.2015	Growth % Over 31.12.2014
1	Total Property & Assets	651,579,483,721	688,819,685,231	5.715374
2	Cash In Hand	46,219,359,839	53,875,247,061	16.56424
3	Total Deposit	559,713,580,029	595,695,858,328	6.428695
4	Total Investment	460,385,467,466	487,327,306,849	5.852018
5	Total profit before (taxes)	4,598,994,773	6,722,442,578	46.172
6	Net profit/ (loss) after tax	974,059,548	3,395,244,209	248.5664
7	Consolidated Earnings Per share (EPS)	0.61	2.11	245.9016

4.3 Contribution to Economy: IBBL Prospective

- ✓ Only Bank in Bangladesh (Top 1000 Global Banks, 970th Position in 2014)
- ✓ 50% of total global Islamic microfinance.
- ✓ Microfinance: 900 Thousand Family in 18000 villages
- ✓ Best Entrepreneur Friendly Bank (One million entrepreneur including 600 thousand woman entrepreneur)
- ✓ Highest taxpayer in Banking Sector
- ✓ Pioneering Two “R” of the economy (RMG 21%& Remittance 27%)
- ✓ More than 4000 industry financed by IBBL
- ✓ Market share of IBBL (Spinning 25%, Steel & Iron 21%, Transport 15%, Agriculture 13%, Housing 11%, SME 16%)

Chapter 5

What sets IBBL apart?

Islami Bank Bangladesh Limited Undoubtedly a financial institution. It's main features deal in services. It is the pioneer of Islamic Bank in Bangladesh. It is the largest private commercial bank in Bangladesh. The general bank is given priority to the Riba which is called interest. For Muslims interest is totally Haram. To escape from this problem IBBL has distributed their dividends on the basis of the Profit Loss Sharing (PLS) system.

5.1 Differences between Islamic Banking & Conventional Banking

Conventional Banking	Islamic Banking
1. The functions and operating modes of conventional banks are based on man-made principles.	The functions and operating modes of Islamic Banks are based on Islamic Shariah.
2. The investor is assured of a predetermined rate of interest.	In contrast, it promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur).
3. It aims at maximizing profit without any restriction.	It also aims at maximizing profit but subjected to shariah restrictions.
4. It does not deal with Zakat and does not pay any zakat.	In the modern Islamic Banking system it has become one of the service oriented functions of the Islamic banks to collect and distribute zakat.
5. Lending money and getting it back with interest is the fundamental function of conventional banks.	Participation in partnership business is the fundamental function of the Islamic Banks.
6. Its scope of activities is narrower when compared to Islamic Bank	Its scope of activities is wider when compared with a conventional bank.
7. It can charge additional money (compound rate of interest) in case of defaulters.	Islamic bank have no provision to charge any extra money from the defaulters.

<p>8. Very often, Bank's own interest becomes prominent. It makes no effort to ensure growth with equity.</p>	<p>It gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.</p>
<p>9. For interest based commercial banks, borrowing from money market is relatively easier.</p>	<p>For Islamic Banks it is comparatively difficult to borrow money from the money market.</p>
<p>10. Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.</p>	<p>Since it shares profit and loss, Islamic bank pay greater attention to developing project appraisal project appraisal and evaluation.</p>
<p>11. Conventional Banks give greater emphasis on credit worthiness of the clients.</p>	<p>Islamic banks on the other hand, give greater emphasis on the viability of the projects.</p>
<p>12. The status of a conventional bank, in relation to its clients, is that of creditor and debtors.</p>	<p>The status of Islamic Bank in relation to its clients is that of partners, investors and trader.</p>
<p>13. A conventional bank has to guarantee all its depositors.</p>	<p>Strictly speaking, an Islamic bank cannot guarantee all its deposits.</p>

5.2 Superiority of Islamic Banking

ISLAMIC BANK			
Shariah Compliant		Financing Institution	
Elimination of All Evils	Activities Promoting Welfare of People	Ensure Profitability taking acceptable risk	Ensure Liquidity with Efficient Fund MGT
Maximization of Welfare Maqasid – al – Shariah		Maximization of Wealth	
Strategic Objectives of Islamic Bank			

Islamic Bank is a shariah compliant financing institution. Where the Maqasid al Shariah aims at maximization of welfare and at the same time as a financial institution tries to maximize its wealth.

5.2.1 Maqasid – al – shariah # Elimination of all Evils

1. Prohibition of Interest/ Riba: Interest means predetermined & excess over the principle of any debt/loan for a fixed period of time. Extra amount over the principle is interest. Extra goods if received against exchange of same commodities are also Interest

Literally Interest means Surplus, Excess, Increase, expansion, additional etc.

- ❑ Riba/ Interest technically refers to the Premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan

From Hazrat Ali (RA), MohaNabi (SM) said “Any load repaid with any benefit is Riba” The hadith described in “Musnad” by Hazrat harish Ibn Abi Usamah-jalal Uddin Al-Suyuti, Jame Al Sagir (V.2,P94)

Types of Riba:

1. Riba- Al- Nasiah (Riba Al Duyun, Riba Al –Jaly, Riba Al- Quran) refers to the time that is allowed to borrower to repay the loan in return for the addition or the premium.

Characteristics

- a. Predetermined
- b. Fixed,
- c. Time related Excess,
- d. Loan

2. Riba Al Fadl (Riba- Al- Buyu, Riba al Khafi, Riba Al- Hadith) is anything that is unjustifiably received as Extra by one of the two counterparties to trade a transaction.

Characteristics

1. Homogeneous goods
2. Hand to hand exchange
3. Excess or Less through exchange
4. Basic Foods

Riba in the Holy Quran:

- ✓ The word Riba Mentioned in the Holy Quran – 8 times
- ✓ The Ayats of the Riba descended – 15
- ✓ The Suras where Riba is discussed - 4

Riba in the hadith:

- ✓ Total Hadith – 40
- ✓ Class of Riba Prohibited – Riba –Al- Fadl
- ✓ Items of Riba Prohibited – 6
- ✓ Items Prohibited by the Hadith–Gold, Silver, Wheat, Barley, Dated and Salt
- ✓ Nature of Items – “Universal Legal Tender” and “Food”

The duration of time for prohibition of Riba: 18 years.

1st revelation – 5th year of Nabuwwah, Al-Rome-39

2nd revelation – Early Madina Period after Hihrah, Al-Nissa (160-162)

3rd revelation – After Ohud, Al-Imran (130-136)

4th revelation – Al Baqarah (275-281)

The Condemned Parties of The Riba:

- a. Those who take it
- b. Those who give it
- c. Those who record the transaction
- d. Those who act as witnesses

Why interest should be abolished:

- ✓ Increases the commodity prices
- ✓ Decreases the wages of laborers
- ✓ Purchasing power decreases
- ✓ Morality gets lost
- ✓ Unemployment and gap between rich and poor rises
- ✓ Ensure Justice
- ✓ Remove all form of injustice or exploitation through unfair exchanges

2. Elimination of Gharar/ Maisir :'Gharar' is an Islamic finance term describing a risky or hazardous sale, where details concerning the sale item are unknown or uncertain. Gharar is generally prohibited under Islam, which explicitly forbids trades that are considered to have excessive risk due to uncertainty.

Maisir exists when; the policy holder contributes a small amount of premium in the hope to gain a larger sum

3. Avoiding abuses/ overuses and misery

5.2.2 Maqasid – al – shariah # Activities Promoting Welfare of the People / CSR

5.3 Islamic Principles of Deposit Mobilization

Deposit Mobilization	
Al-Wadeeah Current Account	Mudarabah Savings Account
<ol style="list-style-type: none"> 1. It is a contract by which a person empowers someone else to keep and protect his property. 2. There must have prior permission from the owner of the fund to use/ invest the same in their business with other fund. 3. No profit is allowed – bearing no risk, no loss. 4. The fund is returnable to the owner on demand as it was in original shape. 	<ol style="list-style-type: none"> 1. It is a contract of Partnership where the “Shaib-al-maal, the Depositor” provides capital to “Mudarib, the Bank” for investing it in a commercial enterprise by applying his labor and endeavor. 2. According to weightage, 65 % Earnings from the investment of Mudarabah Deposited Fund will be distributed among Shahib al Maal. 3. But the loss, if any, will be borne by the provider of funds.

Deposit is the Life Blood of a bank. Maximum utilization of resources is deposit principle of Islamic Banking. It aims at bringing the unbanked people under the financial services. Islami Bank has so far developed 16 Deposit Products for mobilization of its deposit.

1. Mudaraba Savings Account
2. Mudarabah Term Deposit Account: 3/6/12/36 months (MTDRA)
3. Mudaraba Special Notice Account (MSNA)
4. Mudaraba Hajj Saving Scheme (MHSA)
5. Mudaraba Special Savings (Pension) Account (MSSA)
6. Mudaraba Savings Bond (MSB)
7. Mudaraba Monthly Profit Deposit Scheme (MMPDA)
8. Mudaraba Muhor Savings Account (MMSA)
9. Mudaraba Waqf Cash Deposit Account (MWCDA)
10. Mudaraba NRB Saving Bond (MNSB)
11. Mudarabah Foreign Currency Deposit (Savings) Account (MFCD)
12. Student Mudarabah Savings Account (SMSA)
13. Mudarabah Farmers Savings Account (MFSA)
14. Non-Resident Investor Taka Account (NITA)
15. Mudarabaha Upohar Deposit Scheme
16. Mudarabah Industry Employee Savings Account (MIESA).

5.2.2 Investment Mechanism of IBBL



Trading/ Bai: Trading means purchase and sell of goods on agreed profit . Where –

1. Bai Murabaha

- a. To offer an order by the client to the bank.
- b. To make the promise binding upon the client to purchase from the bank and also to indemnify the damages caused by breaking the promise.
- c. To take security in the form of cash/kind/collaterals
- d. To document the debts resulting from Bai0 Murabaha
- e. Stock and availability of goods is a basic condition
- f. Bank must bear the risk until delivery of goods to the client.
- g. Bank may sell it at a higher price
- h. Price once fixed cannot be changed.

2. Bai- Muajjal- Deffered payment sale at fixed price

3. Bai -Salam – Advance sale and purchase

4. Bai – Istisna – Products can be sold without having the same existence.

Share/ Partnership: is a partnership contract between banks and the clients, entrepreneurs where banks supply the capital and the clients invest their labor, wisdom, skill etc. On the condition that the profit will be shared between them as per agreed ratio and the actual loss (if any) will be born by the bank.

1. Features of Mudaraba – profit is distributed among the partners in pre-determined ratio while the loss is born by each partner in proportion to his contribution.

- a. Capital should be specific
- b. Equal share is not must
- c. Nature of capital may ne money or valuable
- d. Active participation of the partners
- e. Business record is to be maintained
- f. Profit is shared as per agreed ratio
- g. Loss must be born as per equity ratio.

2. Features of Mudaraba

- a. Capital must be specific**
- b. Capital must be in currency**
- c. Capital is not a liability debt on Mudarib**
- d. Shaib al mal can not take part in business directly but may supervise the business.**
- e. Mudarib is not entitled to wages/slary but may get actual expenses incurred**
- f. Profit must be shared as per agreed ratio**
- g. Moss must be borne by the owner of the capital**
- h. Profit and loss is ascertained after expiry of the contract period.**
- i. Shaib al mal loses its capital and Mudarib loses his lobour in case of actual loss incurred in the business.**

Leasing/ Ijara: It is the combination of Bai, sharing and leasing for transferring the ownership of an asset.

- 1. HPSM (Commercial)**
- 2. HPSM (Industrial)**
- 3. HPSM (Agriculture)**
- 4. HPSM (Transport)**

Investment Principle of IBBL:

1. Balanced Distribution of Wealth
2. Need-based Financing
3. Prioritizing need fulfillment (necessary, comfort & beautification)
4. Diversification By size, sector & locations
5. Avoiding concentration in few hands
6. Promoting real asset based / real asset baked financing

For borrower IBBL does not provide money but act as supplier or agent to purchase goods/ raw materials that's why client cannot flow the money out of business even if he wants. Thus he cannot avoid the responsibility to repay the money of bank because of proper monitoring.

5.5 Profit Distribution Policy

5.5.1 Principle of profit Distribution to Mudaraba depositors

The principles of calculation and distribution of profit to Mudaraba depositors generally followed by the Islami Banks are as follows –

1. Mudaraba depositors share income derived from investment fund
2. They do not share any income derived from miscellaneous banking services where the use of depositors fund is not involved, such as commission, exchange, service charges and other income earned by the bank.
3. Mudaraba depositors get priority in case of investment over banks equity and other cost free funds.
4. The gross income derived from investment from investment during the accounting year is at first allocated to Mudaraba depositors as per agreed ratio like 65:35 and then equity and cost free funds according to their proportion in the total investment.
5. Then the share of gross investment profit of Mudaraba deposits are distributed as per principle shown below-
 - a. 20% is retained by the bank as management fee.
 - b. 15% is transferred to a reserve fund for offsetting investment loss.
 - c. The remaining 65% distributable to Mudaraba depositors applying weightages.

5.5.2 What is weightage?

Weightage means giving the value or importance or preference of one product in comparison to other product.

5.5.3 Factor considering for Fixing up of weightage

- ✓ The more risk, the more weightage
- ✓ The longer the period of sacrifices, the more weightage
- ✓ More the uses of Banks facility, less the weightage
- ✓ More the interest of the Bank/ Society, more the weightage and vice versa.

5.5.4 Weightage of various Mudaraba Deposits

Mudaraba Deposit Products	Weightage
Mudaraba Savings Account	0.35-0.75
Mudarabah Term Deposit Account: 3/6/12/36 months (MTDRA)	0.88-1.00
Mudaraba Special Notice Account (MSNA)	0.25-0.55
Mudaraba Hajj Saving Scheme (MHSA)	1.30-1.35
Mudaraba Special Savings (Pension) Account (MSSA)	1.30-1.10
Mudaraba Savings Bond (MSB)	1.25-1.10
Mudaraba Monthly Profit Deposit Scheme (MMPDS)	1.20-1.10
Mudaraba Muhor Savings Account (MMSA)	1.10-1.30
Mudaraba Waqf Cash Deposit Account (MWCDA)	1.35
Mudaraba NRB Saving Bond (MNSB)	1.25-1.35
Mudarabah Foreign Currency Deposit (Savings) Account (MFCD)	0.75
Student Mudarabah Savings Account (SMSA)	0.75
Mudarabah Farmers Savings Account (MFSA)	0.75
Non-Resident Investor Taka Account (NITA)	0.75
Mudarabaha Upohar Deposit Scheme	0.75
Mudarabah Industry Employee Savings Account (MIESA)	0.75

5.5.5 Profit calculation with an example

The XYZ bank has provided you the following information:

XYX Bank Ltd.	
a. Fund of Share holders (Equity)	Tk. 500
b. Fund of Al Wadeeah Depositors	TK. 1,500
C. Fund of Mudaraba Depositors	Tk. 3,000
D. Total Fund invested	Tk. 5,000
Total Income	1200
Miscellaneous Income	100
Doubtful Income	100

Step 1. Calculate Distributable Gross income to (65%) to Mudaraba depositors:

Total	1200
Income	
less: Miscellaneous Income	100
Total Investment Income	1100
less: Doubtful Income	100
Total Distributable Income (DTI)	1000
Proportionate amount of Mudaraba depositors (DTI/Total Fund Invested) x Mudaraba depositors Investment	600
Distributable income to Mudaraba Depositor (65%)	390

Step 2. Distribute the income to each account and show the percentage of Income/ Profit.

Name of the Deposit Products	Deposit Product Amount	W	Weighted Product	Profit for Each Taka	Total Profit	Profit in %
1	2	3	4 = 2x3	5= DI/TWP	6 = 4x5	7=(6/2)x100
Mudaraba Hajj Savings	1000	1.35	1350	0.126	170	17%
Mudaraba Term Deposit	1000	1.00	1000	0.126	126	12.6%
Mudaraba Savings Account	1000	0.75	750	0.126	94	9.4%
Total	3000		3100		390	

W= Weightage; DI= Distributable Income; TWP= Total weighted Product

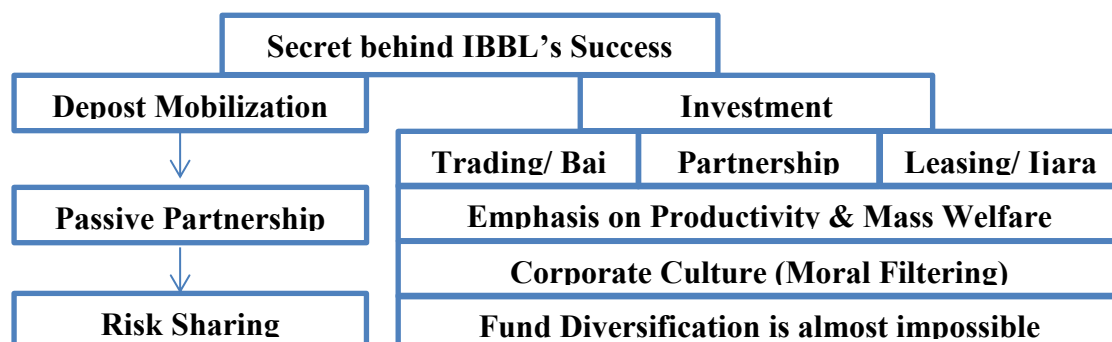
Our Findings:

1. Overall Business & Financial performance of Islamic Banks are better than that of conventional Banks.
2. Wage earners remittance handling by Islamic banks particularly by IBBL is spectacular
3. Islamic Banks are much ahead in Inclusive Banking, Green Banking, SME & Microfinance and CSR activities.
4. Upholding ethics is in the top of the agenda in Islamic Banks.
5. Islamic Banks Investments are largely concentrated in trading and rent sharing modes.
6. IBBL spends more money on CSR as an inherit objective of marketing.
7. There is no Marketing Department. How do they do marketing Activities? Reasons of increasing its client base?

Though IBBL doesn't have marketing department it has a huge customer base. The reasons behind their huge customer base is –

It's an integrated marketing system through CSR activities through the intense focus on Humanity rather than business & Mass Banking (for all class of people).

As a part of their CSR activities they run Internship Program for the students of different universities. Their internship program is different than of other conventional banking internship program. It is a 60 (sixty) day's internship program of which 10 days at IBTRA premises for theoretical classes. IBTRA aims at familiarizing the internee with the principles of Islamic Shariah and its implementation in the financial system. IBBL converts these internees into IBBL's ambassador through rewarding for account opening, Deposit collection and other activities. I was in 124th Internship batch, we the 97 students from different university had collected 15 crore & about 450 new account opened in 50 days in IBBL's different branches.



Recommendations

From the above discussion, we can recommend the followings:

- ✓ There are ways to encourage more participation in financial services
 - From my practical experience what I have seen, IBBL is only using their Bai & Leasing Investment Mode ignoring Partnership Investment Mode.
 - As we know most of the entrepreneur are not well trained with Management Skills. According a study most of the entrepreneur business extinct within three years or so. May be Banks participation in Management through partnership is appreciable
- ✓ IBBL should run an Entrepreneur Development Programme
- ✓ IBBL need to in Power Sector of the country such as in electricity and in finding of new mine resources of the country.
- ✓ IBBL can introduce Education Scheme without giving it through Islami Bank Foundation.
- ✓ The authority of IBBL should Conveyance pressure on Government bodies to run proper and sufficient application of Islamic banking law in Bangladesh.
- ✓ There are limited scopes to deal women entrepreneurs and professionals for making investment by women entrepreneurs.
- ✓ IBBL should appoint a sufficient number of women employees to deal women entrepreneurs and professionals and understand their needs and thus create demand for investment.
- ✓ IBBL grants investment to group not individual in rural areas for low income community As a result, the mission, using invested money in income generating activities the poor needy population can become self reliant - is failed . Moreover, it enhances group dependence.
- ✓ Inclusion of more subjects based on the Quran and Sunnah in the Training courses of the Islami Bank Training & Research Academy in order to develop human resources having morally.
- ✓ To fulfill the vision of "mass banking" this Bank should grants investment portfolio to new entrepreneurs /new businessmen new companies etc.
- ✓ New and 'innovative' products are designed for financing under Profit and Loss sharing basis.

Conclusion

IBBL today is the leader among the all best commercial banks in Bangladesh. They are doing according to the proper banking system should have utilized & they are following the Islamic Shariah for a long time. They are ahead among the distant areas people who love the Islam & the rules of Islam. Today IBBL whatever doing in the banking systems they are completely innovative & very much carrying to the clients. With the appropriate resolution of Islamic point of view & the business dilemma IBBL has set a standard in the banking environment. Comparing to other conventional bank IBBL is also providing greater customer service. Through SME's they are providing opportunities to rural area to cheer up & grow up with new & massive possibilities in business. IBBL being the pioneer in Islamic Banking has this responsibility to identify such investment opportunities through research. Therefore, it expects that IBBL will take utmost care to overcome the problems. In the economic development of the country IBBL is contributing and playing a vital role. Islami Bank Bangladesh Limited Investment modes are most helpful to generate more employment and more productive than conventional banking because Islami bank concerns with the purpose of investment not with only invested money, its create assets.

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