

Conversion of Conventional Banking into Islami Banking: A Study on EXIM Bank and First Security Islami Bank

PhD Dissertation

**Researcher
Md. Abul Hasnat
Session: 2012-13**



**Institute of Bangladesh Studies
University of Rajshahi
Rajshahi, Bangladesh**

June 2016

Conversion of Conventional Banking into Islami Banking: A Study on EXIM Bank and First Security Islami Bank

PhD Dissertation

A Dissertation

submitted to the Institute of Bangladesh Studies, University of Rajshahi in partial fulfillment of the requirements for the Degree of

Doctor of Philosophy in Economics

Researcher

Md. Abul Hasnat

Session: 2012-2013

Supervisor

Dr. Mohammad Ali

Professor

Department of Economics

University of Rajshahi, Rajshahi



Institute of Bangladesh Studies

University of Rajshahi

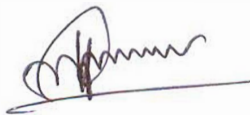
Rajshahi, Bangladesh

June 2016

*I Dedicate this Dissertation
to
My Parents*

Declaration

I, the undersigned, have prepared this dissertation entitled “**Conversion of Conventional Banking into Islami Banking: A Study on EXIM Bank and First Security Islami Bank.**” This dissertation is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by giving explicit references. This is herewith submitted to the Institute of Bangladesh Studies, University of Rajshahi, Bangladesh for onward communication to the University of Rajshahi for necessary formalities leading to Doctor of Philosophy in Economics. The dissertation has not been presented to any other University for examination either in Bangladesh or overseas.



Md. Abul Hasnat
PhD Fellow (2012-13)
Institute of Bangladesh Studies
University of Rajshahi

Professor Dr. Mohammad Ali
M.A (Rajshahi), Ph.D. (Manchester)



Chairman

Dept. of Economics
University of Rajshahi,
Rajshahi – 6205, Bangladesh.
Phone: (Off) 0088 (0721) 711160
Cell: 01914-254531
E-mail: mdali.eco.ru@gmail.com

Certificate

It is certified that **Md. Abul Hasnat** has successfully completed his dissertation entitled “**Conversion of Conventional Banking into Islami Banking: A Study on EXIM Bank and First Security Islami Bank**” under my supervision. This is an original work done by him. The dissertation is recommended and forwarded to the University of Rajshahi, through the Institute of Bangladesh Studies, for necessary formalities leading to its acceptance in partial fulfillment of the requirements for PhD degree.

Professor Dr. Mohammad Ali
Research Supervisor

Glossary of Arabic Terms

al-bai' al-mu'ajjal : A credit sale.

al-bai' A contract of sale.

al-gharar : Hazard, chance or risk.

al-ghunm bi al-ghurm : One is entitled to a gain if one agrees to bear the responsibility for the loss.

al-'ijarah : Letting on lease.

al-'ijarah wa al-'iqtina' : A mode of financing adopted by Islamic banks. It is a contract under which the Islamic bank finances equipment, building or other facility for the client against an agreed rental together with an undertaking from the client to make additional payments in an account which will eventually permit the client to purchase the equipment or the facility. The rental as well as the purchase price is fixed in such a manner that the bank gets back its principal sum along with some profit which is usually determined in advance.

al-ji'alah (al-ja'alah or al-ju'alah) : Stipulated price for performing any service.

al-kharaj bil daman : The right to derive benefit from a property if one assumes the responsibility for its maintenance. It states the principle of the Islamic jurisprudence that the yield from an asset is for the one who is liable for that asset and one who does not bear the liability has no claim to the yield.

al-kharaj-bi-al Daman: The Islamic legal principle that means entitlement to revenue follows assumption of responsibility. Profits, therefore, are based on ownership of, and responsibility for, capital

al-mu'amalah : Economic transaction.

al-mudarabah : A form of business contract in which one party contributes capital and the other personal effort. The financier is known as *rabb al-mal* and the worker or entrepreneur as *mudarib*. The proportionate share in profit is determined by mutual consent. But the loss is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour.

al-mudarib : In a *mudarabah* contract, the person who acts as a working partner or entrepreneur. See also **sahib al-mal** and **rabb al-mal**.

al-muzar'ah : It is a contract in which one person agrees to till the land of the other person in consideration for a part of the produce of the land.

al-qard : To cut, to sever.

al-riba: An excess or increase.

al-sadaqah : Charity

al-shari'ah : The way

al-shirkah : A contract between two or more persons who launch a business or financial enterprise with the purpose of making a profit. See also **al-musharakah**.

al-wadi'ah : Resale of goods with a discount on the original stated cost. Also used in relation to redemption at discount of a debt before the maturity date.

al-waqf : Detention.

al-zakah (zakat) : To purify.

bai' al-dain: Sale of debt for cash. For being compatible with the *shari'ah*, the sale must be at par value. This is being used by some Islamic banks for providing re-finance to some clients who have an existing interest-free loan in their assets. The Islamic banks provide cash on the basis of profit-loss sharing.

bai' al-'inah: A contract of sale where a person sells an article on credit and then buys back at a lesser price for cash

bai' al-'istijrar: A form of sale whereby the buyer keeps on taking the goods from the seller as and when needed with or without settling the price and then settles the account later on.

bai' al-'istisna' : A contract of sale whereby the purchaser asks the seller to manufacture a specifically defined product using the seller's raw materials at a given price to be delivered at a specified place..

bai' al-murabahah : Sale of goods with an agreed upon profit mark up on the cost. In its original concept it was a cash transaction with the intention of sparing the buyer the trouble of investigating the genuineness of the price. The buyer would offer to sell the product at a certain price over and above his purchase price. But it has been developed into a financing technique by the present day Islamic banks.

bai' al-musawamah : Haggling, bargaining.

bai' al-salam : A sale agreement that involves advance payment for goods that are to be delivered later

bai' al-sarf : Sale of a monetary value for monetary value. Exchange of currencies.

bait al-mal: Public treasury.

dirham: Currency in the form of silver coins used in the past in several Muslims countries, and still used as a legal tender in some Muslim countries, such as Morocco and United Arab Emirates.

fiqh: Islamic Jurisprudence

'Ijarah muntahia bitamlik : Lease (*'ijarah*) contracts that end up with transfer of ownership of leased assets to the lessee

Islam: submission to Allah, The religion of Allah (God) i.e. the worship of Allah alone

Jual: Contract of buying or selling of services in exchange for commission or fee

maqasid al-shari'ah : Objectives of the *shari'ah*.

rabb al-'amal : One who undertakes an activity.

shirkah al-milk : Proprietary partnership

sukuk: Similar characteristics to that of conventional bond with the difference being that they are asset backed; a sukuk represents proportionate beneficial ownership in the underlying asset. The asset will be leased to the client to yield the return on the sukuk

sunnah: The way of the Prophet Muhammad (Allah's peace be upon him) taught by him verbally or practically.

takaful: Mutual or joint responsibility; solidarity; mutual agreement.

ulama: pl. of alim, Shariah scholar or jurists.

zulm: Injustice, usurping others' rights, not giving proper recompense in an exchange by way of any illegal act- Riba, cheating or coercion. Refers to all forms of injustice, exploitation or oppression through which a person deprives others of their rights or does not fulfill obligations towards them.

Acknowledgements

The unstained assistance, co-operation and encouragement of many individuals and organizations have gone a long way in conducting and completing this study, I am grateful to all of them and I would like to sincerely acknowledge their contributions with deep gratitude and immense pleasure.

First of all I am grateful to Almighty Allah, as without special help and blessing of Him, it would not be possible to complete the dissertation in time. Then to whom my debts are unlimited is Professor Dr. Mohammad Ali, Chairman Department of Economics, University of Rajshahi for his active co-operation, constant guidance, close supervision and criticisms. I express my special indebtedness to M. Azizul Huq, Chairman, Bangladesh Institute of Islamic Thought (BIIT) who initially guided me as Co-Supervisor of the study. Later on, it was not possible to continue for him the study. But I was well informed and enthusiastic by his inspirations. Words can hardly express my deepest feelings of gratitude and indebtedness to them. I would like to express my sincere gratitude to many other individuals who helped me directly or indirectly. Specially, I express my indebtedness to Professor Dr. Swarochis Sarker, Director of IBS, Dr. M. Zainul Abedin, Professor of Economics, Professor Dr. Zakir Hossain, Dr. M. Mustafa Kamal, Dr. Mohammad Nazimul Hoq, Dr. M. Kamruzzaman who took classes in course work and helped me in enriching my knowledge and changing my attitudes towards proper ways of doing research. I am grateful to all of my teachers of this University, who lectured in course work.

I express my gratefulness to the Ministry of Education, Government of Bangladesh, for allowing me three years deputation to pursue the Ph.D. program.

I owe a special kind of debt to my late mother Maleka Hossain who deserved and prayed for me to be a great man. I do not find right word to express my feelings to my father Md. Amzad Hossain, who has been the inspiration and driving force for my pursuing higher education and even beyond.

I am grateful to my respected elder brothers Md. Shawkat Ali, Manager, Islami Bank Bangladesh Limited, Shapahar Branch, Naogaon, and Mohammad Ali, working in Bangladesh Army who always encouraged me for the study. The special gratefulness to my Father-in-law Md. Sajedur Rahman, Mother-in-law Nadira Rahman, Brother In-law Md. Mahfuzur Rahman and Sister in-law Mursalina Parvin Rita who also provided me continuous encouragement of my research. I am even grateful to them.

My special gratitude and thanks are due to Mr. Mahfuzur Rahman, Executive Vice President and Director General, Islami Bank Training and Research Academy, who encouraged me in several times to conduct research in the issue of Islamic banking in Bangladesh. I would like to owe a special thank to him for choosing me the area of research and introducing me with M. Azizul Huq who is the pioneer of Islamic banking in Bangladesh. I am ever grateful to him. I also express my sincere thanks to Iqbal Kabir Mohan, Executive Vice President and Zonal Head Dhaka North, Dr. M. Kamal Uddin Jasim, Senior Vice President, and Head of Marketing Division, Dr. Md. Mizanur Rahman, Senior Vice President, Islami Bank Bangladesh Limited, Research and Development Division, Mr. Kanulal Karmokar SAVP and Head of HRD, EXIM Bank Limited.

I would like to convey my sincere indebtedness to Dr. Mohammed Haider Ali Miah, Managing Director & CEO, Export-Import Bank of Bangladesh Limited for his kind co-operation in my research. I also acknowledge the diverse help of Syed Waseque Md. Ali, Managing Director & CEO, First Security Islami Bank Limited. I was also inspired by Farid Uddin Ahmed, Advisor, EXIM Bank Limited.

Some of International Scholars in Islamic Banking and Finance also advised me on the study through online, like Professor Dr. M. Abdus Samad, Department of Economics and Finance, Utah Valley University, U.S.A; M. Kabir Hassan, New Orleans University, U.S.A; Juan Sole, IMF, Washington D.C. U.S.A; Professor Mohammed Akram Laldin, Executive Director ISRA; Professor Dr. Hawati Janor, University of Kebangsaan, Malaysia, Daud Vicary Abdullah, President & CEO INCEIF; Professor Dr. Nor Aishah Hamzah, University of Malaya, Malaysia; Dr. M. Azmi Omar, D. G. Islamic Research and Training Institute (IRTI), KSA; Dr. Murat Mazibas, EFA FRM, Manager, Borsa Istanbul, Turkey; I owe my sincere thanks and gratitude to all of them.

I Must express my gratitude to Professor Dr. Khaliq Ahmed, Dean IIUM Institute of Islamic Banking and Finance (II/BF), Malaysia, and Professor Dr. Ataul HuQ Pramanik, Department of Economics, IIUM, Malaysia for their all out co-operation during my stay in Malaysia. I also recall the co-operation of Mr. Abdul Aziz, Taslima Julia, and Tarek, fellow of IIUM. I must thank the Officers and employees of IIUM specially the librarian of IIUM Institute of Islamic Banking and Finance (II/BF).

I also express my sincere thanks to the officers and staff of IBTRA, BERB, Bangladesh Bank, Bangladesh Institute of Bank Management, (BIBM), Dhaka University, Rajshahi University and Institute of Bangladesh Studies for their kind co-operation.

I should not forget Professor Dr. Mohammad Main Uddin, Department of Accounting and Information System, University of Rajshahi who always encouraged me and advised me important theories of Accounting and Banking. My special thanks to Professor Dr.K.B.M. Mahbubur Rahman, Professor Dr. Tariq Saiful Islam, Professor Dr. Abdul Wadud, Professor Dr. Shah M.Habibur Rahman (Rtd.), Professor Dr. Elias Hossain, Department of Economics; Professor Dr. Belal Hossain, Chairman, Dept. of Islamic Studies, Professor Dr. F.M.A.H. Taki, Dr. M. Shahidullah, Shah Mukter Hossain, Department of Islamic Studies, Professor Biswajit Chanda, Dean, Faculty of Law, University of Rajshahi; Dr. Akter Hossain, Dr. Hafiz Riza Mujtaba Hossain, Department of Islamic Studies, University of Dhaka, Professor, Mujahidul Islam, Department of Banking and Insurance, University of Dhaka for their heartiest encouragement, co-operation and moral support.

With great pleasure, I acknowledge my colleagues Md. Ashraful Islam, Assistant Professor of English; Mansur Ahmed, Assistant Professor of Political Science; Md. Abu Hasan Lecture of Economics; Muhammad Akter Hossain, Assistant Professor of Economics; Mohammad Fazlur Rahman Khan, Assistant Professor of Accounting, Md. Abu Bakkar Siddique, Assistant Professor of Accounting who always encouraged me and provided me moral strength for my research.

I am enormously indebted to Mr. SK. Bashirul Islam, Senior Executive Vice President & Regional Manager, Rajshahi, Export Import Bank of Bangladesh Limited; Mohammad Jahangir Alam, Zonal Head, Rajshahi First Security Islami

Bank Limited; Abdullah Sharif, Head of Shariah, The City Bank Limited; Md. Shawkatul Amin, Social Islami Bank Limited who always supplied me necessary data of the banks.

I express my special gratefulness to Mr. Shitangshu Kumar Shur Chowdhury, Deputy Governor, Biru Paksha Paul, Ph.D. Chief Economist, Mr. Abdul Awwal Sarker, General Manager, Research Department, Bangladesh Bank who immensely helped me in providing necessary papers and documents of Bangladesh Bank.

I must recognize the extent of difficulties, loneliness and all sorts of problems encountered by my wife Mahbuba Zannat during my study period. I am not hesitating to express my views; I did little for my family during this long three years and my wife successfully shouldered all responsibilities of the family. My daughter Maliha and son Mahbub Abdullah were also deprived of my affection and love and never raised problems of their own. I am really grateful to them.

I express my sincere thanks to Mr. Mokhelechor Rahman, Director of Active Computer Center (ACC) for his continued efforts for composing the dissertation. I am also grateful to other members of the Active Computer Center namely, Md. Saidul Islam Shadu, Md. Faizul Islam Faruk and Md. Anwar Hossain. At the end, I express my gratitude to all the fellows of IBS for their co-operation.

Date: June

Md. Abul Hasnat

Abbreviation

AAOIFI	- Accounting and Auditing Organization for Islamic Financial Institutions
ABBL	- Arab Bangladesh Bank Limited
ABID	- Al-Baraka Investment and Development Company
ADB	- Asian Development Bank
AIB	- Afghanistan International Bank
AIBL	- Al Arafah Islami Bank Limited
AIBs	- All Islamic Banks
ANOVA	- Analysis of Variance
ATM	- Automated Teller Machine
AU	- Asset Utilization
BB	- Bangladesh Bank
BDBL	- Bangladesh Development Bank Limited
BGIIB	- Bangladesh Government Islamic Investment Bond
BIBA	- Bangladesh Islamic Bankers Association
BIERB	- Bangladesh Islamic Economics Research Bureau
BIIT	- Bangladesh Institute of Islamic Thought
BMA	- Bahrain Monetary Agency
BNM	- Bank Negara Malaysia
BRPD	- Banking Regulations and Policy Department
BSEC	- Bangladesh Security and Exchange Commission
BSRS	- Bangladesh Shilpo Rin Shangstha
CAGR	- Cumulative Average Growth Rate
CRM	- Credit Risk Management
CAMEL	- Capital, Asset Quality, Management Capability, Earning and Liquidity Level
CAR	- Capital Adequacy Ratio
CBs	- Commercial Banks
CDR	- Cash Deposit Ratio
CEO	- Chief Executive Officer
CG	- Corporate Governance
CGR	- Compound Growth Rate
CIR	- Cost Income Ratio
COINR	- Cost to Income Ratio

CR	- Current Ratio
CRISL	- Credit Rating Information and Services Limited
CRR	- Compulsory Reserve Ratio
CSBIBB	- Central Shariah Board for Islamic Banks of Bangladesh
CSR	- Corporate Social Responsibility
CV	- Co-efficient of Variation
DEA	- Data Envelopment Analysis
DER	- Debt to Equity Ratio
DFIs	- Development Financial Institutions
DIB	- Dubai Islami Bank
DMI	- Dar-al- mal-al- Islami
DTAR	- Debt to Total Asset Ratio
EBA	- Europe Business Assembly
EIIL	- EXIM Islami Investment Limited
EM	- Equity Multiplier
EPS	- Earning per share
EQL	- Total Equity to Loan Ratio
EQTA	- Common Equity to Assets Ratio
ESQR	- European Society for Quality Research
EXIM	- Export-Import
FCBs	- Foreign Commercial Banks
FSA	- Financial Service Authority
FSIBL	- First Security Islami Bank Limited
FY	- Fiscal Year
GCC	- Gulf Co-operation Council
GDP	- Gross Domestic Product
GOB	- Government of Bangladesh
HSBC	- The Hong Kong and Shanghai Banking Corporation
IAIB	- International Association of Islamic Banks
IBBL	- Islami Bank Bangladesh Limited
IBCF	- Islamic Bank Consultative Forum
IBF	- Islamic Banking and Finance
IBS	- Institute of Bangladesh Studies
IBs	- Islamic Banks
IBTRA	- Islamic Bank Training and Research Academy
ICBIBL	- ICB Islami Bank Limited
ICC	- International Chamber of Commerce
ICMAB	- Institute of Cost and Management Accountants of Bangladesh

ID	- Investment to Deposit Ratio
IDB	- Islamic Development Bank
IER	- Income to Expense Ratio
IFC	- International Finance Corporation
IFIC	- International Finance and Investment Corporation
IFIs	- Islamic Financial Institutions
IFSB	- Islamic Financial Services Board
IIFM	- International Islamic Fund Management
IIRA	- International Islamic Rating Agency
IMF	- International Monetary Fund
IPO	- Initial Public Offer
KFH	- Kuwait Finance Home
KII	- Key Informants Interviews
KPIs	- Key Performance Indicators
LAR	- Loan to Asset Ratio
LC	- Letter of Credit
LdCDSF	- Liquid Assets to Customer Deposits and Short Term Fund Ratio
LDR	- Loan to Deposit Ratio
LTA	- Loan to Assets
LTD	- Loan to Deposit
LTD&B	- Loan to Deposit and Borrowing
MAS	- Monetary Authority of Singapore
MBL	- Meezan Bank Limited
MBS	- Muslim Businessman Society
MCCA	- The Muslim Community Co-operation Australia
MDB	- Musharaka Documentary Bills
MFMBs	- Mudaraba Femina Monthly Benefit Scheme
MFMSs	- Mudaraba Femina Monthly Savings Scheme
MMIDS	- Mudaraba Monthly Income Deposit Scheme
MOU	- Memorandum of Understanding
MPI	- Murabaha Post Import
MSMBS	- Mudaraba Senior Monthly Benefit Scheme
MSMBs	- Mudaraba Su- Grehini Monthly Benefit Scheme
MSMSs	- Mudaraba Su- Grehini Monthly Savings Scheme
MSND	- Mudaraba Special Notice Deposit
MTR	- Mudaraba Trust Receipt
NCBs	- Nationalized Commercial Banks
NCC	- National Credit and Commerce Bank
NGOs	- Non Government Organizations

NIE	- Non Interest Expense
NIM	- Net Interest Margin
NL/TAR	- Net Loan/ Total Asset Ratio
NPL	- Non-Performing Loan
NPM	- Net Profit Margin
NPR	- Net Profit Ratio
OER	- Operating Expense Ratio
OIC	- Organization of Islamic Countries
OOPi	- Other Operating Income
PCBs	- Private Commercial Banks
PER	- Profit Expense Ratio
PLS	- Profit Loss Sharing
RAKUB	- Rajshahi Krishi Unnayan Bank
RM	- Malaysian Ringit
ROA	- Return on Asset
ROE	- Return on Equity
ROI	- Return on Investment
RWA	- Risk Weighted Assets
SBs	- Specialized Banks
SCBs	- State Owned Commercial Banks
SD	- Standard Deviation
SFA	- Stochastic Frontier Approach
SGR	- Simple Growth Rate
SIBL	- Social Islami Bank Limited
SJIBL	- Shahjalal Islami Bank Limited
SLR	- Statutory Liquidity Ratio
SME	- Small and Medium Enterprise
SPSS	- Statistical Package for Social Science
TK.	- Taka
UBL	- Union Bank Limited
UNCOL	- Uncollected Returns on Loan

Abstract

Islamic banking is not a new concept in recent years. Now, it is well recognized and rapid growth phenomenon in the banking sector of Bangladesh. It is a banking business whose foremost duty is to establish interest free banking transactions and it is functioning in ways which reflect Islamic principles in real life. However, the emergence of Islamic banking represents a radical departure from traditional banking.

The present study, therefore, aims at analyzing to compare the financial performance between conventional banking period and Islamic banking period. For this rationale, two banks converted from conventional banking into Islamic banking are selected. The study period is classified into two groups. One is for EXIM Bank where the study period was 2000-2009. And another is for First Security Islami Bank where the study period was 2004-2013.

The study followed the method of documentary analysis. Depending on the nature of the study, data were collected from both primary and secondary sources. Different statistical and mathematical tools are used in the study for exploring at the relationships between the concerned variables.

The discussion of comparative growth trend analysis of conventional banking period and Islamic banking period suggest that, the growth of all the indicators of financial performance are mostly higher in Islamic banking period in comparison to conventional banking period. However, the performance also appears better in conventional banking period in some cases.

For the ratio analysis, four financial ratios are conducted such as profitability, liquidity, business development, and efficiency and productivity. Through this study, it is observed in the case of profitability that the EXIM Bank is profitable during conventional banking period, but the FSIBL is a profitable one in Islamic banking period.

In case of liquidity ratio analysis it is observed that, both of the banks are more liquid in Islamic banking period in comparison to conventional banking period.

The data of business development indicate higher asset growth, deposit and investment growth during Islamic banking period for both of the banks. Four times growth is observed in all the variables during Islamic banking period.

Though the EXIM Bank is more profitable in conventional banking period and more liquid in Islamic banking period, the tools of efficiency and productivity indicate no absolute result which may be compared. And from the critical analysis of efficiency and productivity of First Security Islami Bank, it is clear that, the bank is more efficient and productive in Islamic banking period in comparison to conventional banking period.

Finally, it may be concluded that, conversion of conventional banking into Islamic banking proves the positive image of Islamic banking. But the image depends on the shariah compliance of the banks. It is worth mentioning that, the base of the converted Islamic banks is mainly conventional dominant. Only conversion cannot formulate a bank complete structure of Islamisation. It is equally expected that the relevant authorities should be aware of the shariah compliance in all sorts of transactions.

Contents

Declaration	i
Certificate	ii
Glossary of Arabic Terms	iii
Acknowledgements	vii
Abbreviation	xi
Abstract	xv
Contents	xvii
List of Tables	xxiii
List of Figures	xxv
Chapter One Introduction.....	1
1.1 Introduction	1
1.2 Statement of the Problem.....	3
1.3 Research Questions	6
1.4 Objectives of the Study.....	6
1.5 Literature Review	7
1.6 Justification of the Study.....	20
1.7 Scope and Limitations	20
1.8 Plan of Dissertation	21
Chapter Two Methodology and Conceptual Framework.....	23
2.1 Introduction	23
2.2 Research Methodology.....	23
2.2.1 Nature of the Study.....	23
2.2.2 Types and Sources of Data	23
2.2.3 Sample Size and Sampling Method.....	23
2.2.4 Procedure of Data Collection.....	24
2.2.4.1 Primary data	24
2.2.4.2 Secondary data.....	24
2.2.4.3 Data collection Tools.....	24
2.2.5 Data Processing, Analysis and Presentation	24
2.2.5.1 Analysis of Growth trend.....	25
2.2.5.2 Simple Growth Rate (SGR).....	25

2.2.5.3 Compound Growth Rate (CGR)	25
2.2.5.4 Mean/Average	26
2.2.5.5 Standard Deviation (SD)	26
2.2.5.6 Coefficient of Variation (CV)	26
2.2.5.7 Minima	27
2.2.5.8 Maxima	27
2.3 Ratio Analysis	27
2.3.1 Profitability Ratio	27
2.3.1.1 Return on Assets (ROA)	28
2.3.1.2 Return on Equity (ROE)	28
2.3.1.3 Profit to Expenses Ratio (PER)	28
2.3.2 Liquidity Ratio	29
2.3.2.1 Loan to Deposit Ratio (LDR)	29
2.3.2.2 Loan to Asset Ratio (LAR)	30
2.3.2.3 Equity Multiplier (EM)	30
2.3.2.4 Current Ratio (CR)	30
2.3.3 Business Development	30
2.3.4 Efficiency and Productivity Ratio	31
2.3.4.1 Operating Expenses to Deposit Ratio: (OEDR)	31
2.3.4.2 Income to Expense Ratio: (IER)	31
2.4 Definition of Key Terms	31
Chapter Three Concepts and Background of Bank: Conventional Banking and Islamic Banking	34
3.1 Introduction	34
3.2 Conventional Banking	34
3.2.1 Origin of the word Bank	34
3.2.2 Historical Background of Conventional Bank	35
3.2.3 Definition of Bank	38
3.2.4 Types of Conventional Bank	39
3.2.5 Distinguishing Features of Conventional Bank	40
3.2.6 Objectives of Conventional Bank	41
3.2.7 Functions of Conventional Bank	41
3.3 Islamic Banking	47
3.3.1 Definition of Islamic Bank	48
3.3.2 Theoretical Foundation of Islamic Bank	49
3.3.3 Evolution of the Concept	49
3.3.4 Historical Background of Islamic Banking	51
3.3.5 Principles of Islamic Banking	56
3.3.6 Objectives of Islamic Banking	60

3.3.7	Ethical Framework of Islamic Banking	60
3.3.8	Functions or Services of Islamic Bank	62
3.3.8.1	Basic Functions	63
3.3.8.2	Other Functions	70
3.3.9	Differences between Conventional bank and Islamic Bank	71

Chapter Four Islamic Banking in Bangladesh: Its Growth and History of Development.....73

4.1	Introduction	73
4.2	Islamic Banking in Bangladesh: A Historical Background	74
4.3	The Legal Framework of Islamic Banking in Bangladesh.....	76
4.4	Development of Islamic Banking in Bangladesh	77
4.4.1	Islami Bank Bangladesh Limited (IBBL).....	78
4.4.2	ICB Islami Bank Limited (ICBIBL)	80
4.4.3	Al Arafah Islami Bank Limited (AIBL).....	81
4.4.4	Social Islami Bank Limited (SIBL).....	82
4.4.5	Export Import Bank of Bangladesh Limited (EXIM BANK)	85
4.4.6	First Security Islami Bank Limited (FSIBL).....	85
4.4.7	Shahjalal Islami Bank Limited (SJIBL)	86
4.4.8	Union Bank Limited (UBL)	87
4.5	Institutional Development of Islamic Banking in Bangladesh	88
4.5.1	Islamic Bank Consultative Forum (IBCF)	88
4.5.2	Central Shariah Board for Islamic Banks of Bangladesh (CSBIBB)	88
4.5.3	Bangladesh Government Islamic Investment Bond (BGIIB).....	89
4.5.4	Islami Interbank Fund Market	89
4.5.5	Islamic Banking in Conventional Bank.....	89
4.6	Growth of Islamic Banking in Bangladesh.....	89
4.6.1	Growth in Authorized Capital	90
4.6.2	Growth in Paid up Capital	92
4.6.3	Growth in Shareholders' Equity	94
4.6.4	Growth in Reserve Fund.....	96
4.6.5	Growth in Total Assets	97
4.6.6	Growth in Fixed Assets.....	99
4.6.7	Growth in Deposit.....	100
4.6.8	Growth in Investment.....	102
4.6.9	Growth in Foreign Exchange Business	104
4.6.10	Growth in Return on Assets (ROA).....	106
4.6.11	Growth in Total Income	107
4.6.12	Growth in Total Expenditure	109

4.6.13 Growth in Capital Adequacy Ratio (CAR)	111
4.6.14 Growth in Cost of fund.....	113
4.6.15 Growth in Net Profit	114
4.6.16 Growth in Number of Shareholders	116
4.6.17 Growth in Number of Employees	117
4.6.18 Growth in Number of Branches	119

Chapter Five Conversion of Conventional Banking into Islamic Banking: An Overview.....121

5.1 Introduction	121
5.2 Banking scenario in Bangladesh	121
5.2.1 Islamic Banking Activities	124
5.2.2 Banking Sector Performance.....	126
5.3 Basic feature of conversion of conventional banking into Islamic banking	127
5.3.1 Export Import Bank of Bangladesh (EXIM) Limited.....	127
5.3.1.1 History of Establishment	127
5.3.1.2 Vision Mission and Corporate Culture	128
5.3.1.3 Objectives of Conversion to Islamic Bank	129
5.3.1.4 Flow chart of Islamizing of Conventional Bank into an Islamic Bank:	129
5.3.1.5 Corporate Information	129
5.3.1.6 Corporate Governance.....	129
5.3.1.7 Shariah Supervisory Committee.....	131
5.3.1.8 Bank Operational Area.....	131
5.3.1.9 Financial Products and Services	133
5.3.1.10 Financial overview of the Bank	134
5.3.1.10.1 Capital and Reserve Fund.....	134
5.3.1.10.2 Deposits.....	135
5.3.1.10.3 Investments (General).....	135
5.3.1.10.4 Investments (Share and Securities).....	136
5.3.1.10.5 Foreign Exchange Business.....	137
5.3.1.11 Corporate Social Responsibilities.....	138
5.3.1.12 Awards and Achievements.....	138
5.3.2 First Security Islami Bank Limited.....	138
5.3.2.1 History of Establishment	138
5.3.2.2 Corporate profile	139
5.3.2.3 Managerial Information	139
5.3.2.4 Shariah Supervisory Committee.....	140
5.3.2.5 Financial Products and Services	140
5.3.2.6 Financial Overview of the Bank.....	142
5.3.2.7 Corporate Social Responsibilities.....	144
5.4 Procedure of Conversion of Conventional Banking into Islamic Banking.....	144

Chapter Six	Comparative Growth Trend Analysis of Conventional Banking Period & Islamic Banking Period.....	145
6.1	Introduction	145
6.2	Comparative Growth Trend Analysis	145
6.2.1	Growth Trend Analysis of Authorized Capital.....	146
6.2.2	Growth Trend Aanalysis of Paid up Capital	147
6.2.3	Growth Trend Aanalysis of Shareholders Equity.....	149
6.2.4	Growth Trend Aanalysis of Reserve Fund	150
6.2.5	Growth Trend Aanalysis of Total Assets	152
6.2.6	Growth Trend Aanalysis of Total Liabilities	153
6.2.7	Growth Trend Aanalysis of Deposit	155
6.2.8	Growth Trend Aanalysis of Investment	156
6.2.9	Growth Trend Aanalysis of Foreign Exchange Business	158
6.2.10	Growth Trend Aanalysis of Investment as a % total deposit	159
6.2.11	Growth Trend Aanalysis of Total Income	161
6.2.12	Growth Trend Aanalysis of Total Expenditure.....	162
6.2.13	Growth Trend Aanalysis of Earning Per Share	164
6.2.14	Growth Trend Aanalysis of Capital Adequacy Ratio %	165
6.2.15	Growth Trend Aanalysis of Cost of Fund	167
6.2.16	Growth Trend Aanalysis of Return on Assets (before tax) %	168
6.2.17	Growth Trend Aanalysis of Net Profit.....	169
6.2.18	Growth Trend Aanalysis of Number of Employees	171
6.2.19	Growth Trend Aanalysis of Number of Branches	172
Chapter Seven	Comparative Financial Ratio Analysis of Conventional Banking Period and Islamic Banking Period.....	174
7.1	Introduction	174
7.2	Profitability Ratio Analysis	174
7.2.1	Return on Assets (ROA).....	174
7.2.2	Return on Equity (ROE).....	176
7.2.3	Profit Expense Ratio (PER)	177
7.2.4	Earning Per Share (EPS)	179
7.3	Liquidity Ratio	181
7.3.1	Loan to Deposit Ratio (LDR) %	181
7.3.2	Equity Multiplier (EM)	182
7.3.3	Loan to Asset Ratio (LAR) %.....	184
7.3.4	Current Ratio (CR) %	185
7.4	Business Development.....	187
7.4.1	Total Assets.....	187

7.4.2	Total Deposit	188
7.4.3	Investment.....	190
7.5	Efficiency and Productivity.....	191
7.5.1	Income to Expense Ratio (IER) %	191
7.5.2	Operating Expense to Deposit Ratio (OEDR).....	193
Chapter Eight	Summary, Recommendations and Conclusion.....	195
8.1	Preamble and Methodology.....	195
8.2	The Findings	197
8.2.1	Concepts and Background of Bank: Conventional Banking and Islamic Banking	197
8.2.2	Islamic Banking in Bangladesh: Its Growth and History of Development	199
8.2.3	Conversion of Conventional Banking into Islamic Banking: An Overview	200
8.2.4	Comparative Growth Trend Analysis of Conventional Banking Period and Islamic Banking Period	201
8.2.5	Comparative Ratio Analysis of Conventional Banking Period and Islamic Banking Period	204
8.3	Policy Implications, Conclusions and Suggestions for further Research ..	205
8.3.1	Policy Implications.....	206
8.3.1.1	Ensure Shariah Compliance.....	206
8.3.1.2	Improving profitability	206
8.3.1.3	To Reduce Classified Loans	206
8.3.1.4	Preparation for Competition	206
8.3.1.5	Introduction of Modern Banking Policies and Instruments	207
8.3.1.6	Special Attention on Mudarabah and Musharakah Mode of Investment	207
8.3.2	Conclusion	208
8.3.3	Suggestions for Further Research	209
Bibliography.....		210
Appendices		224

List of Tables

Table 4.1	Comparative position of the Islamic banking sector (as of end December 2012)	90
Table 4.2	Growth in Authorized Capital of Islamic Banks in Bangladesh	91
Table 4.3	Growth in Paid up Capital of Islamic Banks in Bangladesh	93
Table 4.4	Growth in Shareholders equity of Islamic Banks in Bangladesh	95
Table 4.5	Growth in Reserve Fund of Islamic Banks in Bangladesh	96
Table 4.6	Growth in Total Assets of Islamic Banks in Bangladesh	98
Table 4.7	Growth in Total Fixed Assets of Islamic Banks in Bangladesh	99
Table 4.8	Growth in Deposits of Islamic Banks in Bangladesh	101
Table 4.9	Growth in Investment of Islamic Banks in Bangladesh	103
Table 4.10	Growth in Foreign Exchange Business of Islamic Banks in Bangladesh	105
Table 4.11	Growth in Return on Assets (ROA) % of Islamic Banks in Bangladesh	106
Table 4.12	Growth in Total Income of Islamic Banks in Bangladesh	108
Table 4.13	Growth in Total Expenditure of Islamic Banks in Bangladesh	110
Table 4.14	Growth in Capital Adequacy Ratio (CAR) % of Islamic Banks in Bangladesh	112
Table 4.15	Growth in Cost of fund % of Islamic Banks in Bangladesh	113
Table 4.16	Growth in Net Profit of Islamic Banks in Bangladesh	115
Table 4.17	Growth in Number of Shareholders of Islamic Banks in Bangladesh	116
Table 4.18	Growth in Number of Employees of Islamic Banks in Bangladesh	118
Table 4.19	Growth in Number of Branches of Islamic Banks in Bangladesh	119
Table 5.1	Structure of the Authorized and Paid-up Capital of the Nationalized Banks in 1972	122
Table 5.2	Islamic Banking Activities in Bangladesh, July-September 2014	125
Table 5.3	List of Islamic Banks with number of branch	126
Table 5.4	Banking Systems Structure	127
Table 6.1	Comparative Growth Trend of Authorized Capital	146
Table 6.2	Comparative Growth Trend of Paid up Capital	147
Table 6.3	Comparative Growth Trend of Shareholders Equity	149
Table 6.4	Comparative Growth Trend of Reserve Fund	150
Table 6.5	Comparative Growth trend of Total Assets	152
Table 6.6	Comparative Growth trend of Total Liabilities	153

Table 6.7	Comparative Growth trend of Deposit	155
Table 6.8	Comparative Growth trend of Investment.....	156
Table 6.9	Comparative Growth trend of Foreign Exchange Business	158
Table 6.10	Comparative Growth trend of Investment as a % total deposit	159
Table 6.11	Comparative Growth trend of Total Income.....	161
Table 6.12	Comparative Growth trend of Total Expenditure	162
Table 6.13	Comparative Growth trend of Earning per Share	164
Table 6.14	Comparative Growth trend of Capital Adequacy Ratio %	165
Table 6.15	Comparative Growth trend of Cost of Fund.....	167
Table 6.16	Comparative Growth trend of Return on Assets (before tax) %	168
Table 6.17	Comparative Growth trend of Net Profit	169
Table 6.18	Comparative Growth trend of Number of Employees	171
Table 6.19	Comparative Growth Trend of Number of Branches.....	172
Table 7.1	Comparative Performance of Return on Assets (ROA) %	174
Table 7.2	Comparative Performance of Return on Equity (ROE)%.....	176
Table 7.3	Comparative Performance of Profit Expense Ratio (PER) %	177
Table 7.4	Comparative Performance of Earning Per Share (EPS).....	179
Table 7.5	Comparative Performance of Loan Deposit Ratio (LDR) %.....	181
Table 7.6	Comparative Performance of Equity Multiplier (EM) %.....	182
Table 7.7	Comparative Performance of Loan to Asset Ratio (LAR) %	184
Table 7.8	Comparative Performance of Current Ratio (CR) %.....	185
Table 7.9	Comparative Performance of Total Assets.....	187
Table 7.10	Comparative Performance of Total Deposit	188
Table 7.11	Comparative Performance of Investment.....	190
Table 7.12	Comparative Performance of Income to Expense Ratio (IER).....	191
Table 7.13	Comparative Performance of Operating Expense to Deposit Ratio (OEDR).....	193

List of Figures

Figure 3.1	Islam, <i>Shari'a</i> , banking and finance.....	48
Figure 3.2	Mudarabah Flow-Chart	50
Figure 3.3	Musharaka flow chart.....	65
Figure 3.4	<i>Ijarah</i> -Operating lease	66
Figure 3.5	Areas of Community Responsibility.....	71
Figure 4.1	Growth in Authorized Capital of Islamic Banks in Bangladesh	92
Figure 4.2	Growth in Paid up Capital of Islamic Banks in Bangladesh	94
Figure 4.3	Growth in Shareholders equity of Islamic Banks in Bangladesh.....	96
Figure 4.4	Growth in Reserve Fund of Islamic Banks in Bangladesh	97
Figure 4.5	Growth in Total Assets of Islamic Banks in Bangladesh.....	99
Figure 4.6	Growth in Total Fixed Assets of Islamic Banks in Bangladesh	100
Figure 4.7	Growth in Deposits of Islamic Banks in Bangladesh	102
Figure 4.8	Growth in Investment of Islamic Banks in Bangladesh.....	104
Figure 4.9	Growth in Foreign Exchange Business of Islamic Banks in Bangladesh	106
Figure 4.10	Growth in Return on Assets (ROA) % of Islamic Banks in Bangladesh ..	107
Figure 4.11	Growth in Total Income of Islamic Banks in Bangladesh.....	109
Figure 4.12	Growth in Total Expenditure of Islamic Banks in Bangladesh.....	111
Figure 4.13	Growth in Capital Adequacy Ratio (CAR) % of Islamic Banks in Bangladesh.....	113
Figure 4.14	Growth in Cost of fund% of Islamic Banks in Bangladesh	114
Figure 4.15	Growth in Net Profit of Islamic Banks in Bangladesh.....	116
Figure 4.16	Growth in Number of Shareholders of Islamic Banks in Bangladesh.....	117
Figure 4.17	Growth in Number of Employees of Islamic Banks in Bangladesh	119
Figure 4.18	Growth in Number of Branches of Islamic Banks in Bangladesh.....	120
Figure 6.1	Comparative Growth Trend of Authorized Capital	147
Figure 6.2	Comparative Growth Trend of Paid up Capital	148
Figure 6.3	Comparative Growth Trend of Shareholders Equity	150
Figure 6.4	Comparative Growth Trend of Reserve Fund.....	151
Figure 6.5	Comparative Growth trend of Total Assets.....	153
Figure 6.6	Comparative Growth trend of Total Liabilities.....	154
Figure 6.7	Comparative Growth trend of Deposit	156

Figure 6.8	Comparative Growth trend of Investment.....	157
Figure 6.9	Comparative Growth trend of Foreign Exchange Business	159
Figure 6.10	Comparative Growth trend of Investment as a % total deposit	160
Figure 6.11	Comparative Growth trend of Total Income.....	162
Figure 6.12	Comparative Growth trend of Total Expenditure	163
Figure 6.13	Comparative Growth trend of Earning Per Share	165
Figure 6.14	Comparative Growth trend of Capital Adequacy Ratio %	166
Figure 6.15	Comparative Growth trend of Cost of Fund.....	168
Figure 6.16	Comparative Growth trend of Return on Assets (before tax) %	169
Figure 6.17	Comparative Growth trend of Net Profit	170
Figure 6.18	Comparative Growth trend of Number of Employees	172
Figure 6.19	Comparative Growth Trend of Number of Branches.....	173
Figure 7.1	Comparative Performance of Return on Assets (ROA) %	175
Figure 7.2	Comparative Performance of Return on Equity (ROE) %.....	177
Figure 7.3	Comparative Performance of Profit Expense Ratio (PER) %	179
Figure 7.4	Comparative Performance of Earning Per Share (EPS).....	180
Figure 7.5	Comparative Performance of Loan Deposit Ratio (LDR) %.....	182
Figure 7.6	Comparative Performance of Equity Multiplier (EM) %.....	183
Figure 7.7	Comparative Performance of Loan to Asset Ratio (LAR) %	185
Figure 7.8	Comparative Performance of Current Ratio (CR) %.....	186
Figure 7.9	Comparative Performance of Total Assets	188
Figure 7.10	Comparative Performance of Total Deposit	189
Figure 7.11	Comparative Performance of Investment.....	191
Figure 7.12	Comparative Performance of Income to Expense Ratio (IER).....	192
Figure 7.13	Comparative Performance of Operating Expense to Deposit Ratio (OEDR)	194

Chapter One

Introduction

1.1 Introduction

Islam is not simply one of the greatest monotheistic religions, signifying submission to the will of Allah, but a system of life in entirety. It prescribes a complete code of conduct for everyday human life in all its spheres and manifestations. It does not confine itself to a spiritual relationship between man and Allah or describes the Almighty only with a transcendental reference but also regulates, in right proportions, on interactive relationship between man and man and man and society with moral, political and economic genesis (Memon, 2007)

Bangladesh is a country of mixed economy. There are various dimensions in its economy. Bangladesh has mixed banking system comprising nationalized, specialized, private commercial and foreign commercial banks. Islamic banks are private commercial banks in Bangladesh. The concept of Islamic banking is not new one. It is a methodology of operating economy and growth of wealth which was established fifteen hundred years ago in the holy land of Arabia (Miah, 2008). The concept of Islamic Banking represents a radical departure from traditional banking. Islamic banking has to derive its inspiration from the religious ethics of Islam and has to mould its operations within the framework of the teachings of Islam (Raquib, 2007). The emergence of Islamic banking in modern times is related to the revival of Islam and the desire of Muslims to live all aspects of their lives in accordance with shariah (Ahmed, 2006). Allah says in the holy Qur'an "I forbid interest, but allow the business" (Al Quran, 2:275).

Despite global economic crisis, inflation, corruption in banking sector as well as adverse situation, Islamic banks of Bangladesh are achieving a good success. In Bangladesh both conventional banks and Islamic banks are operating and offering various products and services. But in the conventional based banking environment, Islamic banks are also demonstrating better performance in comparison to conventional banks. In the Fiscal Year 2011-12, out of 47 banks in Bangladesh, 7 PCBs operated as full-fledged Islamic banks and 15 conventional banks were involved in Islamic banking through Islamic banking branches (Bangladesh Bank Annual Report, 2011-12).

Islami Bank Bangladesh Limited (IBBL) started its operation as the first Islamic Bank in the South Asia on 13 March, 1983. The establishment of Islamic bank in Bangladesh was a very challenging factor. But after establishing Islamic Bank it has gained a lot of fame and success. New York based International Financial Magazine "Global Finance" adjudged IBBL as the best bank in Bangladesh in the year 1999, 2000 and 2005 and offered "World's Best Bank Award" for its excellent performance (Islami Bank 30 years Progress Report 2012). Credit Rating Information and Services Limited (CRISL) has rated IBBL as Double A+. However, other 6 Banks were established later. Two (2) banks of those 6 have fully converted from conventional bank to Islamic bank inspired by Islamic banking transactions. One is Export Import Bank of Bangladesh Limited known as EXIM Bank and another is First Security Islami Bank Limited. In the recent time, many of the conventional banks have started to operate Islamic banking. Both positive and negative, changes have taken place in the recent years. For example, many large international conventional banks have started to compete by offering Islamic banking services, and the number of Islamic Banks has increased causing competition among Islamic banks themselves, knowledge and practice of Islamic banking is spreading quickly and as more Islamic banking entities are established, new regulations, policies and accounting standard are designed to accommodate these changes (Mohamad et al., 2008).

It is interesting to note that conventional banking has been declining continuously. Even now, it is in serious crisis and suffering huge losses. When serious economic shock hit the world's largest economic power like US economy in 2007, the relevance Islamic economic system was being examined seriously in USA. The western countries are also bearing huge fiscal burden of conventional banking crisis. Islamic banking system emerges as the best banking system and it is recognized all over the world. It is observed in the world economic shock that, Islamic banking was not affected by the shock as in way where conventional banks were defaulter. The reason is that, Islamic banking is a welfare banking system (Hannan, 2015). Conventional financial institutions are now realizing the value of Islamic financing techniques and beginning to incorporate them, either in their lending practices or via separate Islamic departments or windows. Hence, conventional banks now compete with Islamic institutions both directly and through their own Islamic operations. This raises the question as to how Islamic banks perform compared to their conventional counterpart (Brown et al., 2007). This is also a new dimension of banking sector in Bangladesh.

1.2 Statement of the Problem

The word *bank* is known enough to all types of people as the whole economy of a country is linked up with its banking system. According to "A dictionary of Banking and Finance" Bank is a financial institution which deals in money, receiving it on deposit from customers, honoring customer's drawings against such deposit on demand, collecting cheques for customers and lending or investing surplus deposits to individuals, companies and other organizations (Chowdhury, 2005). Conventional banking based upon financing profitable projects with interest lending. Islamic banks avoid interest or *riba*, and instead invest on a profit or loss basis. Typical types of transactions include leasing, purchase and resale transactions (*murabaha* and *ijara*) or profit and loss sharing (*mudaraba*), trust financing or limited partnership and *musharaka*, joint venture investment (Brown, et al., 2007). Islamic banking, by principle, is also different from the conventional banking system. Payment of interest perceived as the predetermined excess over the principal is strictly prohibited in Islamic Banking. In several verses from the Qur'an, Allah undoubtedly underlines that indulging in *Riba* is like inviting a war against Allah and His Prophet Muhammad (pbuh). He also clearly differentiated between *Riba* and *profit* and also strongly indoctrinated not to confuse between these. The Qur'an also clearly defines that profit must be earned from exchange of goods and services but not from exchange of money itself. Islamic banks fundamentally emerged to fulfill this basic need of Muslims to enjoy banking services in compliance with Islamic principles (Khan et al., 2008)

Islamic finance assets were estimated at US \$ 1.6 trillion as at end-2012, a growth rate of 20.4% y-o-y. Between 2008 and 2012, Islamic finance assets have grown at a CAGR (Compound Average Growth Rate) of 19.5% per annum. Market consensus is that total Islamic financial assets will reach US \$ 6.5 trillion by 2020 (Marro, 2013). The performance of the Islamic Banking sector seems to be stabilizing as Islamic banks continue to enjoy structural advantages better financing margins, higher deposit growth, higher proportion of current deposits and lower leverage as compared to conventional banks (IDB Annual Report, 2011-12).

Islamic financial services are currently very popular among the non-Muslims in different parts of the world (Knight, 2007). Having realized the increasing demand, different giant multinational conventional banks are opening Islamic banking windows providing interest free services to widely scattered population (Hassan et

al., 2007). Similarly about all global agencies like IMF, World Bank, IFC, ADB, etc have set up special cell to investigate into this new phenomenon (Awan, 2009). The standing and international acceptability of Islamic banking has reached a stage when major international banks like Citi Bank, HSBC, Standard Chartered Bank, BNP Paribash, Union Bank of Switzerland (UBS) and Deutsche Bank have started offering Islamic Banking and financial products and services (Ahmed, 2006). The first conversion case took place when the National Bank of Sharjah became the Sharjah Islami Bank in 2002. So far, the world has witnessed eight significant conversion cases: the Middle East Bank into the Emirates Islamic Bank (UAE), the Dubai Bank into the Dubai Islamic Bank (UAE), the NCB (Saudi Arabia), only retail banking, the Khyber Bank (Pakistan), the Industrial Development Bank into the Jordan Dubai Islamic Bank (Jordan), the National Bank of Development into an Islamic bank by the ADIB (Egypt) and the Kuwait International Bank (Akbar, 2013).

Islamic banks are struggling against conventional banking and non-banking financial institutions, existing pool of Islamic commercial banks and insurance companies. To survive in this strategic rivalry, Islamic banks must understand and use the customer satisfaction issues under existing privileges given by Islamic Shariah (McIver and Naylor, 1986). Various earlier studies pointed that religion (Islam) is the main reason for choosing Islamic banks, which has been grounded under the principles of the Qur'an and the Hadith. However, studies in Malaysia, UAE, Kuwait found non-religious factors like efficiency, cost-benefit etc. in conjunction with religion as the influential factors behind choosing an Islamic bank (Dusuki & Abdullah et al., 2007).

Bangladesh is the third largest Islamic country in the world, where Muslims represent over 80% of the country's population. Due to British colonization most of the banks have been conventional (Sarker, 1999). But some of the private and foreign banks are now offering Islamic banking services parallel to their conventional services. However, the extent of services they offer is still at the primitive level, which conversely assisted the system to cover wide range of rural customers who have very basic knowledge about Islamic financial system. The first Islamic bank in Bangladesh, Islami Bank Bangladesh Limited (IBBL) was established in 1983. Though the Bangladesh Bank has no separate Islamic banking law or regulation, all the Islamic banks are supervised and monitored

by their independent Shariah councils/boards. To grab higher demand, one private conventional bank, the Export Import Bank of Bangladesh Limited (EXIM Bank), has started to operate completely under Islamic Shariah from 2004 (Rashid et al., 2010). Not only that, the First Security Bank was converted from conventional to Islamic Bank In 2009. Now 19 Islamic banking branches of 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks are providing Islamic banking services in Bangladesh (www.bb.org.com).

The total deposit of all the Islamic banks and the Islamic banking branches of conventional banks stood at Taka 818.9 billion at the end of December 2011. This was 18.3 percent of deposits of the total banking system. Total credit of the Islamic banks and the Islamic banking branches of the conventional banks stood at Taka 738.8 billion at the end of December 2011. This was 20.3 percent of the credit of the total banking system of the country (Bangladesh Bank Annual Report 2011-12). A recent report by the Standard & Poor's Ratings Services found that the growth rate of Islamic banking during the past decade, making it one of the most dynamic areas in international finance. The current growth has been estimated to be 23.5 percent. There are over 200 Islamic banks and financial institutions with a spread of 2500 branches worldwide (Ahmed 2006).

The profitability ratio of Islamic banks is in the highest position. Accepting the investment risk, trust on custody, trustworthiness and responsibility, Islamic banks are gaining very good success. For the basis of public demand and to establish an interest free economy the conventional banks are operating Islamic banking as branch or window type. The central bank circulates a BRPD circular no 15/9 titled 'Guidelines for conducting Islamic banking' on 09 November 2009. For the smooth and successful operation of bank all the Islamic banks of Bangladesh established Central Shariah Board for Islamic Banks of Bangladesh (CSBIBB) under the guidance of Bangladesh Bank on 16 august 2001. Only for the large scale of public demand the Islamic banks are getting highest profit and the conventional banks are attracted to operate Islamic banking in their banks though there are vast problems to implement of Islamic banking in Bangladesh. Islamic banking is operating with a perceptual delusion in Bangladesh. Majority of the people think that the idea of Islamic banking is not right one; even the finance minister of the People's Republic of Bangladesh

alleged in parliament that the concept of Islamic banking is totally fraud (The Daily Naya Diganto, 2015). But it is reality that when recent anarchy has affected banking sector in Bangladesh (Sonali Bank and BASIC Bank) there is no such claim against Islamic banking, rather it is viable and reliable to the people of Bangladesh. Despite the misconception, Islamic banking is growing very fast. With the rapid growth trend the conventional banks are interested to operate following Islamic shariah principles for capturing the business and finally to be converted into Islamic banking. Therefore, the study will evaluate the comparative financial performance analysis during the conventional banking period and the Islamic banking period of the sample banks.

1.3 Research Questions

In the light of statement of problem some relevant questions have come forward. Those are as follows:

- Why some conventional banks are converted into Islamic banks?
- How the conventional banks were converted into Islamic banks?
- In what sense both streams of banking are different from each other?
- Which of the banking streams have relatively more satisfied customers?
- What are the real challenges of conversion of conventional banking into Islamic banking?

1.4 Objectives of the Study

The main objective of the study is to explore the comparative financial performance analysis of conventional banking period and Islamic banking period.

The specific objectives are as follows:

- To get an overall idea of conventional banking and Islamic banking business.
- To measure the growth and history of development of Islamic banking business in Bangladesh.
- To examine the comparative growth trend analysis of conventional banking period and Islamic banking period.
- To evaluate the comparative financial ratio analysis based on conventional as well as Islamic banking period.

1.5 Literature Review

Islamic Banking has been introduced in the world economy in the early 60's. Literature on Islamic banking were started to be published even before the Islamic banking arena. From the beginning of the 80's, somewhat a huge number of books have been published on Islamic economy and banking. The early publications on Islamic banking were basically about the wider issue of Islamic economy and banking as a whole

Huq (1989) examined productivity of banking sector by using two methods. The first one was the total productivity is constructed as the amount of working fund per taka of the total expenditure, and the second one was the total productivity as the amount of income per taka of the total expenditure. The researcher has used total income as output and total expenditure as input. He has selected three banks and the study period was from 1985 to 1988. The findings of the study were that compared to Bahrain Islamic Bank, the productivity of the two banks was quite low. Again, the productivity of IBBL was apparently similar to that of Bank Islam Malaysia Berhad but in reality it may not be so. The authors found significant differences in the accounting practices in the two banks. IBBL did its accounting on accrual basis whereas Bank Islam Malaysia Berhad follows the cash basis. The author tried to evaluate differences in the productivity primarily for the factors like size of transactions, technology, and legal environment. It was pertinent to mention that Islamic principles of banking is different from conventional commercial banking to the principle that the objectives of Islamic banking possesses social orientation and profit sharing nature on commercial loans and advances. Therefore, the social impact of Islamic Banks can be scaled to some financial form, then the recombined profitability (commercial and social) would be definitely be higher the productivity (profitability) of conventional interest based commercial banks.

Shakoor (1989) tried to evaluate the performance of nationalized commercial banks in Bangladesh in his unpublished Ph.D. dissertation. The study covered six nationalized commercial banks and time frame of the study was from 1972 to 1986. The study was aimed to find out the growth and development of the NCBs, its operational efficiency profitability aspects along with the social obligations. The study found that NCBs had an increasing trend in deposits mobilization accompanied by

increasing advances in both urban and rural areas during the period study. There was huge surplus liquidity in NCBs, which could be invested in marketable securities i.e. in Treasury bill and other commercial papers. There was a positive significant correlation between interest and discount to working fund and earning capacity of working fund. The researcher suggested that here is further scope to enhance the operational efficiency of NCBs by way of better planning and control mechanism.

Akkas (1996) introduced a new conceptual composition known as "Banking Efficiency Model" to show the actual brilliance of Islamic banking systems in financing investments over its conventional counterpart. Static analysis tries to measure the efficiency of the two banking system by the study. The result shows that Islamic banking systems satisfy all the efficiency conditions, but it does not do at all in its conventional counterpart. The research confirms the problems faced by Islamic banking are just not because of their techniques. Besides, the blunt mechanism of efficiency of the conventional banks puts on blockage towards effective operation of Islamic banking. Islamic banking can certainly make it actually inside the conventional framework with a stock portfolio operations through which funds are usually produced from profit loss sharing (PLS) to be able to deal similar modalities of finance.

Metwally (1997) evaluated the performance of 15 Interest-free banks and 15 conventional banks in terms of liquidity, leverage, credit risk, profitability and efficiency. He concluded that the two groups of banks may be differentiated in terms of liquidity, leverage and credit risk, but not in terms of profitability and efficiency. Interest free banks rely more heavily on their equity in loan financing and face more difficulties in attracting deposits than interest based. Interest free bank hold a higher cash/ deposit ratio because they tend to be relatively more conservative in using their loan able funds and lack lending opportunities. The profit/loss sharing principle has made it difficult for interest free banks to finance personal loans and pushed interests free banks to finance personal loans and pushed interest free banks to channel a greater proportion of their funds to direct investment (using Musharaka and Mudaraba tools of finance). Both banks offer their depositors similar returns and direct the largest proportion of their funds towards the financing of durables. Interest-free banks rely heavily on the Murabaha mode of finance which is like interest charge and based on the use of a mark-up.

Raveh (2000) examined the traditional method of evaluation of banking performance based on financial statement analysis with help of ratio analysis method. Normally, performance of banking institutions is measured by financial ratios dealing with onset quality, capital adequacy, earning quality, liquidity, and management efficiency under traditional method. The researcher examined the data by means of multivariate analysis called Co-plot, a two dimensional graphic display technique designed to analyze observations of 16 banks and 7 attributes simultaneously. The methods produces three results (1) similarity among the banks by the composite of all attributes involved (2) the structure of correlations among the attributes and (3) the mutual relationship between the banks and attributes. The Co-plot method introduces a greater degree of rigor to the analysis of the final ranking of performance using utility level.

Hossain (2000) tried to examine a comparative performance of public and private sector commercial banks in Bangladesh. For the study the researcher selected two types of banks such as nationalized commercial banks from where 4 banks were selected purposively and 7 banks were from private commercial banks. However, the duration of the study period was from 1983 to 1977. The study concluded that the total productivity performance and the manpower productivity performance of PCBs were higher than that of NCBs. The study also found that priority sector lending and rural banking have no significant negative influence on the productivity and profitability performance of the commercial banks. High proportion of fixed deposits in total deposits significantly affected the productivity and profitability performance of both NCBs and PCBs.

Iqbal (2001) studied the performance of conventional and Islamic banking. This study used data for the years 1990-98 and numerous hypothesis and general perceptions about the practical of Islamic banking have been tested. He analyzed through ratio analysis Islamic Banks were not suffering from excess liquidity and were more cost effective and profitable than their conventional counterparts. The techniques used to evaluate performance of Islamic banks were both trend and ratio analysis. The performance of Islamic banks was compared with conventional banks that were the control group.

Rosli and Bakar (2003) examined the financial performance of Islamic Banking Scheme (IBS) and made comparison analysis with their mainstream bank's performance. The study argued that IBS recorded higher Return on Assets (ROA) is not due to efficient investment policy carried out by the IBS. But, rather it is caused by technical defaults since most of the overhead expenses were born by the parent company (its' mainstream bank). Furthermore, the study claimed that, into certain extent the IBS failed to direct its' Islamic banking system away from the conventional banking system. Thus Interest like Islamic banking operation does not appear to out shine mainstream banks in term of efficiency.

Samad (2004) has described the performance of Interest-free Islamic Banks vis-a-vis interest based conventional Banks of Bahrain during the post Gulf War period. For this study the researcher used ratio measures to examine the profitability, liquidity risk and credit risk. Nine financial ratios were used in measuring the performance. By using student's t-test to financial ratios for Islamic and conventional commercial banks in Bahrain. In this study six Islamic banks and 15 conventional commercial banks were considered. The aggregate data of the Islamic and conventional banks for the period 1991-2001 are obtained from Bank scope Database. The study resulted that there is no major differences in performance between Islamic and conventional banks in profitability and liquidity, but there is a significant difference in credit risk.

Uddin (2004) has analyzed attitude of customers towards the services of conventional and Islamic banks in Bangladesh in his unpublished Ph.D. thesis. For the study the researcher has selected three types of banks such as conventional public, conventional private and Islamic banks. The study was aimed to analyzing and comprising to the attitude and perception of the customers' towards the services of conventional banks and Islamic banks. In doing so, customers' attitudes towards the choosing factors of a specific bank, different services and service related issues have been covered for the analysis. The study found that the entire service quality and service related issues of conventional private banks are better than those of conventional public and Islamic banks, and the service quality of Islamic banks is than that of conventional public banks. Another import finding is that the overall service quality of conventional private banks is than that of Islamic banks.

Al Mahmud and Islam (2006) analyzed the comparative performance of conventional and Islamic Banks in Bangladesh. For this study they have selected special reference of Islami Bank Bangladesh Limited (IBBL). They have used some common indicators of performance measurement such as general business profitability, management soundness, and social profitability. For performance comparison, both financial profitability and social profitability aspect of performance have been taken into consideration. The study shows that in spite of a few exceptions; in general Islamic banks overall performance was better than the conventional banks.

For measuring the efficiency of banks, studies have been carried out using different model. **Percin and Ayan (2006)** studied and evaluated the efficiency of commercial banks in Turkey using a Data Envelopment Analysis (DEA) and Malmquist Productivity index (MPI) methodologies.

Haque (2007) analyzed the efficiency of commercial banks in Bangladesh. In his unpublished Ph.D. thesis he examined the productive efficiency of each of the 49 commercial banks of Bangladesh for the period from 1999 to 2005 using two techniques, Stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA) model. The result of both types of analysis estimated that stochastic frontiers are significantly lower than those obtained from DEA. Stochastic frontier result showed constant returns to scale, whereas DEA results show both constant and variable returns. He concluded that, according to output oriented DEA, the banking sector of Bangladesh is potential for increasing banking output through improvement in efficiency.

Abedin (2007) examined the determinants of profitability and productivity of commercial banks in Bangladesh. The time frame for the study was eight years starting from 1983 to 1990. To measuring the trend of profitability and productivity he used standard statistical techniques including indexing rates, ratios percentages, and tabular forms. The ratios include net profit total asset ratio, net profit capital ratio, ratio of net profit total employees as well as total branches. The growth rates of and the components of income and expenditure of the banks are expressed in terms of percentage. The result of the study shows that there are little changes in the income and expenditure patterns of the banks over the years. The overall productivity levels of the banks are not only low but also constantly declining.

Mohammad et al., (2007) examined efficiency of conventional and Islamic banks. For this study 80 banks of 21 Organization of Islamic Countries (OIC) were selected comprising of 37 conventional banks and 43 Islamic banks. The Stochastic Frontier Approach (SFA) was used to assess the efficiency of Islamic and conventional banks based on their size, age and region. The study suggest that there are no significant differences between the overall efficiency results of conventional versus Islamic banks as well as average efficiency scores between big versus small and new versus old banks in both banking streams. This result implies that size and age did not affect the performance of banks in both streams and overall, the results are in favor to the more recent Islamic banking system.

Moin (2008) analyzed comparative performance of Islamic Banking and conventional Banking in Pakistan. The aim of this study is to examine and to evaluate the performance of the first Islamic bank in Pakistan, i.e Meezan Bank Limited (MBL) in comparison with that of a group of 5 Pakistani conventional Banks. The study evaluates performance of the Islamic bank (MBL) in profitability, liquidity, risk and efficiency for the period of 2003-2007. Financial ratios (12 in total) such as Return on Asset (ROA), Return on Equity (ROE) Loan to Deposit Ratio (LDR), Loan to Assets Ratio (LAR), Debt to Equity ration (DER), Asset Utilization (AU) and Income to Expense Ratio (IER) were used to asses banking performance. T-test and F-test were used in determining the significance of the differential performance of the two groups' bank. The study found that MBL was less profitable, more solvent, and also less efficient comparing to the average of the 5 conventional banks. However, there was no significant difference in liquidity between the two sets of banks.

Islamic Banking is growing with fast speed all over the world particularly in Pakistan which the conventional banking is surprisingly declining in the countries which are the champion of capitalism and founder of interest based financial system, (**Awan, 2009**) analyzed the comparison of Islamic and conventional banking in Pakistan. For this study, he selected six newly formed Islamic banks in Pakistan and six conventional banks. Data relating to their performance and profitability were collected from Primary and secondary sources from 2006 to 2008. The ratio analysis technique was applied to measure the performance of key indicators of both Islamic and conventional banks. The result of the study was very encouraging because the

performance and profitability of Islamic banks are far better than selected conventional banks. Islamic banks outperform conventional banks in assets, deposits, financing, investments, efficiency and quality of services and recovery of loans. It predicted the bright future of Islamic banking in Pakistan.

Uddin (2009) tried to examine the profitability and productivity of Islamic banks in Bangladesh in his unpublished Ph.D. Dissertation. For this study, 7 Islamic banks of Bangladesh were selected. In the study he described the genesis, disclosure, growth and development of Islamic banks in Bangladesh. He measured the productivity and profitability by using various statistical tools such as time series analysis, regression analysis, co-relation, hypothesis testing etc. through various financial statements of selected Islamic banks and he resulted that the Islamic banks in Bangladesh were doing better than other commercial banks in terms of profitability and productivity.

Liquidity management is one of the most crucial tasks of a bank. **Islam and Chowdhury (2009)** examined the comparative study of liquidity management of Islamic and conventional banks. For this study they have selected one bank for each category. One is Islami Bank Bangladesh Limited (IBBL) and another is Arab Bangladesh Bank Limited (ABBL). In this study they tried to focus whether any significant differences exist in managing liquidity position of Islamic and conventional banks in Bangladesh. They analyzed whether the liquidity position of these two different types of banks were influenced by their key performance indicators (KPIs). They used some statistical tools like simple regression, step-wise multiple-regression test and F-test. The result of the study showed that Islami Bank Bangladesh Limited (IBBL) performed better in liquidity management than the conventional Arab Bangladesh Bank Limited (ABBL) for the period of 2003 to 2006 both on short-term and long term basis. From regression analysis, they have found that profitability ratios had a greater impact on liquidity. For both of the banks, the KPIs like EPS, PLE ratio, ROE, ROA had influential role in determining the extent liquidity.

Safiullah (2010) studied the comparative performance of Islamic Banks and conventional banks in Bangladesh, to select which one was superior. For this study, he selected four conventional banks and four Islamic banks. The time frame was 5 years for the study from 2004-2008. Ratio analysis was conducted to identify business

development, profitability, efficiency and productivity of both banking streams. The study found that conventional banks were doing better than Islamic banks in terms of commitment to economy and community, productivity and efficiency. But Islamic banks were doing better than conventional banks in terms of profitability liquidity and solvency. The result of the study established that Islamic banks were superior in financial performance to that of conventional banks in Bangladesh.

Sole (2010) analyzed the process by which Islamic retail banking was implanted in traditional financial systems. Drawing from the experience of several countries which have introduced Islamic banking over a period of time, he described the main phases of the process, with the intention of underscoring the main challenges faced by supervisors and practitioners at each stage. Here he also discussed some of the main elements required to build a supporting financial infrastructure that that conforms to Islamic principles.

Akthar (2010) also used Data Envelopment Analysis (DEA) and Malmquist Productivity Index (MPI) to see efficiency scores and productivity indices of banks in Saudi Arabia and concluded that technical inefficiency emerges from both scale as well as pure technical inefficiencies. The results on Malmquist Productivity Index (MPI) showed an improvement in average productivity of banks. The study also found that the major source of productivity gain was the efficiency change relative to technological change

Beck et al., (2010) have evaluated the Business Model, efficiency and stability of Islamic vs. Conventional Banking. In their policy research work paper of the World Bank they explained in which extent Islamic banking products affect the agency problems arising from information asymmetric between lender and borrower or investor and manager of funds. They also compared the business model, efficiency, asset quality and stability of Islamic banks and conventional banks, using an array of indicators constructed from balance sheet and income statement data. In separate regression, they focused specially on the relative performance of both streams of banking. Comparing, indicators of business orientation, cost efficiency, asset quality and stability of conventional and Islamic banks, they have remarked a little differences between the two types of banking. They have found that Islamic banks are more cost effective in a large sample of countries; this advantage turns around when they focused on a sample of countries with both conventional and Islamic banks. They did

not find any significant differences in business orientation, as measured by the share of fee-based to total income or share of non-deposit in total funding. They also neither found significant differences in the stability of Islamic banks, though it is founded that Islamic banks have higher capital asset ratios. The researchers found some variations in efficiency and stability of conventional banks across countries with different market shares of Islamic banks, especially in countries where the market share of Islamic banks is higher, conventional banks tend to be more cost effective but less stable. There is also consistent evidence of higher capitalization of Islamic banks and this capital cushion plus higher liquidity reserves explains relatively better performance of Islamic banks during the recent crisis.

Ali (2010) analyzed the performance of Islamic and conventional Banks of Pakistan over the period of 2004-2008. The study investigates when the Islamic Banks are performing well in Pakistan compared to the conventional banks. Financial ratio analysis for liquidity, profitability, risk, solvency and efficiency of the sample banks from both categories were performed to test the overall performance.

A study by **Ansari and Rehman (2011)** based on using eighteen financial ratios for measuring profitability, liquidity, risk and solvency, capital adequacy, development and operational efficiency. They used the annual reports and financial statements for the period 2006 to 2009. Independent sample t-test and ANOVA was used to determine the significance of mean differences of the ratios between and among banks. The study resulted that Islamic banks proved to be more liquid, less risky and operationally efficient than conventional banks.

Ika and Abdullah (2011) Compared and examined financial performance of Islamic banks against conventional banks before and after the enactment of Indonesia's Islamic Banking Act No 21/2008. The data was based on selected financial statements of Islamic commercial banks in Indonesia from year 2000 to 2007. To measure financial performance the study employed 13 financial ratios. The financial ratios were categorized into four major groups which are profitability, liquidity, risk and solvency and efficiency. The researcher used Mann-Whitney model to test the hypothesis. The study resulted that there was no major difference in financial performance between Islamic banks and conventional banks, except in terms of its liquidity; because the study indicated that Islamic banks are generally more liquid as compared to conventional ones.

Mamun (2011) focused the prospects and growth potentials of Islamic banks in Bangladesh as perceived by Islamic and conventional bankers. The study noted that there is a high demand for interest free banking services from a segment of people in Bangladesh who have a strong desire to abide by the rules and principles set by shariah. Along with religious requirement, economic exigencies provide a new outlook to the role of banking in promoting investment productive activities, influencing distribution of income and adding stability to the economy. The Islamic banking sector is, however, criticized on several grounds by the conventional bankers. The Banks are believed not to apply the rules of shariah completely. Islamic banks are said to include interest in their dealings to compete effectively with the conventional banks. Moreover, conventional banks offering Islamic banking as a parallel service are thought to do so only to add to their profitability, by attracting people who value the shariah based system by enjoying the advantages of the special treatments from the central bank. The survey result shown that suitable and supportive legal frame work would facilitate better growth of this sector. In another way, the lack of an inter bank money market and sufficient supportive and link institutions in the sector; act as impediments to growth of Islamic banking. Also banks perceive the availability of training and education on Islamic banking to be inadequate in Bangladesh. He concluded that, there is a need to have more institutions providing information on the operations and principles of Islamic banking for delivering superior services to the clients and to attain greater efficiency.

Unconventional Banking i.e. Islamic Banking operation in conventional Banking environment is a very burning issue in USA. **Szczepanowiz (2011)** analyzed operation of Islamic banking and finance in USA in his Master of Arts thesis. He investigated the Islamic financial and banking market in the USA, specially its development, evolution and perspectives and to find out whether the USA is an attractive financial market to offer shariah compliant products and services by examining the demand for Islamic financial services by utilizing a questionnaire that was developed to gauge consumer perceptions and attitudes of Islamic Banking and its products. The study provides evidence that Islam banking fits into the reality of traditional banking within the US but further development of a regulatory structure is needed to make the integration more successful. The data of the study revealed that consumers within the US are willing to do business with Islamic forms of banking

and financial institution the general public remains unaware of the alternative that Islamic banking and finance provides, as evident by responses to the accessibility and advertisement questions provided in the questionnaire. There has a better chance of Islamic Banking industry in the recent economic Socks in the USA. There is no national Islamic Banking institution in USA. The study focused that more Islamic Banks be created throughout the US and that at some point consolidation takes place. The lack of advertisement is also a worrisome aspect that needs to be addressed in order to Islamic Banking and Finance to gain more utility and acceptance.

Hanif (2011) analyzed differences and similarities between Islamic and conventional banking. The study introduces the perceptual issues by identifying the similarities and differences in Islamic and conventional banking. Evidences suggested Islamic banking was very much practiced like modern conventional banking with certain restrictions imposed by shariah and addresses the large number of business requirements successfully hence perceiving Islamic banking as totally foreign to business world was not correct. It was also found in the study that Islamic Banking was not a mere copy of conventional practices rather major differences exist in the operations of Islamic financial Institutions (IFIs) in comparison with conventional banking.

Jaffar and Manarvi (2011) examined and compared the performance of Islamic and conventional banks operating inside Pakistan during 2005 to 2009 by applying CAMEL test. A sample of 5 Islamic Banks and 5 conventional banks were selected to measure and compared their performance. CAMEL test is a standard test to check the health of financial institutions and to determine the performance of banks. Different ratios were used to evaluate each element of CAMEL. The study found that Islamic banks performed better in possessing adequate capital and better liquidity position while conventional banks pioneered in management quality and earning ability. Asset quality for both streams of banking was almost the same; conventional banks recorded slightly smaller loan loss ratio showing improved loan recovery policy whereas, UNCOL ratio analysis showed a nominal better performance for Islamic Banks.

Naser Al Ziyadat (2011) provided a comparative study between the Islamic and conventional banks in Kuwait. In the study he tried to show the performance of both streams banking with numeric data. The data resulted that the rational of the values of Islamic banking was still underdeveloped in this innately Muslim society. He also

described the major challenges of Islamic banking in Kuwait in terms of deposit the Islamic banks were superior but in the case of profitability conventional banks were more attractive to market investors than Islamic banks. The study also found that though the newly established or converted Islamic banks reflect a demand in the market in Kuwait but the market value of Kuwait conventional banks reflect a significant number of market investors who seek profit maximization rather than following the Islamic values.

Saha (2011) analyzed the managerial performance of commercial banks in Bangladesh. The study was attempted to evaluate critically the managerial performance of commercial banks in Bangladesh for a period of 12 years time span from 1977 to 2008. Growth, size and expansion of the selected variables of the selected banks have been analyzed to depict the growth and development. In order to assess the performance of the selected banks, 27 hypotheses have been tested. The study found that AB Bank Limited had the highest average in RO1. It had the highest Employee productivity and Branch productivity. It had also the highest AAGR on Loan and Advances, Income and Assets. These AAGR of AB Bank Limited were higher than the AAGR of sample average. National Bank Limited had the highest average in ROCE, ROA, EPS, Spread and Credit-Asset Ratio Value Added, Deposits, Net profit, Manpower and Network of branches. City Bank Limited has shown the highest annual growth in paid up capital. It had the lowest average cost of fund at 8.16 percent. IFIC Bank Limited has shown the lowest annual growth in every area. In the case of hypotheses test 24 null hypotheses have been accepted at 1 percent level of significance out of 27. The study concluded that managerial performance of all the selected banks with respect to the selected variables was satisfactory during the study period.

Ahmad (2012) studied the challenges of Islamic banking operation in Bangladesh and examined the people's expectations from Islamic Bank management. The study ended with valuable concluding recommendations. He opined that due to gaps between theory and practices of Islamic shariah Islamic banks could not fulfill all the expectations of the common Muslims. The study revealed that the Islamic banks were in the cross roads; it would have to reach to its desired goal safely with a view to serving the mankind by its not only banking services but also by its humanitarian services more and more to attracted the Muslims and non-Muslims around the world.

Siraj and Pillai (2012) analyzed Comparative study on Performance of Islamic Banks and Conventional Banks in GCC region. They have selected five years data from 2005 to 2010 for the study. The study investigated the presence, if any of similarity in growth of chosen performance indicators of Conventional Banks and Islamic Bank in GCC region. The researchers have selected six Islamic banks and six conventional banks. They explained comparative performance by using the indicators such as OER, NPR, ROA, ROE, EOA, operating expense, profit assets, operating income, deposits and total equity. Inferences based on analysis revealed better performance of Islamic banking during the study period. The study resulted that Islamic banks are more equity financed than conventional banks. ANOVA test shown that, there was a significant relationship in movement of selected financial indicators. Conventional banks registered growth in revenue during the period, but could not achieve improve profitability on account of higher provisions towards credit losses and impairment losses. With regard to the impact of financial crisis on banking, the analysis revealed that Islamic banks were less affected compared to conventional banks in the GCC region.

Johora (2013) has analyzed a comparative performance of conventional banking and Islamic banking in Bangladesh, and tried to found out which one is superior. She has included all the public limited conventional banks and all the Islamic banks for measuring the comparative performance of both streams banks for the years 2007 to 2011. The researcher has calculated six profitability ratios including Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), Cost to Income Ratio (COINR), Net Profit Margin (NPM) and Earning per shares (EPS); four liquidity ratios containing Liquid Assets to customer Deposits and Short Term Fund Ratio (LdCDSF), Loans to Deposits (LTD), Loans to Deposits and Borrowing (LTD&B) and Loans to Assets (LTA); four credit risk ratios comprising Capital to Asset Ratio, Common Equity to Assets Ratio (EQTA), Total Equity to Loan Ratio (EQL) and Non-Performing Loans to Loans (NPL). She has used Bank-o-meter model for calculation of Solvency of both types of banking. The result of the study was that conventional banks are dominating in profitability and Liquidity whereas Islamic banks are leading in credit risk management and solvency maintenance.

1.6 Justification of the Study

The review of relevant literature reveals that although a number of studies have been carried out in home and abroad on the multidimensional aspect of Islamic Banking, the systematic and elaborate study on the issue of conversion of conventional banking into Islamic banking in Bangladesh is still lacking.

In another sense, Banks and financial institutions are contributing to the economic development of Bangladesh through exploring different lucrative economic segments in the form of investment and lending. Banks of our country play roles from conventional and Islamic perspectives. So, the study is very time demanded and rational in the sense of economic development, stability and discipline in the financial sector.

Study on Islamic Banking in the context of the comparative growth trend analysis of banks during the conventional banking period and Islamic banking period is scanty. So, it can be said that there is a dearth of broad based research in this field and there exists a research gap. Hence, it creates enough scope to explore the Conversion of Conventional Banking into Islamic Banking in Bangladesh.

1.7 Scope and Limitations

The study has followed the comparative growth trend analysis of banks during the conventional as well as Islamic banking period based on some commercial banks in Bangladesh. The researcher has analyzed the indicators of valuation of financial performance. Here, the researcher has tried to find out the causes of conversion of conventional banking into Islamic banking regarding comparative financial performance analysis of conventional banking period and Islamic banking period of the banks in Bangladesh. The researcher has also discussed the public perception about Islamic banking, challenges and policy formulation for the development of Islamic Banks in Bangladesh through research.

This study is limited in two counts. The first one is on the issue of coverage and the second is on the issue of representation. The study does not cover all aspects of the two concepts. The study covers only two converted Islamic banks, but there are another 15 (fifteen) conventional banks which also operate Islamic banking partially through windows or Islamic banking branches which are not discussed here. So, the

purposively selected 2 (Two) Banks do not represent the whole banking system of Bangladesh. Another limitation is the issue of shariah banking operation. There are another 7 (seven) Islamic banks in Bangladesh .So, what are the scenarios of those banks in the banking sector? There is also a limitation in the concept of dual banking as because the ultimate target of those banks is to convert from conventional banking into Islamic banking. It suggests another research gap.

1.8 Plan of Dissertation

Chapter 1 : Introduction

This chapter discusses the, present state of Islamic banking business in Bangladesh, statement of the problem, research questions and objectives, literature review, justifications, scope and limitations.

Chapter 2 : Methodology and Conceptual Framework

This chapter focuses on methodology and conceptual framework of the study. Accordingly the chapter is divided into three sections. The first section is designed to analyze methodology of the study, the second section analyses ratio analysis, and the third section explain the conceptual framework relating to the key concepts and definitions used in the study

Chapter 3 : Concepts and Background of Bank: Conventional Banking and Islamic Banking

This chapter focused the concepts and background of Islamic banking and conventional banking with special refference of history, objectives, and types, distinguishing feature, sources of funds and usage of funds of both streams of banks. The chapter also discussed basic differences between two types of banking

Chapter 4: Islamic Banking in Bangladesh: Its Growth and History of Development

The fourth chapter presents the historical background of Islamic banking business in Bangladesh. It also described growth of Islamic banking in and history of development of Islamic banking in Bangladesh.

Chapter 5 : Conversion of Conventional Banking into Islamic Banking: An Overview

The fifth chapter examines the Banking scenarios of Bangladesh including conventional and Islamic, details of Export Import Bank of Bangladesh Limited (EXIM BANK) and First Security Islami Bank Limited (FSIBL), the reasons behind converting from conventional banking into Islamic banking and to know the system of conversion according to the BRPD circular no- 15 dated 09-11-2009.

Chapter 6 : Comparative Growth Trend Analysis of Conventional Banking Period and Islamic Banking Period

The sixth chapter draws upon comparative growth trend analysis of conventional and Islamic banking period in which types of banking stream is relatively better performer in banking sector of Bangladesh. For measuring the financial performance the researcher describes elaborately various indicators of financial performance such as authorized capital, paid up capital, shareholder's equity, reserve fund, total assets, total liabilities, deposits, investment, foreign exchange business, export, import, income, expenditure, EPS, CAR, ROA, cost of fund, net profit etc. Tools of quantitative analysis as such average, standard deviation, Coefficient of variation, simple growth rate and compound growth rate has been used to evaluating the growth trend of conventional and Islamic banking period of EXIM Bank and First Security Islami Bank Limited to prove in which types of banking perform better.

Chapter 7 : Comparative Financial Ratio Analysis of Conventional Banking Period and Islamic Banking Period

The seventh chapter is to indicate the facts of financial performance by analyzing several tools of financial performance measures such as profitability, liquidity, business development, and efficiency and productivity. In order to examine the comparative ratio analysis regarding profitability, liquidity, business development, and efficiency and productivity ratios of conventional banking period and Islamic banking period both of EXIM Bank limited and FSIBL we have used 13 financial ratios. The data of the study have been compiled from the Annual Reports. Mean and standard deviation has been used to measure the growth of the ratios and finally a t-test also used to draw comparison between two segments of time i.e. conventional banking period and Islamic banking period. Statistical results of the ratio analysis evaluate the banks performance in when did it performed better.

Chapter 8 : Summary, Recommendations and Conclusion

The final chapter presents the key findings based on the analyses of the study. It offers some policy implications for further improvement of EXIM Bank and First Security Islami Bank of Bangladesh Limited.

Chapter Two

Methodology and Conceptual Framework

2.1 Introduction

This chapter discusses methodology and conceptual framework of the study. Accordingly the chapter is divided into three sections. The first section is designed to analyze methodology of the study, the second section analyses ratio analysis, and the third section explains the conceptual framework relating to the key concepts and definitions used in the study.

2.2 Research Methodology

2.2.1 Nature of the Study

The research has been descriptive and empirical in nature. It is descriptive in the sense that it describes the concept of Islamic banking, process of conversion of conventional banking into Islamic banking in Bangladesh, legislative limitations, its impact and challenges in the banking sector. Empirically, it explores the indicators of financial performance of commercial banks in Bangladesh.

2.2.2 Types and Sources of Data

Both quantitative and qualitative data have been used for the study. Data have been collected from mostly secondary sources, and some are collected from primary sources.

2.2.3 Sample Size and Sampling Method

Total number of scheduled banks in Bangladesh as on March 31, 2015 is 56. These include 4 State Owned Commercial Banks (SCBs) 4 State Owned Specialized Banks (SBs) 39 Private Commercial Banks (PCBs) of which 8 are Islamic Banks (IBs) and 9 are Foreign Commercial Banks (FCBs) (Bangladesh Bank Scheduled Bank Statistics, January-March 2015). The study has included 2 Private Commercial Banks (PCBs) namely Export Import Bank of Bangladesh (EXIM Bank) Limited and First Security Islami Bank Limited. The banks have been selected based on purposive sampling.

2.2.4 Procedure of Data Collection

2.2.4.1 Primary data

The Primary data have been collected by reviewing official records, documents, and circulars of various banks and financial institutions as well as Bangladesh Bank. Besides, interview and discussion with the prominent scholars of Islamic banking in Bangladesh, high officials of sample banks, and high officials of central bank have been incorporated also in the study.

2.2.4.2 Secondary data

Relevant and reliable scholarly literature has been reviewed. The sources of secondary data were published statistical reports, annual reports of banks, books published home and abroad, journals, research reports, thesis papers, dissertations, reports of various conferences, International agencies, research organizations and authentic websites. Notes have been taken from the above mentioned sources to collect relevant data.

2.2.4.3 Data collection Tools

To collect data from the respondents in the case of interview, the researcher himself has conducted and moderated the interviews with a checklist to gather necessary information and data.

For the purpose of collecting authentic data, researcher has carried out in-depth interviews with experts on Islamic banking consultancy, Islamic economists, researchers, professional high officials of the concerned banks, central bank's officials etc.

2.2.5 Data Processing, Analysis and Presentation

The collected data have been reviewed, scrutinized and edited to avoid inconsistency and error. At the same time edited data have been classified and coding. Quantitative data have been analyzed by using appropriate statistical techniques. In this respect, statistical measures such as mean, median, mode, standard deviation, co-efficient of variation, simple growth rate, compound growth rate, hypothesis testing, t- test and time series analysis have been used through SPSS to show the relationship between and among variables. Ratio analysis viz.

profitability, liquidity, business development and efficiency and productivity have been also incorporated in the study by using various tools of financial ratio analysis.

The findings from the quantitative analysis have been presented by tables, charts, graphs in an attempt to make those more meaningful and easily communicable to the readers. Interpretations have been made by analyzing the quantitative results of different tests. However, qualitative data and comments which have been collected through open ended questionnaire have been also considered to enhance legitimacy and validity of the findings.

2.2.5.1 Analysis of Growth trend

The word growth means an increase. In another words it may be termed as the process of growing (Hossain, 2000).

2.2.5.2 Simple Growth Rate (SGR)

It denotes the percentage increase over the previous year. The following equation shows this rate

$$SGR = \frac{(Y_t - Y_{t-1})}{Y_{t-1}} \times 100$$

Where,

SGR = Simple Growth Rate

Y_t = Value of the variable Y in the year t

Y_{t-1} = value of the variable Y in the year $t-1$

t = Considered Year

$t-1$ = Previous year of the considered Year

2.2.5.3 Compound Growth Rate (CGR)

It indicates change for a given period on the basis of the base and the terminal year values. Arithmetic Mean of SGR has been taken into consideration for calculating CGR (Uddin, 2009). It can be calculated by using the following formula:

$$CGR = CGR(t_0, t_1) = \left(\frac{v(t_n)}{v(t_0)} \right)^{\frac{1}{t_n - t_0}} - 1$$

Where,

CGR = Compound Growth Rate

t_0 = The first year of observations

t_1 = The last year of observations

$v(t_0)$ = The Start value

$v(t_1)$ = The last value observed

2.2.5.4 Mean/Average

The arithmetic is a location measure that describes the values in a data set by equal parts of their total. It is computed as the sum of the individual values divided by their number (Ingram & Mionka, 1989).

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of the series of observations

N = Number of items

2.2.5.5 Standard Deviation (SD)

The standard deviation is by far the most important and widely used measure of studying variation. Its significance lies in the fact that it is free from those defects from which the earlier methods suffer and satisfies most of the properties of a good measure of variation. It is a measure of how much “spread” of “variability” is present in the sample. If all the numbers in the sample are very close to each other, the standard deviation is close to zero. If the numbers are well dispersed, the standard deviation will tend to be large. Standard deviation is also known as *root mean square deviation* for the reason that it is the square root of the means of square deviations from the arithmetic mean (Gupta & Gupta, 2012).

$$SD (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

$\bar{X}$ = Mean of the series

$X - \bar{X}$ = Deviation from the mean

N = Number of items

2.2.5.6 Coefficient of Variation (CV)

The standard deviation discussed so far is an absolute measure of variation. The corresponding relative measure is known as the *coefficient of variation*. This measure developed by Karl Pearson is the most commonly used measure of relative

variation. It is used in such problems where we want to compare the variability of two or more than two series. That series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable to be less variable or more consistent, more uniform, more stable or more homogeneous (Gupta & Gupta, 2012).

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where

σ = standard deviation

$\bar{X}$ = mean of the series

2.2.5.7 Minima

It is the smallest value of a numeric variable.

2.2.5.8 Maxima

It is the largest value of a numeric variable.

2.3 Ratio Analysis

Ratio analysis is one of the techniques of financial analysis where ratios are used as a yardstick for evaluating the financial condition and performance of a bank. Analysis and interpretation of various accounting ratios gives a skilled and experienced analyst a better understanding of the financial condition and performance of the bank than what he could have obtained only through a perusal of financial statements (Maheshwari, 2005)

2.3.1 Profitability Ratio

Profitability ratios are generally considered to be the basic bank financial ratio in order to evaluate how well bank is performing in terms of profit. For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, then it is taken as indicator of better performance of the bank. The present study examines four ratios to assess the profitability as such Return on Assets (ROA), Return on Equity (ROE), Profit Expense Ratio (PER), and Earning per Share (EPS).

2.3.1.1 Return on Assets (ROA)

Return on Assets indicates the profitability on the assets of the firm after all expenses and taxes (Van Home, 2005). It is a common measure of managerial performance (Ross et al., 2005). It measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how bank can convert its assets into earnings (Samad & Hassan 2000). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by firms either by increasing profit margins or asset turnover but they can't do it simultaneously because of competition and trade-off between turnover and margin. ROA is calculated as under:

$$ROA = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100$$

2.3.1.2 Return on Equity (ROE)

Return on equity indicates the profitability to shareholders of the firm after all expenses and taxes (Van Home, 2005). It measures how much the firm is earning after tax for each dollar invested in the firm. In other words, ROE is net earnings per dollar equity capital (Samad & Hassan, 2000). It is also an indicator of measuring managerial efficiency [(Ross,1994), (Sabi,1996), (Hassan,1999), and (Samad,1998)]. By and large, higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross et al.2005). Usually, there is higher ROE for high growth companies. ROE is calculated as under:

$$ROE = \frac{\text{Net profit after tax}}{\text{Shareholders' Equity}} \times 100$$

2.3.1.3 Profit to Expenses Ratio (PER)

It measures the operating profitability of the bank with regards to its total operating expenses. In our study, operating profit is defined as earnings before taxes and operating expenses means total non-interest expenses. The ratio measures the

amount of operating profit earned for each Taka of operating expense. The ratio indicates to what extent bank is efficient in controlling its operating expenses. A higher PER means bank is cost efficient and is making higher profits (Samad & Hassan, 2000). PER is calculated as under:

$$\text{PER} = \frac{\text{Profit before tax}}{\text{Operating Expenses}}$$

2.3.2 Liquidity Ratio

The liquidity of a firm is measured by its ability to satisfy its short- term obligations as they come due (Gitman, 2012-2013). In general sense, the higher liquidity ratios mean bank has larger margin of safety and ability to cover its short term obligations. Because saving accounts and transaction deposits can be withdrawn at any time, there is high liquidity risk for both the banks and other depository institutions. Banks can get into liquidity problem especially when withdrawals exceed new deposit significantly over a short period of time (Samad & Hassan 2000). Measures of liquidity are: Loan to Deposit Ratio (LDR), Loan to Asset Ratio (LAR), Equity Multiplier (EM), and Current Ratio (CR).

2.3.2.1 Loan to Deposit Ratio (LDR)

Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Here, loan means the advances for the conventional banks and financings for the Islamic banks. Islamic banks are prohibited to extend loans and earn interest (Riba) and restricted to follow Islamic Shari'ah Principles while conducting their banking business operations so the only way the Islamic banks can utilize their deposits is to provide financings through different Islamic financial products. Bank with Low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR. However, high LDR indicates that a bank has taken more financial stress by making excessive loans and also shows risk that to meet depositors' claims bank may have to sell some loans at loss. LDR is calculated as under:

$$\text{LDR} = \frac{\text{Loan}}{\text{Depoits}}$$

2.3.2.2 Loan to Asset Ratio (LAR)

Like LDR, loan to assets ratio (LAR) is also another important ratio that measures the liquidity condition of the bank. Whereas LDR is a ratio in which liquidity of the bank is measured in terms of its deposits, LAR measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in loans (or financings). The higher is the ratio the less the liquidity is of the bank. Similar to LDR, the bank with low LAR is also considered to be more liquid as compared to the bank with higher LAR (Moin, 2008). However, high LAR is an indication of potentially higher profitability and hence more risk. LAR is calculated as under:

$$\text{LAR} = \frac{\text{Loan}}{\text{Total Assets}} \times 100$$

2.3.2.3 Equity Multiplier (EM)

How many times the total assets are of the shareholders' equity is measure by equity multiplier. In other words, it indicates the amount of assets per dollar of shareholders' equity. Higher value of EM means that bank has used more debt to convert into assets with share capital (Moin, 2008). Generally, the higher is the EM the greater is the risk for a bank. EM is calculated as under:

$$\text{EM} = \frac{\text{Total Assets}}{\text{Total Shareholders' Equity}}$$

2.3.2.4 Current Ratio (CR)

The current ratio, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations (Gitman, 2012-2013). CR is calculated as follows

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

2.3.3 Business Development

Business development ratios are the indicators of financial progress and development over time measured by different indicators as total assets growth, deposits growth, advances growth and investment growth. They are also the indicators of contribution of banks in the economic development of Bangladesh through financing, investment and capital forming scheme directly and indirectly. Higher ratios are the record of success story and significant contribution in the economy (Safiullah, 2010). In this study, total assets, deposits and investments are used for measuring Business Development.

2.3.4 Efficiency and Productivity Ratio

Efficiency and Productivity of banks indicate economies of scale in banking operation (Safiullah, 2010).

These ratios measure how effectively and efficiently the firm is managing and controlling its assets. These ratios indicate the overall effectiveness of the firm in utilizing its assets generate sales quality of receivables and how successful the firm is in its collections. Two ratios used to measure efficiency and productivity of the bank as Total Operating Expenses to Deposit Ratio (OEDR), Income to Expense Ratio (IER)

2.3.4.1 Operating Expenses to Deposit Ratio: (OEDR)

Usually OEDR indicates that how a bank manages its expenditure against its deposit. The higher value of OEDR indicates that the bank is less efficient to minimize its expenditure. OEDR is calculated as under

$$\text{OEDR} = \frac{\text{Total Deposit}}{\text{Operating Expenditure}}$$

2.3.4.2 Income to Expense Ratio: (IER)

Income to expense ratio that measures amount of income earned per Taka of operating expense. This is the most commonly and widely used ratios in the banking sector to asses the managerial efficiency in generating total income vis-a vis controlling its operating expenses. Higher value of IER indicates that the bank is more efficient and productive (Moin, 2008). IER is calculated as under

$$\text{IER} = \frac{\text{Total Income}}{\text{Total Operating Expense}}$$

2.4 Definition of Key Terms

Profitability

Profitability is the ultimate test of managements operating effectiveness and success of a company. Profitability can be judged by the following criteria. Return on Asset (ROA), Return on Equity (ROE), Profit Expense Ratio (PER), and Income per Share (EPS). ROA, ROE, Profit growth rate and EPS are the indicators of measuring managerial efficiency. ROA is net earning per unit of a given asset. It shows how a bank can convert its asset into net earnings. The higher ratio

indicates higher ability and therefore is an indicator of better performance. Similarly, ROE is net earnings per unit equity capital. The higher ratio implies higher managerial performance. A high PER indicates that a bank is cost efficient and makes higher profit with a given expense. However, profitability is only part of bank performance story (Safiullah, 2010).

Liquidity

A liquidity ratio is a term which denotes the ability of an organization to meet its financial obligations or debts in cash in time (Chowdhury, 2005). Banks face liquidity problem due to excess withdrawal from current and saving account. There are several measures of liquidity. They are Current Asset Ratio (CAR), Loan Deposit Ratio (LDR), Net Loan/Total Asset Ratio (NL/TAR), Current Deposit Ratio (CDR) (Ansari & Rehman, 2011).).

Business Development

Business development ratios are the indicators of financial progress and development over time measured by different indicators as total assets growth, deposits growth, advances growth and investment growth. They are also the indicators of contribution of banks in the economic development of Bangladesh through financing, investment and capital forming scheme directly and indirectly. Higher ratios are the record of success story and significant contribution in the economy (Safiullah, 2010).

Efficiency and Productivity

Total operating expenses to deposit ratio is the measurement of efficiency and productivity of banks. It indicates economies of scale in banking operation (Safiullah, 2010).

Shariah Compliance

The Arabic word shariah means the moral code and religious law of Islam. Shariah deals with many topics addressed by secular law, including crime, politics and economics, as well as personal matters. Shariah compliance is finance in accordance with Islamic law used to describe financial activities and investments that comply with Islamic law which prohibits the charging of interest and involvement in any enterprise associated with activities or products forbidden by Islamic law (qfinance.com).

Corporate Governance

The framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders (www.businessdictionary.com).

Conversion

The word conversion means the act or process of changing something from one form, use or system to another (Hornby, 2010).

Islamic Banking

Islamic Banking is a system of financial intermediation that avoids receipt and payment of interest in its transactions and conducts its operations in a way that it helps achieve the objectives of an Islamic economy. Alternatively it is a banking system, which operates on Islamic principles of transactions of which profit and loss sharing (PLS) is a major feature and ensures justice and equity in the economy. (Akkas *et al*, 2008)

The important definition of Islamic banking which has been approved by the general secretariat of the OIC is stated as, An Islamic bank is a financial institution whose statutes, rules and procedures expressly state its commitment to the principle of Islamic shariah and to the banning of the receipt and payment of interest on any of its operations (Ali & Sarker, 1995)

Conventional Banking

The Conventional Banking are run by the procedure and laws made by human being. The Bank does not bear the responsibility of profit/loss of the customer. The main objective of such banking is to improve the fate of a few classes of people, no scope for human welfare; all activities of which are operated with interest. The relation between Banker and the customer is nothing but debtor and creditor. (Raquib, 2007)

Financial Performance

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firms overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or to sectors in aggregation. (Investopedia)

Chapter Three

Concepts and Background of Bank: Conventional Banking and Islamic Banking

3.1 Introduction

The concept of Islamic banking is not as old as conventional one. Given the long history of contemporary banking business, Islamic banks are considered to be relatively new institutions. Their achievements are rather modest, relatively to the great hopes attached to them in Islamic economic thought. This is a natural outcome for those who aspire to come close to perfection, for real perfection is an exclusive attribute of Allah, the Almighty (Homoud, 1994). However this chapter focused the concepts and background of Islamic banking and conventional banking as well as the basic difference between two types of banks

3.2 Conventional Banking

The idea of conventional bank is many decades old. The banking is established on the basis of profit maximization. In modern times conventional bank has gotten multi-dimensions in its nature and functions. A commercial bank is a profit-seeking business firm, dealing in money and credit. It is a financial institution dealing in money in the sense that it accepts deposits of money from the public to keep them in its custody for safely. So also, it deals in credit, i.e., it creates by making advances out of the funds received on deposits to needy people (Somashekar, 2009).

3.2.1 Origin of the word Bank

There is no unanimity amongst the economists about the origin of the word 'Banking'. The word 'bank' is of German origin but came into English usage from French and Italian. At first it referred to the bench or counter used by money changers and dealers. Later it assumed its more general meaning of the place of business of money dealers. Akin to the early English use of the word bank is the use of the French word *banque* and the Italian word *banca* (Binhammer, 1968). While others say that it has been derived from the Italian word 'BANCO' which means a heap or mound. As a matter of fact, at the time of establishment of Bank of Venice in 1157, the Germans were influential and hence, perhaps the word *Banc* or *Banco* was used by Italians to denote the accumulation of securities or money with a joint

stock firm which later on with the passage of time came to be known as 'Bank' (Maheswari & Maheswari, 2010).

So, the cycle of the word 'Bank' can be noted under following ways-



3.2.2 Historical Background of Conventional Bank

The origin and historical evolution of conventional bank is as old as civilization. By the changing cycle of civilization banking also changed itself for the need of civilization. It is not clear that from when the banking business has started, but it can be surely said that banking business has been started after usage of money.

Vaish (1980) analyzed the origin and evolution of banking in the following ways-

The New Testament mentions about the activities of the money-changers in the temples of Jerusalem. In ancient Greece, around 2,000 B.C. the famous Temples of Ephesus, Delphi and Olympia were used as depositories for people's surplus funds and these temples were the centres of money-lending transactions. The priests of these great temples acted as the financial agents until public confidence was destroyed by the spread of disbelief in the religion. Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. In India, the ancient Hindu scriptures refer to the money-lending activities in the Vedic period. In India during the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period which followed the Vedic period and Epic age the business of banking was carried on by the members of the Vaish community. Manu, the great lawgiver of the time, speaks of the earning of interest as the business of Vaishyas. The banker in the Smriti period performed most of those functions which banks perform in modern times, such as the accepting of deposits, granting secured and unsecured loans, acting as their customers' bailee, granting loans to kings in times of grave crises, acting as the treasurer and banker to the state and issuing and managing the currency of the country.

Outside India, the traces of 'rudimentary banking' are found in the Chaldean, Egyptian and Phoenician history. According to Alfred Marshall, "in Greece, the temples of

Delphi and other safer places acted as store houses for the precious metals before the days of coinage, and in later times they lent out money for public and private purposes at interest, though they paid none themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly, to a common unit of value, and went on to accept money on deposit at interest, and to lend it out at higher interest permitting meanwhile drafts to be drawn on them."

The development of banking in ancient Rome resembled the Greek pattern. After the fall of the mighty Roman Empire after the death of Emperor Justinian in 565 A.D. banking suffered oblivion and it was only with the revival of trade and commerce in the Middle Ages that "the lessons of finance were learnt a new from the beginning". During the Middle Ages, money lending activities were, however, largely in the hands of the Jews and the financiers of Lombardy who lent to all. The Christians were forbidden by the Canon Law to indulge in the sinful activity of lending money to the others on interest. Christianity took an attitude of contemptuous indifference toward wealth and Christ's teachings also displayed antagonism to wealth. The medieval Church regarded usury as an unpardonable sin for a Christian. However, with the passage of time as the hold of the Church on the laity weakened in the process of development of trade and commerce around the thirteenth century, Christians also took to the lucrative business of money-lending thereby entering into keen competition with the Jews who had hitherto monopolised the business of lending on interest.

The development of commercial banking in ancient times was closely associated with the business of money-changing. Another factor, no less important than money—changing, responsible for the development of early banking were the exigent financial requirements of the monarchical governments of the day who granted banking privileges in exchange for loans.

As a public enterprise, banking, as we know it today, made its first; beginning around the middle of the twelfth century in Italy. The Bank of Venice, founded in 1157, was the first public banking institution. Following its establishment, were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and the Bank of Genoa continued to operate until the end of the eighteenth century.

As the trading and commercial activities expanded in northern Europe, there sprang a number of private banking houses, such as the famous house of Fuggers and Augsburg who enjoyed the eminence comparable to that of the Peruzzi and the Bardi in the fourteenth century and the Medici in the fifteenth century in Italy. In medieval Europe, the bankers of Lombardy were famous and to them belonged the credit of planting the seed of modern banking in England when they settled in London in the locality now famous as the Lombard Street. Apart from these private banking houses, there were also established public banks like the famous Bank of Amsterdam which was founded in 1609. The principal function of these banks was to help in the development of trade and commerce by receiving by weight the heterogeneous metallic money then current and creating in exchange for it deposits in their books that were transferable through bank cheques. Consequently, these early banks served the community by furnishing it with a uniform standard of value through the medium of bank money and by settling the mercantile payments through the book entries.

The Bank of Amsterdam was the great bank of the seventeenth century and it enjoyed a prestigious position, no less important than is held currently by the Bank of England, for a long time in the sphere of international commerce. Alfred Marshall has observed that the famous banks such as the Bank of Amsterdam besides acting as the fiscal agents for the governments of the day were also "responsible for the counterpart of such of the work of the modern stock exchanges." These banks acted as go between the lenders and borrowers of funds and the holders of cash and old securities.

Although the development of banking in England is ascribed to the activities of London goldsmiths during the reign of Queen Elizabeth I, several other enterprisers who acted as money-changers, money-lenders, and exchange specialists had overshadowed them. The goldsmiths assumed prominence only around the middle of the seventeenth century after the seizure in 1640 by King Charles I of large gold hoards that were kept in the famous Tower of London by the merchants of London. The London merchants were so much frightened by this event that although their seized deposits were returned by the monarch they decided to look elsewhere for the safe deposit of their surplus funds and in the process of the search they deposited their surplus bullion with the goldsmiths. The goldsmiths soon discovered that they could earn handsome interest income by lending the merchants' money deposited with them. Later, the goldsmiths began to pay some interest to their

depositors in order to obtain more deposits. The goldsmiths used to receive valuables and money from their customers for safe custody and issue receipts acknowledging the same. These notes, with the passage of time, became payable to the bearer on demand and enjoyed considerable circulation. In this way, the goldsmiths' promissory note became the precursor of the modern bank note and goldsmiths became the forerunners of the modern commercial banking institutions.

The goldsmiths' business, however, suffered a great set-back as a result of the ill-treatment they received at the hands of the government of Charles II under the Cabal Ministry. According to Walter Bagehot, the government "perpetrated one of those monstrous frauds which are likewise gross blunders. The goldsmiths who then carried on upon a trifling scale what we should now call banking, used to deposit their reserves of treasure in the 'Exchequer' with the sanction and under the care of the Government. But Charles II showed that it was trusted undeservedly. He shut up the 'Exchequer,' would pay no one, and so the goldsmiths were ruined." The ruin of the goldsmiths was, however, significant for the development of English banking as it resulted in the growth of private banking and led to the establishment of the Bank of England in 1694.

Notwithstanding the establishment of the Bank of England in 1694, the development of modern commercial banking institutions had to wait for another century and four decades until the passage of the Banking Act of 1833 which provided for the establishment of joint stock banks. While banking arose far early and more rapidly in some countries than in others, it was only in the nineteenth century that the modern joint-stock commercial banking system developed in the leading countries of the world.

3.2.3 Definition of Bank

The 'Bank' has been defined in several ways by various economists. A few definitions are noted below.

R.P. Kent says, 'A Bank is an institution, the principle function of which is to collect the unutilized money of the people and to lend it to others (Khalekuzzaman, 2008).

According to Prof. Kinley, "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use (Somashekar, 2009).

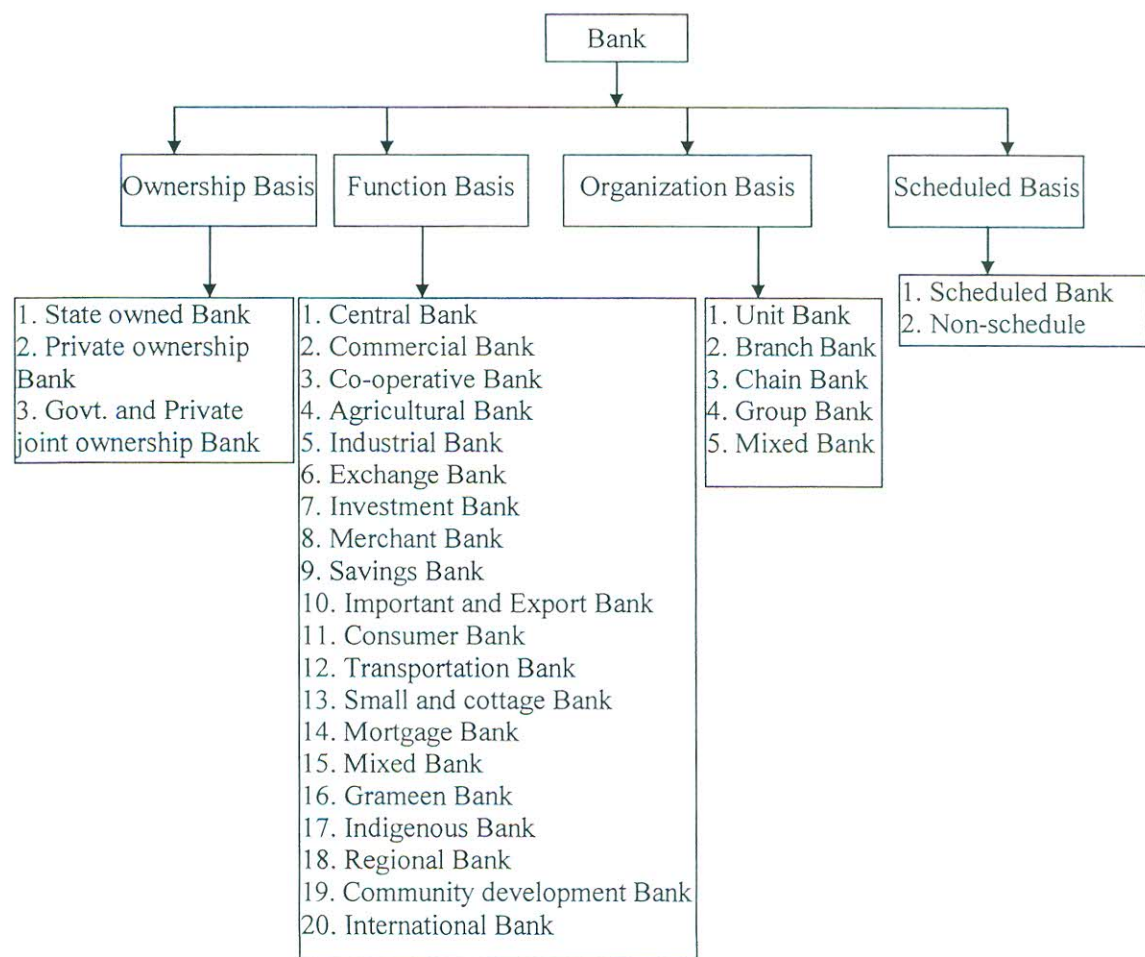
According to Prof. Carncross, 'A bank is a financial intermediary, a dealer in loans and debts (Khalekuzzaman, 2009).

According to Banking Regulation Act, 1949-section 5(b) "accepting, for the purpose of lending or investment and deposits is from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise."

So, we can defined a bank is a financial intermediary of debtor and creditor of which main business is to collect deposits and lends money.

3.2.4 Types of Conventional Bank

In the present world, banks provide multi-functional services. So, there have been followed a great changes in the classification of banks. It is very difficult have a classification that can be applied all countries. Economic conditions and the financial needs vary from country to country (Swamy & Vasudevan, 1980). However, Bank can be classified in multi-sectoral points of view as following.



Source: Khalekuzzaman. M (2008)

3.2.5 Distinguishing Features of Conventional Bank

Bank is a business institute of money and credit which has independent features. Khalekuzzaman (2009) analyzed the basic features of conventional Bank in the following ways-

1. **Organizational features:** Banking institute may be single ownership, partner, joint venture or government owned types. In Bangladesh, without government bank all other banks are established as limited company.
2. **Artificial entity:** If the bank established as company organization, it should have separate legislative structure. On the other hand, if partnership or single ownership the bank has to approved by the conventional Banking Law.
3. **Profitability:** Profitability is the basic principles of conventional bank. It is essential to maintain the viability of the banking institution as a credit institution.
4. **Solvency:** Solvency is the important principle of a bank. Without solvency banking business is quite impossible.
5. **Safety:** Bank is recognized as a symbol of security over the world. Bank has to establish in such an area and operate such a way that the deposits of the clients and banks wealth be preserve with security.
6. **Confidence:** Bank is also introduced as the model of trust over the world. The base of a commercial bank is honesty and credibility.
7. **Dealer of money and credit:** Bank actually a dealer of money and credit. The main business of a conventional bank is to collect deposits and lend it to the people. It acts as financial intermediary.
8. **Loan payment:** Bank lends its money of the depositor to the businessmen and others as credit. So, payment of loan is an important principle of a bank.
9. **Capital formation:** Bank plays a vital role in capital market for capital formation. It collects money from people by various accounts aiming capital formation.
10. **Agent of clients:** Bank works as an agent of clients. As an agent bank collects cheque, bill of exchange, draft etc and discharge others demand by authorization of clients. So, representation is a principle of a bank.
11. **Providing service:** Banks are not considered as only financial intermediary. It provides various services which are social welfare and economic development oriented.

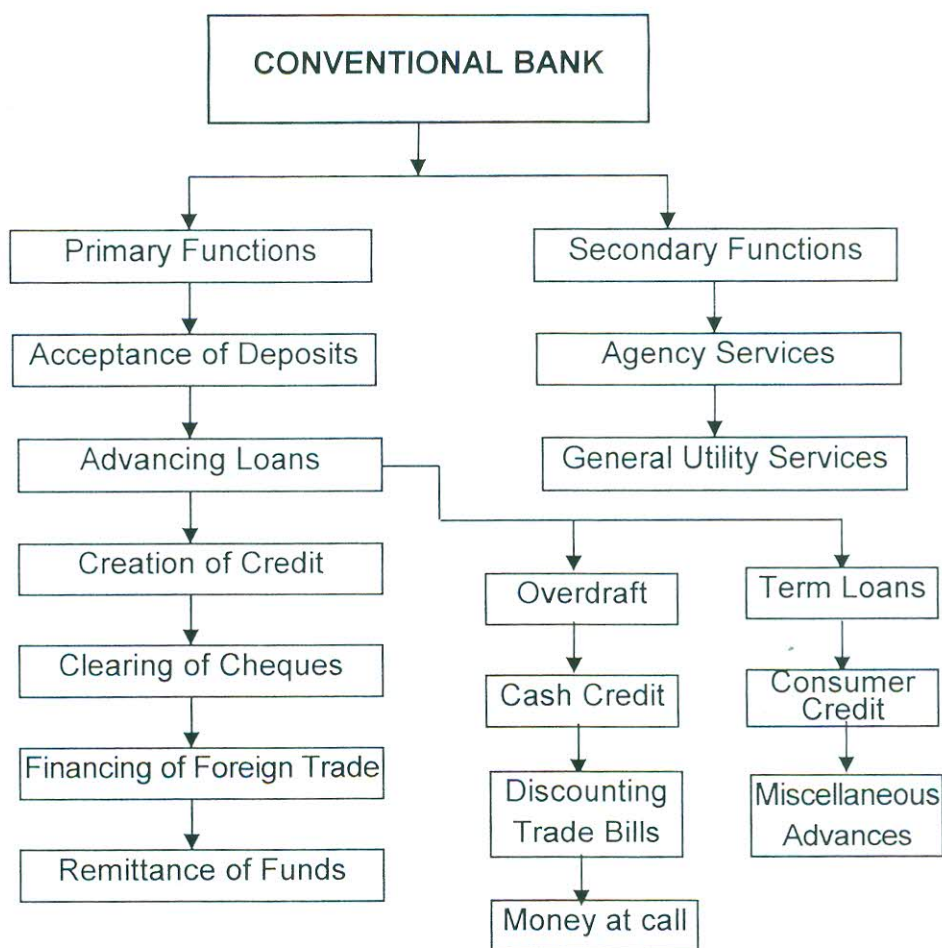
3.2.6 Objectives of Conventional Bank

The main objective of a commercial bank is to generate profitability for its ownership by providing quality based products and services to the residents of the communities and regions that they represent. Others objectives of commercial bank are as follows-

1. Mobilize savings through current, saving and fixed deposit accounts and other Instruments.
2. Grants loans and advances.
3. Provide treasury services.
4. Facilitate cross border payment services.
5. Provide custody services.
6. Provide wealth management services and sales of investment and insurance products and financial planning services.
7. Provide hire purchase and leasing facilities.
8. Provide any other business that central bank with the approval of ministry of finance prescribe from time to time.

3.2.7 Functions of Conventional Bank

In modern age the area of banking has expanded in many ways. So, there is a significant variation of banking services. The chief function of banks in the economic system is to effect a distribution of surplus funds into productive channels (Bradford, 1949). In a word, the functions of conventional bank can be divided into two parts: a) Primary functions and b) Secondary functions.



Source: Somashekar, 2009.

Somashekar (2009) reviewed the functions of bank in the following ways.

A. Primary Functions

Primary functions of the conventional banks include:

1. Acceptance of deposits
2. Advancing loans
3. Creation of credit
4. Clearing of cheques
5. Financing foreign trade
6. Remittance of funds

1. **Acceptance of Deposits:** Accepting deposits is the primary function of a commercial bank mobilise savings of the household sector. Banks generally accept three types of deposits viz., (a) Current Deposits (b) Savings Deposits, and (c) Fixed Deposits.

- a) **Current Deposits:** These deposits are also known as demand deposits. These deposits can be withdrawn at any time. Generally, no interest is allowed on current deposits, and in case, the customer is required to leave a minimum balance undrawn with the bank. Cheques are used to withdraw the amount. These deposits are kept by businessmen and industrialists who receive and make large payments through banks. The bank levies certain incidental charges on the customer for the services rendered by it.
 - b) **Savings Deposits:** This is meant mainly for professional men and middle class people to help them deposit their small savings. It can be opened without any introduction. Money can be deposited at any time but the maximum cannot go beyond a certain limit. There is a restriction on the amount that can be withdrawn at a particular time or during a week. If the customer wishes to withdraw more than the specified amount at any one time, he has to give prior notice. Interest is allowed on the credit balance of this account. The rate of interest is greater than the rate of interest on the current deposits and less than that on fixed deposit. This system greatly encourages the habit of thrift or savings.
 - c) **Fixed Deposits:** These deposits are also known as time deposits. These deposits cannot be withdrawn before the expiry of the period for which they are deposited or without giving a prior notice for withdrawal. If the depositor is in need of money, he has to borrow on the security of this account and pay a slightly higher rate of interest to the bank. They are attracted by the payment of interest which is usually higher for longer period. Fixed deposits are liked by depositors both for their safety and as well as for their interest.
2. **Advancing Loans:** The second primary function of a commercial bank is to make loans and advances to all types of persons, particularly to businessmen and entrepreneurs. Loans are made against personal security, gold and silver, stocks of goods and other assets. The most common way of lending is by:
- a) **Overdraft Facilities:** In this case, the depositor in a current account is allowed to draw over and above his account up to a previously agreed limit. Suppose a businessman has only Rs. 30,000/- in his current account in a bank but requires Rs. 60,000/- to meet his expenses. He may approach his bank and borrow the additional amount of Rs. 30,000/-. The bank allows the customer to overdraw his account through cheques. The bank, however, charges interest only on the amount overdrawn from the account. This type of loan is very popular with the Indian businessmen.

- b) **Cash Credit:** Under this account, the bank gives loans to the borrowers against certain security. But the entire loan is not given at one particular time, instead the amount is credited into his account in the bank; but under emergency cash will be given. The borrower is required to pay interest only on the amount of credit availed to him. He will be allowed to withdraw small sums of money according to his requirements through cheques, but he cannot exceed the credit limit allowed to him. Besides, the bank can also give specified loan to a person, for a firm against some collateral security. The bank can recall such loans at its option.
- c) **Discounting Bills of Exchange:** This is another type of lending which is very popular with the modern banks. The holder of a bill can get it discounted by the bank, when he is in need of money. After deducting its commission, the bank pays the present price of the bill to the holder. Such bills form good investment for a bank. They provide a very liquid asset which can be quickly turned into cash. The commercial banks can rediscount the discounted bills with the central banks when they are in need of money. These bills are safe and secured bills. When the bill matures the bank can secure its payment from the party which had accepted the bill.
- d) **Money at Call:** Bank also grant loans for a very short period, generally not exceeding 7 days to the borrowers, usually dealers or brokers in stock exchange markets against collateral securities like stock or equity shares, debentures, etc., offered by them. Such advances are repayable immediately at short notice hence; they are described as money at call or call money.
- e) **Term Loans:** Banks give term loans to traders, industrialists and now to agriculturists also against some collateral securities. Term loans are so-called because their maturity period varies between 1 to 10 years. Term loans; as such provide intermediate or working capital funds to the borrowers. Sometimes, two or more banks may jointly provide large term loans to the borrower against a common security. Such loans are called participation loans or consortium finance.
- f) **Consumer Credit:** Banks also grant credit to households in a limited amount to buy some durable consumer goods such as television sets, refrigerators, etc., or to meet some personal needs like payment of hospital bills etc. Such consumer credit is made in a lump sum and is repayable in installments in a short time.
- g) **Miscellaneous Advances:** Among other forms of bank advances there are packing credits given to exporters for a short duration, export bills

purchased/discounted, import finance-advances against import bills, finance to the self employed, credit to the public sector, credit to the cooperative sector and above all, credit to the weaker sections of the community at concessional rates.

3. **Creation of Credit:** A unique function of the bank is to create credit. Banks supply money to traders and manufacturers. They also create or manufacture money. Bank deposits are regarded as money. They are as good as cash. The reason is they can be used for the purchase of goods and services and also in payment of debts. When a bank grants a loan to its customer, it does not pay cash. It simply credits the account of the borrower. He can withdraw the amount whenever he wants by a cheque. In this case, bank has created a deposit without receiving cash. That is, banks are said to have created credit.
4. **Promote the Use of Cheques:** The commercial banks render an important service by providing to their customers a cheap medium of exchange like cheques. It is found much more convenient to settle debts through cheques rather than through the use of cash. The cheque is the most developed type of credit instrument in the money market.
5. **Financing Internal and Foreign Trade:** The bank finances internal and foreign trade through discounting of exchange bills. Sometimes, the bank gives short-term loans to traders on the security of commercial papers. This discounting business greatly facilitates the movement of internal and external trade.
6. **Remittance of Funds:** Commercial banks, on account of their network of branches throughout the country, also provide facilities to remit funds from one place to another for their customers by issuing bank drafts, mail transfers or telegraphic transfers on nominal commission charges. As compared to the postal money orders or other instruments, bank drafts have proved to be much cheaper mode of transferring money and have helped the business community considerably.

B. Secondary Functions

Secondary banking functions of the commercial banks include:

1. Agency Services
2. General Utility Services

These are discussed below.

1. **Agency Services:** Banks also perform certain agency functions for and on behalf of their customers. The agency services are of immense value to the people at large.

The various agency services rendered by banks are as follows:

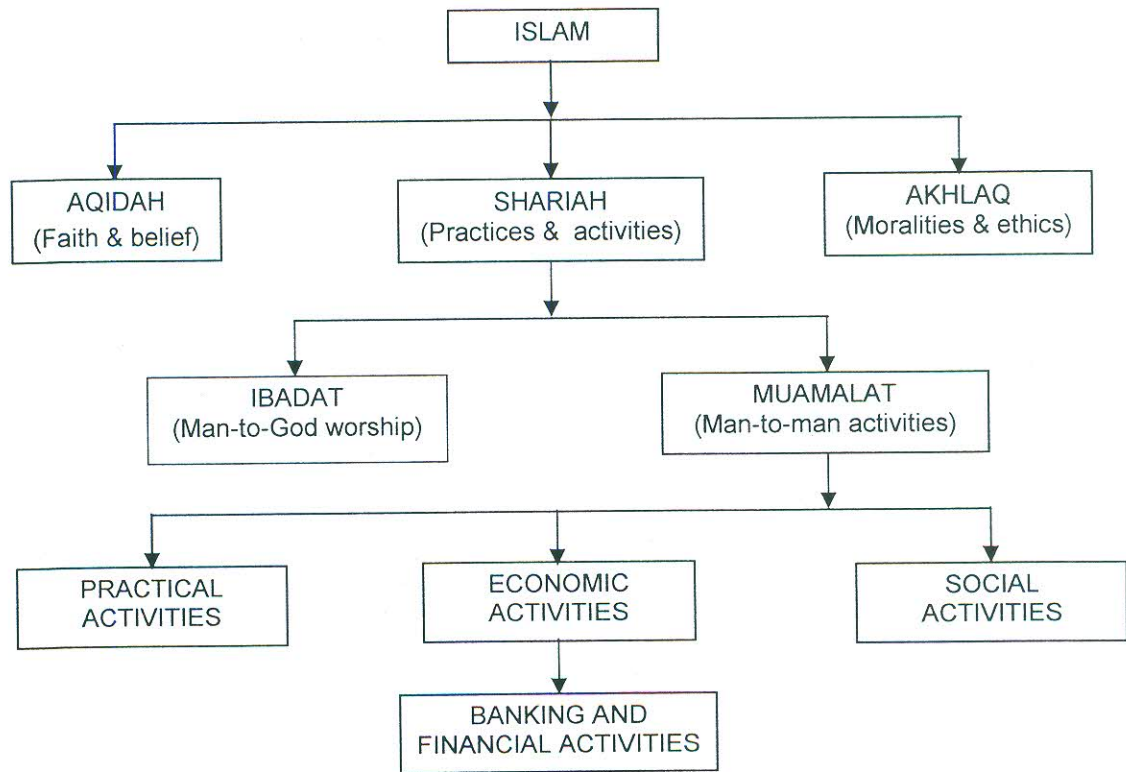
- a) **Collection and Payment of Credit Instruments:** Banks collect and pay various credit instruments like cheques, bills of exchange, promissory notes etc., on behalf of their customers.
 - b) **Purchase and Sale of Securities:** Banks purchase and sell various securities like shares, stocks, bonds, debentures on behalf of their customers.
 - c) **Collection of Dividends on Shares:** Banks collect dividends and interest on shares and debentures of their customers and credit them to their accounts.
 - d) **Acts as Correspondent:** Sometimes banks act as representative and correspondents of their customers. They get passports, traveller's tickets and even secure air and sea passages for their customers.
 - e) **Income-tax Consultancy:** Banks may also employ income tax experts to prepare income tax returns for their customers and to help them to get refund of income tax.
 - f) **Execution of Standing Orders:** Banks execute the standing instructions of their customers for making various periodic payments. They pay subscriptions, rents, insurance premia etc., on behalf of their customers.
 - g) **Acts as Trustee and Executor:** Banks preserve the 'Wills' of their customers and execute them after their death.
2. **General Utility Services:** In addition to agency services, the modern banks provide many general utility services for the community as given.
 - a) **Locker Facility:** Bank provides locker facility to their customers. The customers can keep their valuables, such as gold and silver ornaments, important documents; shares and debentures in these lockers for safe custody.
 - b) **Traveller's Cheques and Credit Cards:** Banks issue traveller's cheques to help their customers to travel without the fear of theft or loss of money. With this facility, the customers need not take the risk of carrying cash with them during their travels.
 - c) **Letter of Credit:** Letters of credit are issued by the banks to their customers certifying their credit worthiness. Letters of credit are very useful in foreign trade.

- d) **Collection of Statistics:** Banks collect statistics giving important information relating to trade, commerce, industries, money and banking. They also publish valuable journals and bulletins containing articles on economic and financial matters.
- e) **Acting Referee:** Banks may act as referees with respect to the financial standing, business reputation and respectability of customers.
- f) **Underwriting Securities:** Banks underwrite the shares and debentures issued by the Government, public or private companies.
- g) **Gift Cheques:** Some banks issue cheques of various denominations to be used on auspicious occasions.
- h) **Accepting Bills of Exchange on Behalf of Customers:** Sometimes, banks accept bills of exchange, internal as well as foreign, on behalf of their customers. It enables customers to import goods.
- i) **Merchant Banking:** Some commercial banks have opened merchant banking divisions to provide merchant banking services.

3.3 Islamic Banking

The idea of conventional bank is quite old and it has been focused both extensively and intensively by reputed scholarly written. On the other hand, Islamic banking is a concept of new one and it has started its journey only recently. Though the concept of Islamic banking has been derived from the Holy *Qur'an*, it has got institutional status at the end of sixty decades by establishing the Mit Ghamar Bank. Due to globalization, growing conception among banks, financial inclusion, Islamic banking has become a part of mainstream banking. In fact the base of Islamic Banking is Islamic *Shariah*. *Shari'ah* should be practised in all aspects of a Muslim's daily life. It can be divided into two, *ibadat* and *muamalat*. *Ibadat* is concerned with the practicalities of worship to Allah, in the context of a man-to-Allah relationship, whereas *muamalat* is concerned with the practicalities of daily life, in the context of various forms of man-to-man relationships. An important component of *muamalat* is the conduct of economic activities within the economic system and also within the banking and financial system. Within this scheme, banking and financial activities can be traced through economic activities, to *muamalat*, to *shari'a*, to Islam and finally to Allah (Hasan & Lewis, 2007).

Figure 3.1
Islam, *Shari'a*, banking and finance



Source: M. Kabir Hassan and Mervyn K. Lewis 2007.

3.3.1 Definition of Islamic Bank

Islamic bank is a financial institution whose foremost duty is the implement of interest free banking system based on Islamic *Shariah*. Islamic Banking has been defined in several ways by the scholars of Islamic banking. Some important definitions are presented here.

According to the Islamic banking Act of Malaysia

"Islamic Banking Business" means banking business whose aims and operations do not involve any element which is not approved by the Religion of Islam (Islamic Banking Act, 1983).

International Association of Islamic Banks defined "The Islamic bank basically implements a new banking concept; in that it adheres strictly to the ruling of the Islamic *Shariah* in the fields of finance and other dealings. Moreover, the bank which is functioning in this way must reflect Islamic principles in real life. The bank should work towards the establishment of an Islamic society; hence, one of its primary goals is the deepening of the religious spirit among the people (Mohan, 2011).

According to Organization of Islamic Countries (OIC)

"Islami 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 (General Secretariat of OIC, 1978).

From the above definitions it is said that Islamic bank is a banking system, which is operated by the principles of Islamic *Shariah*. The major sources of idea of Islamic Banking are the Holy *Qur'an* and the *Sunnah*.

3.3.2 Theoretical Foundation of Islamic Bank

The Islamic Bank is governed by the *Shari'a* based on the *Qur'an* and the *Sunnah*. From the early time of Mohammad (pbuh) the Islamic transaction system was formed as *Baitul mal*. The Four Caliph (*Khalifa*) of Islam continued *Bait-ul-Mal* as a financial intermediary. But the Islamic Bank was formed as a model of modern Bank by the Islamic Economist. The early contributions on the theory of Islamic banking were only discussed as part of the subject in Islamic economic system (Ismail, 2011). But the theory of Islamic Bank is not developed enough still now.

Allah says in the Holy *Qur'an* "Deal not unjustly, and ye shall not be dealt with unjustly" (2: 279).

In Islamic Banking, the creditor should not take advantage of the borrower. When money is lent out on the basis of interest, more often it happens that it leads to some kind of injustice (Ahmed, 1995). It is very hard to clearly identify the theoretical foundation of Islamic bank though there have been done several works on evolution of Islamic Banking all over the world. There is no any reward without taking risk. As no payment is allowed for labor, unless it is applied to work, there is no reward for capital unless it is exposed to business risk (Ahmed, 1995).

3.3.3 Evolution of the Concept

The concept of Islamic banking is based on Islamic principles and values and the prominent scholar has contributed to advancement of the theory from the early beginning. Islamic finance was practiced predominantly in the Muslim world throughout the middle ages, fostering trade and business activities with the development of credit. In Spain and the Mediterranean and Baltic states, Islamic

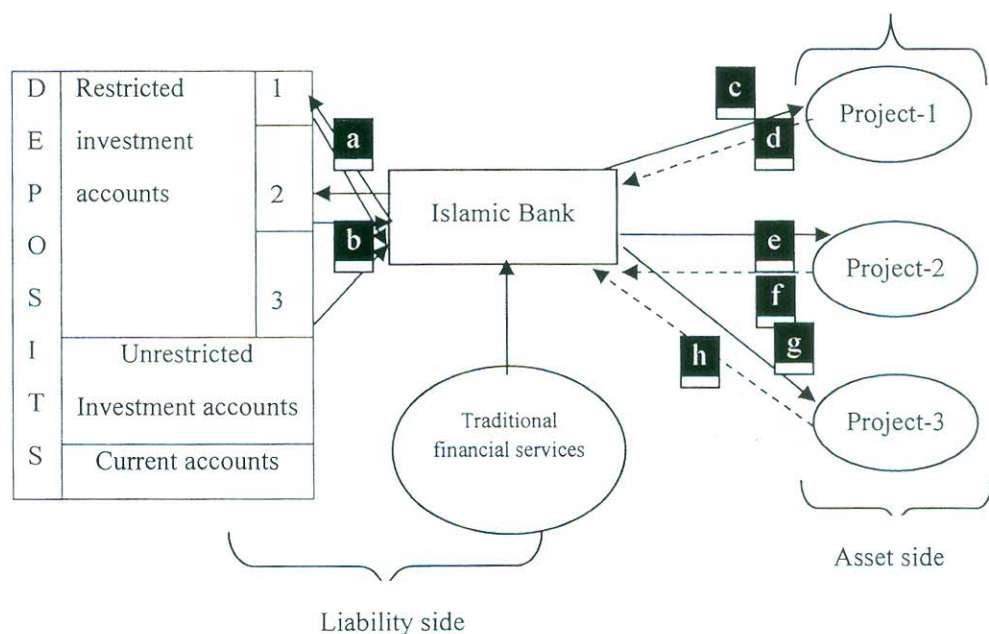
merchants became indispensable middlemen for trading activities. In fact, many concepts, techniques, and instruments of Islamic finance were later adopted by European financiers and businessmen (Rahman, 2007). Many Muslim economists contributed to the development of thinking of Islamic banking, the notable among are Nejatullah Siddiqi, Baquir al Sadar, Abdullah Al Araby, Sami Hassan Hamoud and Ahmed al Najjar (Siddiqi, 1980).

In fact, the development of Islamic banking concept is a continuous process and it is practicing from preliminary to till now. The idea of Islamic Banking took as many as thirty years for its conceptual development and only by the early seventies did it take the shape of the present day comprehensive model. The system is based on Islamic legal concepts of *Shirka* (partnership) and *Mudarabah* (profit-sharing) (Akkas, 2008).

The initial Two-tier Model (*Mudarabah*)

The model as conceptualized is a two-tier one based on the *Mudarabah* contract. It is considered two-tier because first, the depositors enter into individual *Mudarabah* contracts with a banking company, and secondly, the bank enters into contracts with entrepreneurs who seek capital to invest in productive enterprise (Akkas, 2008).

Figure 3.2
Mudarabah Flow-Chart



Two-tier *Mudarabah* model

This figure represents Islamic banks assets/liabilities structure based on a two-tier model.

Key

a= P&L – management fees	e = Y% ownership
b= P&L – management fees	f = Y% P&L
c= X% ownership	g = Z% ownership
c= X% (P%L)	h = Z% P&L

Source: Kettell. B, 2011.

In this arrangement, the *Mudarabah* contract has been extended to include three parties: the depositors as financiers, the bank as an intermediary and the entrepreneur who requires funds. The bank acts as an entrepreneur or *Mudarib* when it receives funds from depositors and as a financier (*Rab ul Mall*) when it provides the funds to entrepreneurs.

The Extensive Two-tier Model

The basic feature extensive two-tier *Mudarabah* model is joint venture agreement (*Shirkah*) between the bank and entrepreneur. Under the scheme the bank will participate, through its employees or commission agents, in the actual management of the business, along with the entrepreneur who invests his own capital as well (Akkas, 2008).

The main feature of the model described above is that it replaces interest by profit-sharing on both the liabilities and the assets side of the bank's balance sheet. This change brings about a number of positive effects for the efficiency equity and stability of the banking system (Iqbal & Molyneux, 2005).

3.3.4 Historical Background of Islamic Banking

The History of Islamic banking is not so long as Islamic economics. But, the concept of Islamic banking was existed from the early age of Islam. It is established a phenomena of economic revolution by covering a glorious historical background. It started from where capitalism and communism is failed.

a. Banking in Islam

Professor Goiten (1971) argues that, partnership and profit sharing rather than interest-based borrowing and lending formed the basis of commerce and industry in twelfth and thirteenth centuries in the Mediterranean region.

i) The Period of Prophet (sm) and *Khulafa-e-Rashedin*

The system of Islamic commerce and finance dates back to the early days of the Prophetic era and the system were initiated under the guidance of the Prophet Muhammad (S.A.W.), the historical founder of Islam (Aziz, 2009). The base of banking in Islam is lies in the Holy *Qur'an*. According to (Mannan, 2012) the time of arrival of the prophet Muhammad (pbuh) there were three types of deposit and investment policy in Mecca, they are as follows

1. Deposited to trustworthy man
2. Capital Investment in business under sharing mode
3. Investment in Interest

From the early time of Islam people reserved their wealth to the Muhammad (pbuh) as *Al Amin* (Trustworthy man). He was engaged in business with Khadija (R) under *Mudaraba* mode.

After establishing Islamic state at *Madina* the political, social and economical rules and regulations are introduced. *Baitul mal* is established as a first Islamic economic organization but it was not actually an organization of intermediation rather it is called the exchange house.

In the age of *Khulafa-e-Rashedin* Hazrat Ibn Abbas (R) received Dirham from the people and issued a letter of credit for delivery the money at Kufa. At the same way Abdullah son of Hazrat Jubair (R) received Dirham at Mecca and issued letter of credit for delivering the amount in Iraq. Mus'ab brother of Abdullah delivered the money by receiving the letter of credit. Hazrat Umar (R) reconstructed the *Baitul Mal* for the welfare of the people.

ii) The post *Khulafa-e-Rashedin* Period

Islam is expanded a large area of the world in the period of *Khulafa-e-Rashedin*. In that time, Muslims are come to the connection of different communities, different

cultures and different norms and values. Mannan (2012) also described that a substantial transactions occurred by *Hundi* at the time *Saif-Ad-Daulah* the emperor of Aleppo in the fourth *hijri* century. The *Hundi* transactions and money exchange business are expanded elaborately at Basra subject to business at the early time of fifth century in 1010 A.D. In the middle of eleventh century Persian tourist Naser Khasru explained huge banking transactions in his travel history.

iii) The Modern Age

The contemporary Islamic banking movement developed by the Islamic scholars and Institutions. Islamic scholars such as A Qureshi (1946), N Siddiqi (1948) and S.M. Ahmad (1952) pioneered the idea of practicing Islamic banking in modern times (Khan & Bhatti, 2008). When commercial banking emerged after the industrial revolution a very large majority of Muslim scholars expressed their serious reservations with this model of financial intermediation due to its reliance on interest rate mechanism and they called for the development of alternative mechanisms to perform the financial intermediation function in Muslim societies (Iqbal & Molyneux, 2005).

In modern age two important attempts has taken for establishing Islamic bank. The first attempt to establish an Islamic financial institution took place in Pakistan in the late 1950s with the establishment of a local Islamic bank in a rural area (Wilson, 1983). The experiment was no interest, which were then loaned to small land owners for agricultural development. The borrower did not pay interest on the credit advance, but a small charge was levied to cover the banks operational expenses. The charge was far lower than the rate of interest (Akkas, 2008).

The second pioneering experiment of putting the principles of Islamic banking and finance into practice was conducted in Egypt from 1963 to 1967 through the establishment of the *Mit Ghamr* savings Bank in a rural area of the Nile Delta. The experiment combined the idea of German savings banks with the principles of rural banking within the general framework of Islamic values (Ahmed, 1992). The bank appeared to be very successful due to increasing community support. Within a short time, its business developed into nine branches, managing funds to the value of 1.8 million Egyptian pounds deposited by more than 250,000 depositors. However, this experiment was abandoned in 1967 for political reasons (Scharf, 1983).

b. Emergence of Islamic Banks

Islamic bank emerged by various steps over ages. The Malaysian Muslims at first introduced a pioneer experiment of interest free banking by establishing the *Tabung Haji* (Pilgrimage Management Fund Board) in 1963. The shareholders of *Tabung* pooled their funds to invest in business and trade activities on the basis of risk-sharing. The core objective of the creation of *Tabung* was to provide financial assistance for its members pilgrimages to Makkah, Saudi Arabia (Ahmad, 1987).

The practice of Islamic banking and Finance (IBF) had acquired significant shape and momentum by the end of 1970s due to increases in the general economic prosperity of the Middle Eastern, The Middle Eastern countries from the huge influx of Islamic financial Institutions (IFIs) received increasing, socio-political and economic support for their growth and prosperity (Khan & Bhatti, 2008).

The first interest free institution with 'bank' in its name, Nasser Social Bank, was also established in Egypt in 1971. This was the first time that a government in a Muslim country had shown an interest in incorporating an interest-free institution (Iqbal & Molyneux, 2005).

Next to follow was the Dubai Islamic Bank in 1975. The Dubai Islamic Bank is a public limited company having its office at Dubai, U.A.E. with capital of 50 million Dirhams. Since then, a number of Islamic banks and financial institutions have been established in different parts of the world and have been functioning successfully (Akkas, 2008).

The most important development in the history of Islamic banking took place with the establishment of the Islamic Development Bank (IDB) in 1975. The IDB was established as an international financial institution in pursuance of the declaration of intent issued by a conference of finance ministers of Islamic countries held in Jeddah, Saudi Arabia, in December 1973 (Iqbal & Molyneux, 2005). An Islamic bank/investment company was established in Bahamas in 1977 as a multi-national holding company under the name of Islamic Investment Company, ICC limited. Its purpose was to establish *Mudarabah* (partnership companies) in various parts of Islamic countries. The company has established two *Mudarabah* subsidiaries in Sharjah and Pakistan (Akkas, 2008).

The second major group is the Kuwait Finance House. It was established in 1978. Forty-nine percent of the Kuwait Finance Home (KFH) is owned by the Kuwait

government and remainder by private Kuwait investors (Akkas, 2008). The period between 1975 and 1990 was the most important period in the history of development of Islamic financial industry. During this period, it matured into a viable alternative model of financial intermediation (Iqbal & Molyneux, 2005).

A second example of Islamic banking in the West comes from Luxembourg, where the Islamic Banking System International Holding was established in 1978 as a joint-stock company. Its purpose was to establish international Islamic banks in different parts of the western countries where there are communities of Muslims, and to participate in investment projects in Islamic and non-Islamic countries. The company's investment operation share spread over different parts of the world. As a holding company, it established a new affiliated company in London in June 1983 under the name of Islamic Finance House and another in Denmark in 1982 under the name of Islamic Bank International of Denmark (Akkas, 2008).

Dar-al-mal-al Islami (DMI), based in Geneva, was established in 1981. DMI aims to foster an Islamic financial system based on equity and social justice by incorporating three types of institution- banking, investment and insurance (Akkas, 2008).

Another dynamic Islamic banking conglomerate is the 'Al-Baraka' group, which operates banks, investment companies, and financial advisory and management companies in more than a dozen countries. It launched its activities only in 1982, but the group now has a total asset over \$ 2.7 billion. It is considered to be one of the fastest growing Islamic enterprises. The group has operations in Tunisia, Sudan, Bahrain, Turkey and Malaysia. It is the first group obtains a license to launch Islamic banking in London (Akkas, 2008).

c. Islamic Banking movement all over the world

Islamic banking is not constrained to only Muslims region but it is pertinent for all over the world for the betterment of human being. Islamic banking is the fastest growing industry on the financial world. It has been experiencing potential growth in three regions of the world, namely, the Middle East, South Asia and Southeast Asia. In the African region, Sudan has been the torch-bearer of Islamic banking and finance affairs over the past three decades. Islamic banking and finance practice has been making headway in North America, Europe and Australia (Khan & Bhatti, 2008). There are thirty-one Islamic financial institutions and 'Interest-free mode of

financing' which is practical and more than 48 countries as well as more than 300 Islamic banks is working on these non-interest modes and interest-free methods all over the globe (Memon, 2007).

3.3.5 Principles of Islamic Banking

The general principles of Islamic banking are under laying the framework of Islamic *Shari'a*. There are several principles of Islamic banking derived from many of Islamic scholar. Chapra (1985) explained the following principles of Islamic banking.

i) Abolition of interest (*Riba*)

Since *riba* is prohibited in the Holy *Qur'an* and interest in all its forms is akin to *riba*, as confirmed by *Fukaha* and Muslim economist, the first distinguishing feature of an Islamic bank is that it is completely free of interest.

ii) Adherence to Public Interest

Activity of commercial banks being primarily based on the use of public funds, public interest rather than more individual or group interest will be served by Islamic commercial banks. The Islamic banks should use all deposits, which come from the public for serving public interest and realizing the relevant socio-economic goals of Islam. They should play a goal-oriented rather than merely a profit-maximizing role and should adjust themselves to the different needs of the Islamic economy.

iii) Multi-purpose bank

Another substantial distinguishing feature is the Islamic banks will be universal or multi-purpose banks and not purely commercial banks. These banks, investment trusts and investment management institutions, and would offer a variety of services to their customers. A substantial part of their financing would be for specific projects or ventures. Their equity oriented investments would not permit them to borrow short-term funds and lend to long-term investments. This should make them less crisis-prone compared to their capitals-counterparts, since they would have to make a greater effort to match the maturity of their liabilities with the maturity of their assets.

iv) More careful evaluation of investment demand

Another very important feature of an Islamic bank is its very careful attitude towards evaluation of applications for equity financing. It is customary that conventional

banks evaluate applications, consider collateral and avoid risk as much as possible. Their main concern does not go beyond ensuring the security of their principal and interest receipts. Since the Islamic bank has a built-in mechanism of risk sharing, it would need to be more careful in how it evaluates financing requests. It adds a healthy dimension in the whole investment business and eliminates a whole range of undesirable investment practices.

v) Work as catalyst of Development

Profit-loss sharing being a distinctive characteristic of an Islamic bank fosters closer relations between banks and entrepreneurs. It helps develop financial expertise in non-financial firms and also enables the bank to assume the role of technical consultant and financial adviser, which acts as catalyst in the process of industrialization and development.

Moreover, there are some important principles of Islamic Bank are noted from several scholarly written on Islamic Banking. They are as follows-

a. Prohibition of *Gharar*

Gharar refers to acts and conditions in exchange contracts, the full implications of which are not clearly known to the parties. This is something very similar to 'asymmetric information' (Iqbal & Molyneux, 2005). In financial contracts *gharar* is extremely prohibited because though there is the case of doubtfulness or uncertainty so it may occur cheating, fraud and dishonesty, which affects the whole society as financial turbulence. For the various negative impacts the prophet (pbuh) has forbidden *gharar* trading.

b. Profit and loss sharing

Sharing of profit and loss is the basic principle of Islamic bank, Islamic bank conduct its business on the basis of profit-loss sharing both in deposit and investment side. Islamic banks share profit or loss from the business venture for which the money is lent. Islam encourages Muslims to invest their money and to become partners in order to share profits and risks in the business invested of becoming creditors (Uddin, 2009).

c. Money as "Potential" capital

Money is treated as a "Potential" capital- that is, it becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts a capital, not when it is "potential" capital (Rahman, 2007). Islamic banks deal in goods and documents and not in money. They use money only as a medium of exchange for purchasing the goods for the purpose of leasing or selling onward, thereby earning income or profit (Ayub, 2007).

d. Prohibition of *Maysir*

In the base of the *Qur'an* all kinds of gambling and speculative activities is prohibited. Allah says in the Holy *Qur'an*.

'O, you who believe! Intoxicants (all kinds of alcoholic drinks), and gambling, and *Al-Ansab* (animals that are sacrificed in the name of idols on their altars) and *Al-Azlam* (arrows thrown for seeking luck or decision) are an abomination of *Satan's* handiwork. So avoid that (abomination) in order that you may be successful (Al *Qur'an*: 5: 90).

Iqbal & Molyneux (2005) have made a distinction between three types of risk first, entrepreneurial risk. This risk is part of the normal course of business. Every economic activity involves uncertainty which generate risks. The second type of risk is also part of life arises from the possibility of natural disasters and calamities occurring. And the third type of risk arises from various types of 'games' that people create for themselves. It is also the essence of gambling which is prohibited in Islam. They also summarized in the four Cs of Islamic financial engineering: Consumptness, clarity, capability and commitment.

e. *Shariah* Approved Activities

Islamic bank is committed to implement the Islamic *Shari'a*. All the activities are governed by the principles of *Shari'a*. Investments in areas that are clearly considered vices, such alcohol, gambling and businesses dealing with pork are forbidden (Ahmed, 2006). Islamic bank does not invest in any sector only for profit maximization. The ideal Islamic economic system is characterized by being just, altruistic, and value-laden social order in conformity with *Shariah* (Ahmed, 2006).

f. Sancity of Contracts

Islamic upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard (Rahman, 2007).

Without information transfer, the market may perform poorly. Akerlof (1970) argues that under asymmetric information, average quality price will be offered in the market which will lead to a reduction in the supply of good- quality projects. Investors take different mechanisms into account in their decision-making and evaluation criteria in order to reduce the risk of asymmetric information.

It is a foremost duty of an Islamic bank is to follow transparency, disclosure and documentation for avoiding financial turbulence and moral hazard. The Islamic banks' disclosure standards are stringent because their role is not limited to a passive financier concerned only with interest payments and loan recovery (Ayub, 2007).

g. Alternative Financing Principles

In the absence of interest as a basis of financing, Islamic banks have a number of techniques and tools to do their business. Briefly, they will invoke the participation and sharing principle applicable in *Musharakah*, *Mudarabah* and their variants, the lettered trading principle applicable in respect of credit and forward sales (*Mu'ajjal and Salam*), a combination of techniques like *Shariah* and *Ijarahh*, *Murabaha* and *Salam/Istisna'a* in consultation with various stakeholders (Ayub, 2007).

h. Entitlement to Profit- With Risk and Responsibility

The assumption of business risk is a precondition for entitlement to any profit over the principal. The important *Shariah* maxim: "*Al Kharaj bi-al-Daman*" or "*Al Ghunm bil Ghurm*" is the criterion of legality of any return on capital, meaning that one has to bear loss, if any, if he wants to get any profit over his investment. Profit has to be earned by sharing risk and reward of ownership through the pricing of goods, services or usufruct of goods (Ayub, 2002).

i) **Shariah Board:** To evaluate the banking transaction guiding under Islamic *Shariah* there must have a *Shariah* Board of an Islamic Bank. The Board may be formed by *Shariah* scholar. The members of *Shariah* Board consult in banking transaction with the principles of Islamic *Shariah*.

3.3.6 Objectives of Islamic Banking

As a financial Institution Islamic Bank has some specific objectives which is based on the principles of Islamic Economics. The main objective of Islamic bank is to abolish *riba* (interest), and establish Islamic principles in the financial transactions. Akkas (2008) has pointed out the following objectives of Islamic Banking.

- a. Conventional banking, which practices *riba* in financial transactions in unanimously regarded on un-Islamic. That means, all transactions based on interest are unlawful according to Islamic *Shariah*. Thus, the emergence of Islamic banking is clearly intended to provide for *Shariah* approved financial transactions.
- b. Islamic Banking for Development: Islamic banking is claimed to be more development oriented than its conventional counterpart. The concept of profit sharing is a built-in development promoter since it establishes a direct relationship between the banks return on investment and the successful operation of the business by the entrepreneurs.
- c. Optimum Allocation of Resources: Another important objective of Islamic banking is the optimum allocation of scarce resources. The foundation of the Islamic banking system is that it allocates financial resources into those investment projects according to their profitability and beneficial role in the economy.
- d. Islamic Banking for Equitable Distribution of Resources: Another important objective of Islamic banking is to ensure equitable distribution of income and resources among the participating parties: the bank, the depositors and the entrepreneurs.

3.3.7 Ethical Framework of Islamic Banking

Ethics in the sense of Islam derived from the Holy *Qur'an* and the *Sunnah*. The Prophet (Pbuh) and his activities was the pure model of ethics. Islamic Banking is based on an ethical framework. It is not only a shifting from a debt-based economy to an equity-based economy but also a movement from pecuniary situation to an economy of ethical norms social commitments (Raquib, 2007).

In the financial transaction ethical values is very essential phenomenon. Ethics play an important and powerful role in human societies, bringing vast changes to the way humans conduct their affairs (Lewis, 2011).

Raquib (2007) explained the ethical Framework of Islamic Banking in the following ways.

Methods/Process of Investment

There are two main methods of investment as a part of Islamic financial framework. The first one is direct investment where money mobilizes to lender to borrower and the second one is a series of banks and financial institutions which work as intermediaries between savers and producer.

Return on Capital

Islam does not allow predetermined return on capital or Investment. It does not imply that Islam apply zero percent rate of return. In contrast, Islam permit reward from capital with very reasonably for sharing risk absolutely. Islam discourages any reward without sharing the risks in the economic activities.

Reward and Risk must go together

In Islamic banking system only investor should be involved to returns of risks. Without sharing risk any kinds of reward is not expected by both investor and entrepreneur. The financial transaction is not granted if there is no relationship between risk and return. In this transaction, *riba* takes place lack of risk which is extremely prohibited in Islam. Without sharing risk, expectation of reward is exploitation and *Zulm*. This implies the ethical values of Islam in financial transactions.

Deposit mobilization and risk sharing

In the case of deposit mobilization *Mudaraba* (joint venture) is the pioneer model. Actually, *Mudaraba* is a partnership dealing where one party contributes capital (called *rabb-al-mal*) and other party invests the capital (called *mudarib*) with their best efforts in *Shariah* approved business aiming to earn profit. The profit of the business is distributed in accordance with predetermined ratio. If any loss, the capital owner (*rabb-al-mal*) will bear the loss. The depositors share profit and loss in the investment of deposited money and take risk also, so that Capital Adequacy ratio (CAR) of Islamic Banks is lower than conventional Banks.

Friendly Entrepreneur

The business environment of Islamic bank is very friendly. In the Islamic banking system making money out of money is not acceptable rather all the financial transactions must be asset backed so that optimum production may be produced. It

is expected to result in greater decentralized economic activities and more equitable distribution of resources and wealth in society. Trustworthiness and viability and usefulness of the project are more important than collateral security in Islamic bank. The Investment policy of Islamic bank is totally different from conventional bank. There is no any kind of unethical transactions of its business matter.

Non Inflationary System

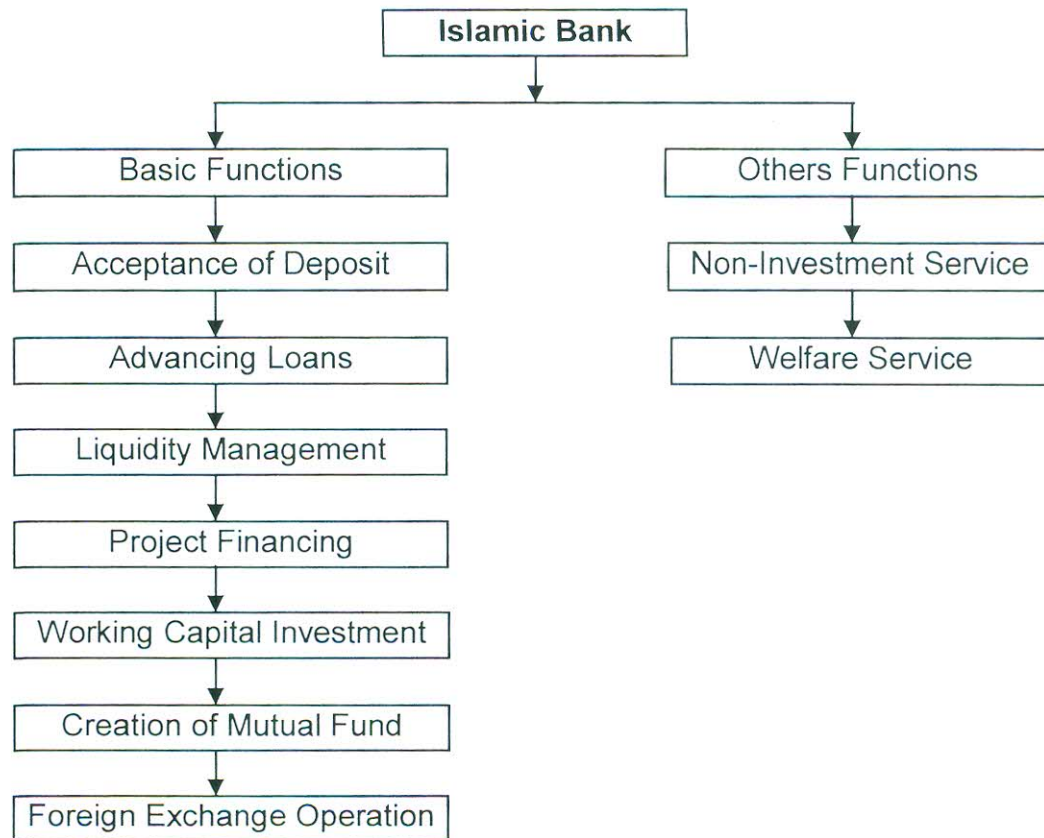
The stability of value of money or to achieve the stability of value of money is an important issue of establish economic justice and public welfare. Inflation is the main problem of modern economics. This creates negative impact on economic justice in the society. In the principles of Islamic banking it is a non-inflationary system and it also removed inflation. For the investment of money of interest based banking system, the money supply is increase and that money causes inflation if it is not invest in the productive sector. On the other hand, Islamic bank does not invest money, buying and selling is the basic principle of investment of Islamic bank. So, there is no any possibility of inflation. Islamic bank does not invest in unproductive sector and remove. By this way Islamic bank is introduced as non Inflationary banks.

3.3.8 Functions or Services of Islamic Bank

Banks play a significant role for the welfare of society. With the changing trends of social and economic transactions banks also try to implement customer's need and aspirations, providing various service products. So, there have been followed a wide and diverse change in the nature and functions or services of the banks. Like other conventional banks Islamic banks also provide various banking services, but it is totally different from conventional banking system.

The basic function of a bank is collecting deposits and lending the capital to borrowers. There are also some other basic functions. In the functional points of view Islamic banking services can be defined in following two parts.

1. Basic Functions and
2. Other Functions



Source: Researcher.

3.3.8.1 Basic Functions

a. Acceptance of Deposit

Collecting Deposits is the main function of a bank. Islamic bank collects deposits under guiding the principles of Islamic *Shariah*. There are three types of deposits. They are as follows-

- i) *Al wadiah*
- ii) *Mudaraba*

i) *Al-wadiah*

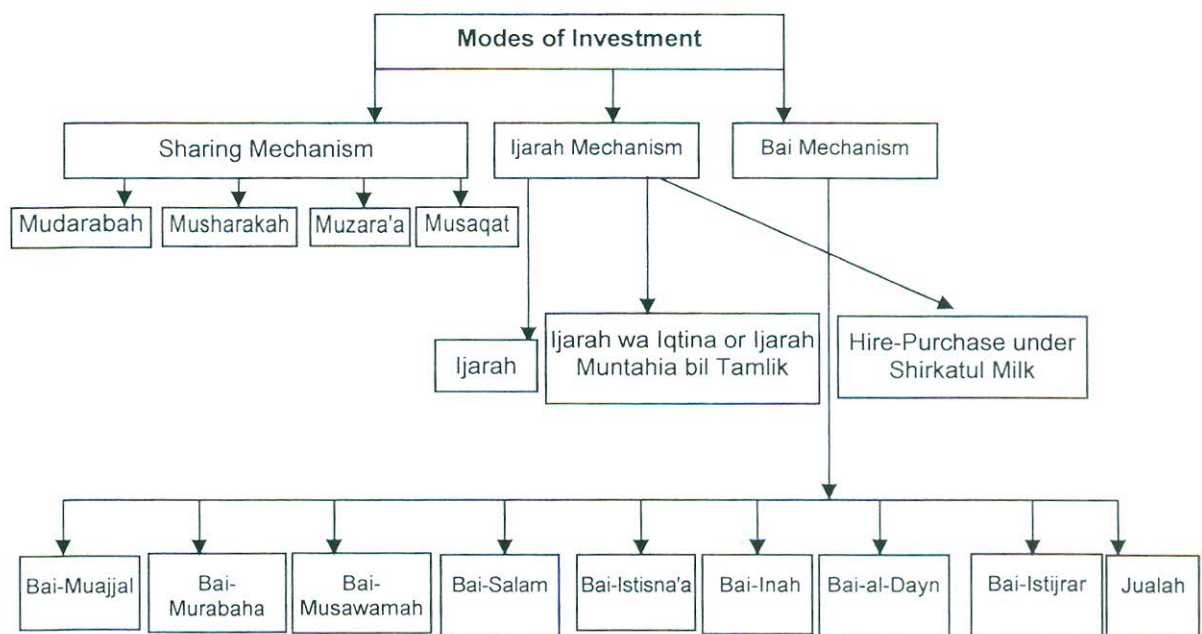
Islamic banks collect deposit through *Al-wadia* account. The concept of *Wadiah* is that the bank would be able to use the money deposited, but the bank would be liable only for any damage or loss. Conversely, the depositors are given the pledge that they may withdraw their money at any time and their money will be guaranteed from any damage (Aziz, 2009)

ii) *Mudarabah*

The term refers to a form of business contract in which one party brings capital and the other brings personal effort and time to a business transaction. The proportionate share in profit from the business deal is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets no share of the profits for his labour. The financier is known as *Rab ul Mall* and the entrepreneur as *Mudarib* (Kettell, 2011).

b. Advancing Loans

The second basic function of a bank is to lending the deposits or invests the capital to the potential borrowers. In Islamic banking principles there are three types of investment modes that are sharing mechanism, *Ijarah* mechanism and *Bai* mechanism.



Source: Researcher.

i) Sharing Mechanism

Mudarabah: The term *Mudarabah* is derived from the Arabic word *Darb* which means to beat or to travel or to move (Hussain, 2008).

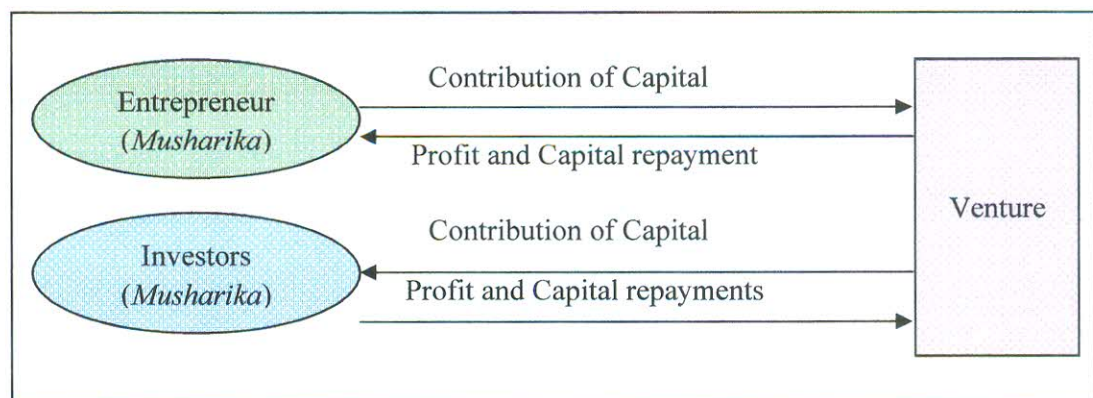
Mudaraba is a partnership of labour and capital, where one partner provides full capital and the other one manages the business. The capital provider is called *Sahib Al-Mall* and the user of the capital is called *Mudarib* (Huq, 2012).

According to Bank Company Law 1995- *Mudaraba* means such an agreement in terms of which a bank conducted in accordance with the Islami *Shariah* provides capital for anything and the customer employs his efficiency, efforts, labour and intelligence.

***Musharakah*:** The word *Musharakah* has derived from the Arabic term *Shirkah* which means partnership. The literal meaning of *Musharakah* is sharing. Under Islamic Jurisprudence, *Musharakah* means a joint enterprise formed for conducting some business in which all partners share the profit according to specific ratio while the loss is shared according to the ratio of the contribution (Usmani, 2002).

Mudarabah, *Musharakah*, *Muzara'a*, and *Musaqat* are the basic forms of the sharing mechanism.

Figure 3.3
Musharaka flow chart.



Source: Kettell. B, 2011.

***Muzara'a* (Share Cropping)**

Muzara'a is contract in which one person works in the land of another person in return for a pre-agreed share in the produce of the land (Hussain, 2008).

Musaqat

Musaqat is a contract in which one person waters and nurtures an orchard or a tree of another person in return for a pre-agreed share of the produce of the orchard or the tree.

ii) *Ijarah* Mechanism

Ijarah is an Islamic form of leasing. In fact it is another form of mark-up structure. Here the bank buys capital equipment or property and leases it out under installment plans to end users (Kettell, 2011). *Ijarahh*, *Ijarahh wa Iqtina* or *Ijarah Muntahiya bil-Tamlik*, Hire Purchase under *Shirkatul Milk* are the main forms of *Ijarahh*.

Figure 3.4
***Ijarah*-Operating lease**



Source: Kettell. B. 2011.

Ijarah wa Iqtina* or *Ijarah Muntahia-bil-Tamleek

Ijarah wa Iqtina is a form of leasing where asset (building or physical equipment) is leased by the lessor to the lessee in a way that, at the end of an agreed lease period, the lessee becomes the owner of the asset by purchasing it from the lessor during or at the end of the lease period at an agreed sale price (Kettell, 2011).

Hire Purchase under *Shirkatul Milk* (HPSM)

Hire Purchase under *Shirkatul Milk* is a modern specified integrated type of contract where *Shirka*, *Ijarah* and *Bai* emerged combinedly.

In Hire Purchase under *Shirkatul Meelk* mode of investment, both the bank and the client supply equity in equal or unequal proportion for purchase of an asset like land, building, machinery, transports etc; purchase the asset with that equity money, own the same jointly, share the benefit as per agreement or bear the loss in proportion to their respective equity. The share, part or proportion of the asset owned by the Bank is hired out to the client partner for a fixed rent per unit of time for a fixed period. Lastly the Bank sells and transfers the ownership of its share/part/portion to the client against payment of price fixed for that either gradually part by part or in lump sum within the hire period or after the expiry of the hire agreement (Raquib, 2007).

iii) *Bai* Mechanism

The Arabic word *Bai* means buying and selling. In the Islamic Banking transactions major portion of deposits are invested in the manner of *Bai* Mechanism. The buying and selling may be occurred through agent or directly by the bank. Legally, *Bai*

refers to giving ownership of a commodity to another person in compensation of other commodity. The seller gives ownership of the commodity to the buyer on a permanent basis in exchange for the price (Ayub, 2007).

Bai Muajjal

The terms *Bai* and *Muajjal* have been derived from Arabic words *Bai* and *Ajal*, respectively. The word *Bai* means buying and selling and the word *Ajal* means a fixed time or a fixed period. *Bai-Muajjal* means sale for which payment is made at a future fixed date or within a fixed period by installments (Hussain, 2008).

Bai Murabaha

The terms *Bai* and '*Murabaha*' have been derived from Arabic words *Bai* and *Ribhun*. The word *Bai* means purchase and sale or buying and selling and the word *Ribhun* means profit. *Bai Murabaha* means sale for an agreed upon profit (Hussain, 2008).

Kettell (2011) has defined *Murabaha* is a term of Islamic *Fiqh* (Islamic jurisprudence). It refers to a particular kind of sale having nothing to do with financing, in its original sense. If a seller agrees with the purchaser to provide him with a specific commodity with a certain profit being added to his cost, it is called a *Murabaha* transaction.

Bai Mus'wamah

Musawamah is a general and regular kind of sale in which the price of the commodity to be treated is bargained between the seller and the buyer without any reference to the price paid or cost incurred by the former (Ayub, 2007).

Bai Salam

Salam is a sale of a thing which is not available at the time of the conclusion of the sale, but is to be delivered in the future on a specified date. However, the price for it has to be paid immediately after the contract is signed (Hasan, 2014).

Bai Istisna

The word *Istisna'a* is derived from the Arabic term *Sina'a* meaning to manufacture a specific commodity. *Istisna'a* is an agreement whereby a customer requiring an item, equipment, a building or a project. Which needs to be constructed, manufactured, fabricated or assembled, approaches the bank for financing (Kettell, 2011).

Bai Inah

Khan (2003) defines *Inah* as the Arabic term which is a contract of sale where a person sells an article on credit and then buys back at a lesser price for cash.

Bai-al-Dayn

Dayn means debt and *Bai* means sale. Thus *Bai-al-Dayn* means sale of debt. If a person has a debt receivable from another person and he sells it to another person at a discount as is normally done in the case of bill of exchange, the said debt is termed in *Shariah* as a *Bai-al-Dayn* (Hussain, 2008).

Bai Istijrar (Supply Sale)

Istijrar means purchasing goods time to time in different quantities. In Islamic jurisprudence *Istijrar* is an agreement where a buyer purchases something from time to time; each time there is no offer or acceptance or bargain (Usmani, 2002).

Jualah

Jualah is a contract in which one party (the *Jua'l*) undertakes to give a specific reward (the *Jua'l*) to anyone who may be able to realize a specific or uncertain required result (Ayub, 2007).

So, Islamic banks invest their capital by the above modes of Investment, which seems to be conventional one but there are vast differences between conventional Investment modes and Islamic investment modes.

c. Liquidity Management

The basic function of an Islamic bank is to maintain liquidity of the banks to fulfill the demands of its depositors. Liquidity means the fact of having cash or assets which can be changed into cash. Liquidity management involves a trade-off between risk and return. It involves forecasting a company's cash needs and providing for these needs in the most cost effective way (Pandey, 1979).

Liquidity management is very important for the success of a bank because Bank may face liquidity problem for inefficient liquidity management. Generally banks have to maintain liquidity in two types, Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR). Islamic bank is compelled to maintain a prescribed percentage of its deposit with the central bank.

d. Project Financing

A project, whether a new venture or an expansion of existing facility, is undertaken by entrepreneurs for earning profit, Islamic bank financing in *Shariah* approved project by measuring the profitability and productivity of the project (Rahman, 2008).

It is noted that Islamic bank does not invest any kinds of project which is not allowed in Islamic *Shariah*, if it is more profitable. So, aiming a sound and develop Islamic Society Islamic Bank invests its capital in a project which can be viable both socially and economically.

e. Working Capital Investment

Working capital may be defined as the assets held for current use in a business, less the amount of short term liabilities (Islam, 2008). We can calculate the working capital as:

Working Capital = Current Assets - Current Liabilities.

Working capital shows the operational efficiency of a company. It is called the life blood of a business. Investing of working capital is a major function of Islamic bank. According to Islam (2008) there are three types of financing modes of working capital in Islamic banks. They are investment mode, Buy mode and Bills of Exchange mode.

f. Creation of Mutual Fund

Like other conventional Banks Islamic Banks also collect credit by forming mutual Fund, with the principles of Islamic *Shariah*. The Fund may be regulated by the government. The government should establish a mutual fund based on government held shares of selected public enterprises. All the funds presently invested in saving schemes can be deposited into this mutual fund (Akkas, 2008).

g. Foreign Exchange Operation

Foreign Exchange Operation is one of the basic functions of an Islamic Bank. According to the Dictionary of Banking and Finance foreign exchange is the business of exchanging the money of one country for that of another. Foreign Exchange Operation has three types of services. They are Export, Import and Remittance. All types of transactions should operated by the Islamic *Shariah*.

3.3.8.2 Other Functions

Islamic banks have to deliver some other non Investment or welfare oriented services for the wellbeing of the people. Islamic Bank does not conducting banking operation only aiming profit maximization rather establishes justice and equity in the society.

a. Non Investment Services of Islamic Bank

According to Ahmad (2008) the following are the non-Investment services of Islamic banks which the banks serve absolutely.

- Collection of Negotiable Instrument
- Acceptance and servicing of certificates and shares
- Transfer of Money
- Maintenance of Budget Accounts
- Local and Overseas guarantying
- Renting safes for clients
- Safe guarding personal belongings and security certificates, gold, precious stones, documents, etc.
- Opening of LC
- Issue of Solvency certificate
- Business Advisory Service
- Transaction of Foreign Currency.
- Publication works
- Investment Trustee
- Representation of banks and similar institutions and correspondents operations.
- Issue of Qard Cards
- Issue of Travellers cheques
- Use of Automatic Teller Machine
- Home Banking service
- School Banking
- Mobile Banking

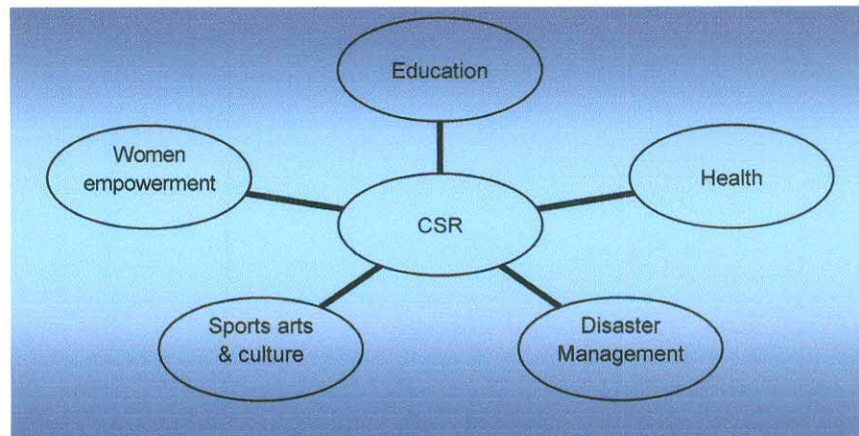
b. Welfare Services of Islamic Banks

Islamic banks are founded to be a social welfare organization. So, the banks are fully committed to establish a welfare society. The banks have to do various types of

welfare activities by creating a *Sadaqah Tahbil* (Charity Fund) under Corporate Social Responsibility. Islamic banks take several initiatives in following sector at the individual and institutional level for welfare of the society in terms of responsibility to the community.

- Education sector
- Health sector
- Disaster Management Sector
- Sports & Culture Sector
- Women Empowerment Sector

Figure 3.5
Areas of Community Responsibility



Source: Islami Bank Bangladesh Limited, 2013.

3.3.9 Differences between Conventional bank and Islamic Bank

Conventional bank is based on Interest; on the other hand Islamic banking is operated by the *Shariah* principles of Islam. There are so many differences between conventional bank and Islamic bank in several segments. Rahman (2010) outlined in the following ways.

S.L. No	Basis of Difference	Conventional Bank	Islamic Bank
1.	Dominant attraction	Money	Life as prescribed by God in all Abrahamic faiths, as ordained in the Judeo-Christian-Islamic value system and way of life.
2.	Defining purpose	use money to make money for those who have money	Employs available resources within its means to meet the basic needs of every one without extravagance
3.	Bank size	very large (e.g., mega banks)	Small and medium sized
4.	Ownership	Impersonal, with absentee Shareholders' role in most cases	Personal, with shareholders playing an active role in bank direction and procedures
5.	Financial Capital	Global, with no borders	Local/national, with clear community reinvestment borders and assessment areas
6.	Purpose of Investment	Maximize private profit and wealth	Increase beneficial output to the community to make it prosper
7.	Role of profit	An end to be maximized	An incentive to invest productively in the community
8.	Coordinating Mechanisms	Centrally planned by mega-corporations	Self organizing markets and networks of communities around temples, synagogues, churches, Masajid and other social congregations and networks
9.	Co-operation	Among competitors, to escape the discipline of competition and in some cases to avoid regulations	Among people and communities to advance the common good for all
10.	Purpose of competition	Eliminate the unfit and capture markets	Stimulate efficiency and innovation
11.	Governments role	Protect the interest of property	Advance the human interest as revealed in all God's messages
12.	Trade	Free, but for the benefit of mega-corporations	Free, but fair and balanced
13.	Political orientation	Elitist, democracy of the money (greed is good)	Populist, democracy of person

Chapter Four

Islamic Banking in Bangladesh: Its Growth and History of Development

4.1 Introduction

Bangladesh is the third largest Muslim country in the world with around 150 million population, of which 90 percent is Muslim. The hope and aspiration of the people to run banking system on the basis of Islamic principle came into reality after the OIC recommendation at its foreign ministers meeting in 1978 at Senegal to develop separate banking system of their own (Akkas, 2008). Islami Bank Bangladesh Limited was established on 13 March 1983 as the first Islamic bank in Southeast Asia. In the beginning there was some doubt in the minds of many people about the viability as well as the sustainability of Islamic banking system. But the history of two decades of Islamic banking operation in Bangladesh not only removed this doubt from the minds of people but also showed how a new banking concept based on Islamic values could so rapidly establish itself as the most modern, dynamic, and popular bank of the country (Mahmud & Islam, 2006). Today Islamic banking is recognized as one of the most effective mechanisms in realizing socio-economic objectives or Maqasid al Shari'ah of Islamic Economics (IBBL, 2013).

At present Bangladesh has eight full-fledged Islamic Banks. Twenty branches of nine conventional Banks are operating Islamic banking based on the shariah. For the high public demand of Islamic banking two conventional Banks NCC Bank and Southeast Bank limited have applied to the central bank for permission to convert into full-fledged Islamic banking. Several others banks have sought permission to open Islamic banking branches (www.dhakatribune.com). But statistics shows that the government is not so interested to allow either conversion or opening new Islamic banking branches or windows of conventional bank.

The Islamic banking industry continued to show strong growth since its inception in 1983 to December 2012 in tandem with the growth in the economy, as reflected by the increased market share of the Islamic banking industry in terms of assets financing and deposits of the total banking system.

Total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at Taka 1017.9 billion at end December 2012. This was 18.9 percent of deposits of the total banking system at the end of December 2012. Total credit of the Islamic banks and the Islamic banking branches of the conventional banks stood at Taka 910.1 billion at end December 2012. This was 21.1 percent of the credit of the total banking system of the country (Bangladesh Bank Annual Report, 2011-2012). The significant rapid development is not achieved only for the sound operational banking performance; it becomes possible for the optimum effort allocation and strong commitment to the society.

4.2 Islamic Banking in Bangladesh: A Historical Background

In Bangladesh the history of Islamic banking is not so long as conventional bank. It has started its journey after Liberation war. But the people of its area who are sufferer from long colonial imperialism were eager to get the Islamic shariah principles in their economic life. The idea of Islamic banking in this region can be traced back to reconstruction processes of the Muslim minds by a host of thinkers struggling for establishing self-rule against the colonial British. The objective was reconstruction of Muslims life bringing back Khilafa in line with the Quranic teachings (IBBL, 2013).

The most of the financial institutions in the Muslim World were inherited from the colonial periods. Similarly, Bangladesh after her independence since December, 1971 inherited an interest-based banking system that was introduced during the British and Pakistani regimes. In August 1974, Bangladesh signed the charter of IBS (si.IDB) and committed itself to reiterate commitment of Bangladesh to establish an Islamic banking system (Jasim, 2010)

The Bangladesh government subscribed to the recommendations of the Islamic Foreign Ministers' conference held in Senegal in 1978 regarding systematic efforts to set up Islamic banks in the member-countries in phases.

However, Bangladesh has to pass a long restless period to establish Islamic Banks.

Ahmad (2010) describes the gradual evolution of Islamic Banking in the following ways.

1. In 1979, Mohammad Mohsin, the then Ambassador of Bangladesh to the UAE addressed a letter to the Foreign Secretary recommended the establishment of an Islamic banks in Bangladesh in line with the Dubai Islami Bank in the UAE.
2. In December 1979, the Ministry of Finance (Banking and Investment Division), Bangladesh wrote Bangladesh Bank seeking the latter's view on the establishment of an Islamic Bank in Bangladesh.
3. In November 1980, Bangladesh Bank deputed its Director of Research, Mr. A.S. M. Fakhrul Ahsan to study the workings of IBs in the Middle East. After visiting Dubai Islamic Bank in UAE, Faysal Islamic Bank and Nasser Social Bank in Egypt, as well as the Cairo office of the IAIB. Mr. Ahsan submitted his report to the Government recommending the introduction of IB in the country.
4. On December 15, 1980, the Governor of Bangladesh Bank recommended early introduction of IB in the country in an international seminar on IB held at Dhaka and participated by, among others, the delegates from the IDB and the Saudi Arabian Monetary Agency.
5. In March 1981, the Governor of Bangladesh Bank attended a meeting of Governors of Central Banks Monetary Agencies of the member countries of OIC held in Sudan to consider a report on the promotion, regulation and supervision of IBs.
6. In April 1981, in a letter issued by the Ministry of Finance to Bangladesh Bank advised it to undertake an experiment in the matter of IB by opening a counter in all branches of the nationalized commercial banks (NCBs) in Bangladesh.

Besides, participation of Bangladesh at an international seminar on Islam, Banking and Insurance held at Geneva, deputation of some senior bank executives at an advanced course on IB in Egypt as well as holding a month long full day interbank residential training course on IB at Dhaka in June, September and November 1981, respectively all these contributed towards emergence of IB in Bangladesh.

Two professional bodies "Islamic Economics Research Bureau" (IERB) and "Bangladesh Islamic Bankers Association" (BIBA) were taking practical steps for imparting training on Islamic Economics and Banking to a group of bankers and arranging some national and international seminars/workshops to mobilize local and foreign people and attract investors to come forward to established Islamic Bank in Bangladesh. The professional and right thought out activities was reinforced by a number of Muslim entrepreneurs working under the aegis of Muslim Businessman Society (MBS). The concentrated mainly on mobilizing equity capital for the emerging Islamic Bank (Sarker, 1999)

The elite groups of the society have shown equal interest to Islamic banking. Rotary Club and Lions Club also arranged the following indoor lectures on Islamic banking

Period:1982	Venue: Dhaka	Sponsors
February 28	Hotel Intercontinental	Lions Club
April 2	Hotel Sonargaon	Rotary Club
August 17	Hotel Intercontinental	Rotary Club

Mr. M. Azizul Huq, a senior banker and executive of a nationalized commercial bank (Sinali Bank) (si.Sonali Bank) delivered all those lectures. The lectures were followed by thread bear discussion by the members present. The members welcomed Islamic Banking (Bulu, 2004).

At last, the long drawn struggle to establish an Islamic Bank in Bangladesh became a reality and Islami Bank Bangladesh Limited established in March 1983 in which 19 Bangladeshi nationals, 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 (Uddin, 2009)

4.3 The Legal Framework of Islamic Banking in Bangladesh

Unlike Bangladesh, in most Muslim countries a special law is passed prior to the establishment of an Islamic bank which specifies the rules and regulations for the institution willing to engage in banking business based on Islamic principles (Ahmad, 2010).

In Bangladesh, there is no complete Islamic Banking Act or any specific laws or independent regulations that control, guide and supervise the functions of IBs. The BB exercises authority over IBs under laws and regulations engineered to control and supervise traditional banks whose goals and functions are different from IBs. Recently, Bangladesh Bank has set up separate department to control and supervise the operation of IBs. Inspection and supervision of IBs operation are being scrutinized by the department. However, all existing IBs of the country are incorporated as companies limited by shares, thus they are subjected to the Companies Law of the country.

Later various initiatives have been taken from government for huge public demand of Islamic banking. They are as follows

1. Islamic banks in Bangladesh have been allowed to maintain Statutory Liquidity Requirement (SLR) at 10% of their total deposit liabilities, instead of 20% set for conventional banks. This provision facilitated Islamic bank (Sarker, 1999).
2. Under indirect monetary policy regime, IBs were allowed to fix their PLS ratios and mark ups independently commensurate with their own policy and banking environment. This freedom in fixing PLS ratios and mark up rates had provided scope for IBs to follow the shariah principles independently for realizing goals of shariah (Ahmad, 2010).
3. Islamic banks have been permitted to reimburse 10% of their proportionate administrative cost on a part of their balances held with the Bangladesh Bank. This facility has given some scope for the enhancement of the profit base (Sarker, 1999).
4. The Income Tax Ordinance, 1984 has been amended for the smooth operation of Islamic banks in Bangladesh. The amended Income Tax Ordinance allowing the amount of profit shared by the investment clients with the IBs as expenditures and the amount of profit paid on Mudarabah deposits by the IBs as expenditure (Ahmad, 2010)
5. Bangladesh Bank has established separate Islamic Economics Research Division for promoting the Islamic banking research and services alongside the conventional banks.
6. It is a great enthusiastic initiative of Bangladesh Bank to circulate a BRPD circular on November 09, 2009 titled "Guidelines for conducting Islamic banking," which is the first legislative cooperation from Bangladesh Bank for the Islamic banks.

Despite having vast limitations, high public demand, efficient banking, soundness in money market of Islamic banking and rapid growth and development of Islamic banking proved that it is no far from establishing a separate Islamic bank company act in Bangladesh.

4.4 Development of Islamic Banking in Bangladesh

Bangladesh is the only country in South East Asia to receiving Islamic bank at first. But the way was not so smooth at the early time of establishment. A high dedication of its concern scholar made the bank a unique financial institution in the banking sector of Bangladesh. After establishing the Islami Bank Bangladesh Limited other

Islamic banks were established within very short time. There are eight full- fledged Islamic banks in Bangladesh.

List of Islamic Banks in Bangladesh

Sl. No.	Name of the Bank	Number of Branches (as on 31 December 2013)	Year of in corporation
1.	Islami Bank Bangladesh Ltd.	276	1983
2.	ICB Islami Bank Ltd.	33	1987
3.	Al-Arafah Islami Bank Ltd.	100	1995
4.	Social Islami Bank Ltd.	86	1995
5.	Export Import Bank of Bangladesh Ltd.	72	1999
6.	First Security Islami Bank Ltd.	100	1999
7.	Shah Jalal Islami Bank Ltd.	84	2001
8.	Union Bank Ltd.	20	2013
	Total = 8	Total Branches = 771	

Source: Bangladesh Bank Scheduled Bank Statistics, July-September 2013.

According to Annual Reports of all the Islamic banks a short discussion is stated below-

4.4.1 Islami Bank Bangladesh Limited (IBBL)

Islami Bank Bangladesh Limited was incorporated as the first shariah based private commercial bank in South East Asia on 13 March 1983 under the Companies Act, 1913. The bank obtained license from Bangladesh Bank on 28 March 1983 and was formally opened on 12 August in the same year.

IBBL is committed to conducting all banking and investment activities on the basis of Islamic shariah. In doing so, it has unveiled a new horizon and ushered in a new ray of hope towards realizing a long cherished dream of the people of Bangladesh for conducting their banking transactions in line with what is prescribed by Islam. Being established with the sponsorship and equity participation of Islamic Development Bank (IDB) and some other Islamic banks, financial institutions, government bodies and eminent personalities of the Middle East and Gulf countries, IBBL has by now attained a unique position as a leading private sector commercial bank in Bangladesh and as a leading Islamic financial institution in the Islamic banking world.

IBBL serving aiming to establish Islamic banking through the introduction of a welfare oriented banking system and also ensure equity and justice in all economic activities, achieve balanced growth and equitable development through diversified investment operation particularly in the priority sector and less developed areas of the country.

IBBL is the best performer of all the Islamic banks in Bangladesh. Now, the bank is not only the best bank in Bangladesh it is the only Bangladeshi bank that has entered into the World's Top 1000 Banks List in 2012. Total deposit of the bank stood at TK. 417844.7 million as on 31 December 2012. It is observed that the deposit of the bank has tripled at every five years since 1985. The bank has a sound deposit base as it mainly comprises small and medium size deposits. The figure of Investment was TK. 399930.79 million as on 31 December 2012. Islami Bank Bangladesh Limited invests its capital to diversify its investment portfolio by size, sectors (public & private), economic purpose, securities and geographical area including industrial, commercial & agricultural. Total Foreign Exchange Business of the bank stood at 782598 million taka in where import business TK. 284588 million, export business TK. 197095 million and Remittance TK. 300915 million. IBBL's market share in foreign remittance was 27.70% in 2012. The achievement of IBBL in the area of foreign exchange business has been spectacular.

Profit before tax of the bank was at TK. 12096 million, Earning per share was at TK.4.42 and capital adequacy ratio was 13.53% (consolidated) at the end of the year 2012. The total assets of the bank amounted to TK. 592581 million as on December 31, 2012. Above 20% of total liquidity and business of the banking industry is in the hand of Islamic banking outlets. IBBL handling various CSR programs through its in contributing significantly to develop socio-economic condition of Bangladesh. The bank spent around TK.309 million in different sectors like education, disaster management, health, sports, welfare and humanitarian purpose. In spite of having volatile global and national economic situation and regulatory changes in 2012, Islami Bank Bangladesh Limited was able to show consistent performance in most of the business area. The bank has obtained AA+ rating by Credit Rating Information and Services Limited (CRISL).

4.4.2 ICB Islami Bank Limited (ICBIBL)

ICB Islami Bank Limited, a second generation private bank is the new legal name of former 'The Oriental Bank Limited' which was incorporated on April 1987 as a public limited company titled ' Al Baraka Bank Limited' under the Companies Act, 1913. Certificate for commencement of business was issued to the bank on April 30, 1987. Bangladesh Bank authorized to carry on the banking business in Bangladesh with effect from May 4, 1987 to undertake and carry out all kinds of banking, financial and business activities, transactions and operations in strict compliance with the principles of Islamic law (shariah) relating to business activities in particular avoiding usury in investment and sales transactions and any practice which accounts to usury and actual banking operations commenced on May 20, 1987. Registrar of Joint Stock Companies and Firms approved the revised name of (The Oriental Bank Limited) on December 31, 2002 and Bangladesh Bank approval was accorded on April 13, 2003.

It was 28 February 2008 when Switzerland based ICB Financial Group Holding AG acquired the majority shareholdings of former Oriental Bank Limited and took control of the bank under 'The Oriental Bank Limited (Reconstruction) Scheme 2007' of Bangladesh Bank. After getting control of the bank, ICB Financial Group AG changed the name of the bank to ICB Islami Bank Limited. The bank was factually in a dismal situation when ICB took over with 80.41% of its total investment was classified. But immediately after assuming responsibility, the management of the bank began to deploy state-of the art technology including a globally recognized core banking system called SILVERLAKE and contemporary policies and management practices to turn the bank into an institution which is apart with top local and multi-national banks in the country.

The bank is committed towards creating and maximizing sustainable values for all its customers, employees, partners and shareholders and especially for the society it operates in by delivering excellence in its offerings in all areas of banking and financial services complying Islamic shariah.

A 5-member Board of Directors is elected by the shareholders to manage the bank. Among the members one is elected as chairman. The executive president is the chief executive officer of the bank. The bank has 3 members shariah council. They ensure shariah compliance in all of its banking and financial activities. The banks

have 33 branches, the total manpower is 688 and total shareholders are 21533 as on December 31, 2012

ICBIBL have passed successful financial performance over the years though once upon a time it was a listed problem bank. Authorized Capital of the bank stood at TK.15000 million. Paid up Capital was 6647.023, total capital (tier-I & II) was 9214.82 and total assets was 15118.74 million taka as on 31 December 2012. The bank has put in a place a well structure in operational banking. Total deposits was TK. 12381.39 million, total investment was TK. 11009.17 million and total foreign exchange business was TK. 1161.68 million on the same day The bank participate in various CSR activities like health, education, social awareness, natural disaster etc. Thus ICBIBL is a bank integral with the latest and state of the art banking technology and products tool to achieve its success on competitive banking sector in Bangladesh.

4.4.3 Al Arafah Islami Bank Limited (AIBL)

With the objective of achieving success in life here and hereafter following the way directed by the Holy Qur'an and the path shown by Rasul (SM) Al Arafah Islami Bank Limited was established (registered) as a public limited company on 18 June 1995. The inaugural ceremony took place on 27 September 1995. Some renowned Islamic scholars and pious businessmen of the country are the sponsors of the bank. 100% of paid up capital is being owned by local shareholders.

The bank has a total 19 members of directors who are selected by the shareholders. It has a prominent scholar shariah Board whose members are prominent Ulama, reputed Bankers, renowned Lawyers and eminent Economist in Bangladesh. The Shariah Board is formed with 6 members in where a chairman. There were 100 branches, total manpower was 2110 and the number of shareholders was 52739 as on 31 December, 2012. The bank is operated with keen supervision of Islamic Shariah.

The business performance of the bank is significantly well enough in comparison to others Islamic Banks in Bangladesh.

At the end of 2012 the total deposits of the bank is stood at BDT. 118683.39 million and aided the economy in meeting its growth target by deploying BDT. 106650.42 million as investment to different sectors of the economy. Apart from these, the bank performed significant import and export business. The total import of the bank in the

year 2012 has stood at BDT. 71931.70 million decrease of 5.49% over the previous year and the total export has stood at BDT. 58476.60 million registering a growth of 12.02% over the previous year. Besides, during the year 2012 the bank received foreign remittance 23120.40 million, which is 236.24% higher than the previous year.

The total assets of the bank increased to BDT. 149320.36 million as on 31 December 2012. The bank earned a profit before tax & provision of BDT. 4755.54 million, the authorized capital the bank was BDT. 10000 million and paid up capital and reserve was BDT. 11210.60 million as on December 31, 2012.

At present, there is a regressive trend in profit rate in the banking industry of Bangladesh due to The Monetary Policy of the government and moral suasion of Regulatory Bodies. As the regressive profit rate will give a boost to the growth of the economy, the bank's strategy is being shifted to manage profit spread. Today the bank ranks better position amongst the 7 Islami banks of the country. During the year 2012 the bank participated in CSR activities by financial assistance in different areas like education, training, healthcare, sports, natural disaster, city beautification etc. Today the bank an agile organization which promotes innovation, encourages, improvement values sense of urgency and develops people who accept challenges and turns them into opportunities.

4.4.4 Social Islami Bank Limited (SIBL)

With the aim of "working together for a caring society" Social Investment Bank Limited (SIBL) started its operation on 22 November 1995 as a second generation Islamic bank. But the bank was renamed as Social Islami Bank on August 2009. The initial paid up capital was TK. 118.4 million fully owned by its 38 sponsors including 3 Arab nationals.

Targeting poverty, Social Investment Bank Ltd is indeed a concept of 21st century participatory three sector banking model in one : in the formal sector, it works as an Islamic participatory commercial bank with human face approach to credit and banking with informal finance and credit package that empowers and humanizes real poor family and create local income opportunities and discourages internal migration, it is a Development Bank intended to monetize the voluntary sector and management of Waqf, Mosque properties, Non-Muslim Trust properties in the country. In the formal corporate sector, this bank would among others, offer the

most up-to-date banking services through opening of various types of deposit and investment accounts, financing trade, providing letters of guarantee, opening letters of credit, collection of bills effecting domestic and international transfer, leasing of equipment and consumers durable, hire purchase and installment sale for capital goods, investment in low cost housing and management of real estate, participatory investment in various industrial, agricultural, transport, educational and health projects and so on. In the informal non-corporate sector, it would, among others involve in opening and introducing various savings and micro-credit investment and custom tailored group programs, designed for small entrepreneurs, marginal farmers, land less laborers, unemployed educated youth semi-skilled people etc.

In the voluntary third sector, it would among others, involve in the development and management of Waqf and Mosque properties, management of inheritance properties, joint- venture projects for management of hajj affairs, development and management of non- profit foundations, charitable trust and organizations, development and management of funds involving welfare of women and non-Muslim minorities and so on. In addition, IBL offers special services for the Bangladeshi expatriates which include managing their foreign currency accounts, providing express home remittance services, introducing co-operative investment schemes, foreign wage earners rehabilitation scheme, etc. At the operational level, all three sectors' activities would be mutually independent through social fund, social assignment schemes thereby making all these activities economically, socially and ethically transparent and revealed, once they are operationalized. Social Islami Bank Limited was listed as a problem bank in October 2005 on the backdrop of signing memorandum of undertaking (MOU) between the IBL and Bangladesh Bank and subsequently failure to make good the adjusted capital shortfall, provisional shortfall and downsize the higher percentage of classified investment. To overcome the situation the bank adopted strategic plan that include increase in efficiency, establishment of transparency, efficiency and accountability in all sphere of banking practices. The bank obtained approval for issuance of right share @ 1:1 per from securities and exchange Commission on 24 April 2007 resulting additional capital of TK. 53456 million added with paid up capital. As a logical consequence of reform, SIBL has become out from the problem bank list on 5 November 2007. Having the year as a successful return SIBL witnessed a remarkable growth in different sectors in the year 2008. The bank successfully opened four new branches and five SME

service centre's during 2008. SIBL obtained permission from Bangladesh Bank for opening of fourteen new branches and more five SME centres during the year 2008.

The bank is formed with 8 foreign sponsors and 31 local sponsors. The number of director is 10 who are selected by the shareholders of the bank. The shariah supervisory committee is formed with 10 renowned personalities in various fields such as Ulama, Banker, Lawyer, and Economist.

SIBL maintain and achieved strong position in all key areas of operations despite different challenges. The capital of the bank was 11.84 crore at the very inception, and by the year 2012 it has increased to TK. 1059.65 crore.

Total deposit and total asset of the bank stood at TK. 9359.43 crore and TK. 11516.59 crore respectively as on 31 December 2012. The bank achieved 41.03% growth in investment with a total investment portfolio of TK. 7602.50 crore in 2012. Total foreign exchange business of the bank was TK. 12651.99 crore in 2012 with 16.81% growth over the previous year

SIBL has been responding spontaneously to its social commitment. Corporate Social Responsibility (CSR) activities of SIBL are being done by a separate unit properly staffed. SIBL's CSR activities covered financial inclusion (in the form of financing agriculture & SME sectors, women entrepreneur, renewable energy, irrigation by solar power, etc) donation to the individuals covering education, health, disaster management (family rehabilitation) environment (social utility) sports, art & culture and NGOs for supporting different welfare activities. As part CSR, welfare activities of Social Islami Bank Limited (SIBL) are being carried out mainly from profit of cash waqf fund, compensation realized, doubtful income, zakat fund and other expenditure.

SIBL has been awarded as the winner of the "Certificate of Merit" in the category of Best Corporate Award in Banking sector of Bangladesh (Private Commercial Bank-Islamic Operation) for the year 2012 by the Institute of Cost and Management Accountants of Bangladesh (ICMAB). Moreover, SIBL has also been awarded with the prestigious International Award "Best Enterprise" and "Manager of the Year" by Europe Business Assembly (EBA) UK an recognition of the Bank's continuous journey towards excellence, successful management and dynamic growth in the year 2012. Now the bank is introduced the most modern and leading Islamic banks in Bangladesh

4.4.5 Export Import Bank of Bangladesh Limited (EXIM BANK)

Export Import Bank of Bangladesh Limited (EXIM BANK) was incorporated on June 02, 1999 and commenced business on August 03, 1999 as a traditional private sector commercial bank. The bank was converted into full-fledged Islamic bank on July 01, 2004. All of its activities are run as per the principles of Islamic shariah. Shariah compliance is, therefore, on the top of the agenda of the bank's activities. The bank was formed as a specialized commercial bank handling substantial amount of import and export trades of the country particularly readymade garments and its related backward and forward linkage industries. It gives equal importance too to provide finance and facilities to the national priority sectors like Agriculture and small and medium enterprises. Green Banking programme is given top most attention in the bank's financing strategy.

The business of the bank significantly increased over the years. EXIM Bank capital was adequate, asset quality was so good, earning was sufficient, and liquidity management was prudent. At the end of the year the paid up capital was TK. 2000 crore, total capital (Tier1+ Tier2) was TK. 1821.43crore, deposit stood at TK.14036.97 crore, investment reached to TK.11925.00 crore, foreign exchange business rose to TK. 27008.15 crore (import TK. 14331.44 crore & export TK.12099.69 crore, remittance TK.577.02 crore) and operating profit on solo basis registered at TK. 533.44 crore. Since its inception the bank has been playing proactive role in performing corporate social responsibilities particularly at the time of national disaster and calamities. EXIM management took pioneering role to organize the leaders of the industry to come forward to provide help to the affected people. The banking service and disclosure of EXIM Bank is internationally recognized. As a part of part recognition, EXIM Bank achieved international awards for its best performance. European Society for Quality Research (ESQR) awarded the bank with the " International Diamond Prize for Excellence in Quality" in 2012 in recognition of its successful adoption and implementation of the best practices in the world. World Finance, U.K awarded with the best Islamic Bank in Bangladesh.

4.4.6 First Security Islami Bank Limited (FSIBL)

To be the premier financial institution in the country providing high quality products services backed by latest technology and a team of highly motivated personnel to deliver excellence in banking First Security Islami Bank have come into banking

sector. The bank was incorporated as limited company on 29 August, 1999 and received clearance from Bangladesh Bank on 22 September, 1999. The Bank started functioning as a commercial bank from its first branch on 25 October, 1999. FSIBL has converted from conventional to Islamic bank on 01 January, 2009. It is the second Commercial bank which has been fully converted from conventional to Islamic bank. After conversion, the bank gained a remarkable success over the years, but it was also a listed Problem bank before conversion.

Total Authorized capital stood at TK. 10000 million and total Paid up capital was 3740.35 as on 31 December 2012. But it was TK. 4600 million of Authorized capital and TK. 2300 million was paid up capital during the year 2008 when it was a conventional bank. The bank improved in deposit and investment also. Total deposits were TK. 109905.56 million and total investment was TK. 96304.22 million on 31 December, 2012. The deposit and investment has been grown up by 41% and 39% respectively during the year 2012. Besides, even in the adverse scenario of global economic recession export, import and remittance growth of the bank is satisfactory. The trend of classified investment has decreased in comparison to last year. During the year under review, the bank earned total profit worth TK. 1951.96 million which is 23% higher than that of the last year. The total assets of the bank have reached TK. 129937.81 million which accounts for 43% increased in the year's time.

The number of branches increased at 100 and total manpower of the bank is 2090, number of shareholders was 89994 and shareholders' equity was TK. 5714.10 million as on 31 December, 2012. The bank pursues a strong policy in respect of Corporate Social Responsibilities. The bank contribute significantly to the national exchequer to help the meritorious students from the under privileged section of the society, assist the people distressed by natural calamities. The FSIBL is determined to comply fully with shariah guidelines in banking business as well as committed to proper compliance with all the instruction of Bangladesh Bank.

4.4.7 Shahjalal Islami Bank Limited (SJIBL)

Committed to be the unique modern Islamic bank in Bangladesh and to make significant contribution to the national economy and enhance customers trust & wealth, quality investment, employees' value and growth in shareholders equity Shahjalal Islami Bank Limited was established as a public limited company on April 2001 under

Companies Act, 1994. The bank commenced its commercial operation in accordance with Islamic Shariah on the 10 May 2001 under the ambit of the Bank Companies Act, 1991. The bank is named after the name of a saint Hajrat Shahjalal ® who dedicated his life for the cause of peace in this world and hereafter and served the humanity. The name of the bank was changed to 'Shahjalal Islami Bank Limited' on 10 May 2004.

The bank is formed with 20 members of director from where one is Chairman and two Vice Chairmen. There are 8 members of shariah council to implement the shariah principles in all the banking activities. The total manpower was 1881, branches were 84, total shareholders were 75515 and shareholders' equity was 9646 million BDT. as on 31 December,2012.

The shahjalal Islami Bank performed in all the key areas of operations well enough. Total deposits of the bank stood at TK. 102117 million, total investment was TK. 101348 million and total foreign exchange business was TK. 225553 million as on 31 December,2012.Total assets was TK. 132823million, total fixed assets was TK. 2898 million, total income was TK.17439 million, and total expenditure was TK. 12992 million. The growth trend of the bank is very high from the previous years.

The bank does not operate as only profit maximization financial institution. As an Islamic bank the bank are committed to serve the cause of the humanities. In this course, the bank expanded helping hand to the natural destructions affected people of various regions of the country. The bank has a plan to establish a smart CSR fund to serve the nation. SJIBL is now achieved the trust of the customer and operated smoothly in the challenging environment of banking sector.

4.4.8 Union Bank Limited (UBL)

"Local Bank, Global opportunity"- raising the slogan, Union Bank Limited has established as a newly full-fledged commercial bank based on Islamic shariah in private sector of Bangladesh. The bank has emerged as a result of further liberalization of economic policies by the government of Bangladesh to bring competitiveness in the banking industry. The bank commenced its journey on 1st April 2013 with an Authorized capital of Tk. 10000 million and Paid up capital of TK. 4280 million.

The Union Bank Limited a 4th generation bank has now sprouted 11 branches across the country. In the year 2014, the bank has a plan to open at least another

20 branches covering both urban and rural areas. The bank sponsored by a group of renowned personalities from the field of trade, commerce & industry. The Bank has a total of 20 directors all of them are renowned businessman in Bangladesh.

Union Bank Limited has introduced as IT banking. UBL is supported by core banking solution and products & services and it is effectively adopting regulatory guidelines on IT risk management. UBL is conscious of its social business responsibilities and is determined to participate in various social programs in the country in the days to come under its CSR portfolio giving special emphasis on health, habit & education. The bank will ensure better integrated idea of formal, informal & voluntary banking in the same platform.

4.5 Institutional Development of Islamic Banking in Bangladesh

After establishing Islami Bank Bangladesh Limited, Islamic banking has been popular amongst people. Now Bangladesh has eight full-fledged Islamic banks. The area of Islamic banking needs to be more reformed over the years. However, the following developments have been occurred from government level and somewhere from the private level for the demand of the time being

4.5.1 Islamic Bank Consultative Forum (IBCF)

In 1995 a forum of Islamic Banks and Conventional Banks having Islamic Banking branches was established in Bangladesh designated as 'Islamic Banks Consultative Forum' (IBCF) for effective interaction of all Islamic Banks (a) to foster and strengthen the bond and fraternity and co-operation and relationship among Islamic banks; (b) to promote, encourage and further the case of Islamic banking in Bangladesh; (c) to pursue common interests of Islamic banks; (d) to put in concerted endeavors for enacting Islamic banking Act in Bangladesh; (e) to guide/support the establishment of Islamic Money Market and (f) to establish central shariah board etc. Seven (7) full-fledged Islamic banks and four (4) conventional banks having Islamic banking branches are the members of IBCF

4.5.2 Central Shariah Board for Islamic Banks of Bangladesh (CSBIBB)

In 2001, 'Central Shariah Board for Islamic Banks of Bangladesh (CSBIBB) was established to offer views and assistance to its member banks on matters related to Islamic banking to ensure observance of uniform policies and practices. Seven (7) full-fledged Islamic banks and ten (10) conventional banks having Islamic banking branches are the members of CSBIBB.

4.5.3 Bangladesh Government Islamic Investment Bond (BGIIIB)

In 2004 Ministry of Finance, Government of Peoples Republic of Bangladesh introduced Bangladesh Government Islamic Investment Bond (BGIIIB). This Islamic Financial instrument has started playing a seminal role in the development of Islamic Money Market. Any resident or non-resident institution in Bangladesh or any individual can purchase this Bond. The unit price of the Bond is taka 1 (one) lac and anyone can purchase the Bond for taka 1 (one) lac or multiple thereof having tenure of 6 (six) months, 1 (one) year or 2 (two) years. The Bond is treated as component of Statutory Liquidity Ratio (SLR).

4.5.4 Islami Interbank Fund Market

To mitigate the liquidity crisis of Islami Shariah based Scheduled Banks/Financial Institutions and to manage the same in better way under Islami shariah principles, Bangladesh Bank introduced Islami Interbank Fund Market in 2011. Under this arrangement an interested institution can place its surplus fund with the bond fund overnight at Bangladesh Bank. The Islamic banks and banks having Islamic banking operation may borrow from this fund for overnight. This Islami Interbank Fund Market will expectedly play an important role in the expansion of Islami Money Market (IBBL, 2013).

4.5.5 Islamic Banking in Conventional Bank

One of the important developments in Islamic banking in the last few years has been the entry of some conventional banks in the market and their use of Islamic modes of financing through their Islamic branches, windows or units. It necessitates and encourages the globalization of Islamic banking, which includes some of the giants in the banking and finance industry (Akkas, 2008).

4.6 Growth of Islamic Banking in Bangladesh

Islamic banking is a rapid growth phenomenon in Bangladesh. The Islamic banking industry continued to show strong growth since its inception in 1983 to December 2012, in tandem with the growth in the economy, as reflected by the increased market share of the Islamic banking industry in terms of assets, financing and deposits of the total banking system. Total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at Taka 1017.9 billion at end

December 2012. This was 18.9 percent of deposits of the total banking system at the end December 2012. Total credit of the Islamic banks and Islamic banking branches of the conventional banks stood at Taka 910.1 billion at end December 2012. This was 21.1 percent of the credit of the total banking system of the country (Annual Report, 2012). A brief picture in the following Table

Table 4.1
Comparative position of the Islamic banking sector (as of end December 2012)

(billion Taka)

Particulars	Islamic banks		Dual banking (Conventional+Islamic)		Islamic banking sector		All banking sector	
	2012	2011	2012	2011	2012	2011	2012	2011
1	2		3		4=2+3		5	
Number of banks	7	7	16	16	23	23	47	47
Deposits	961.2	7751.2	56.7	56.2	1017.9	807.4	5396.0	4509.7
Credits	858.9	693.0	51.2	45.8	910.1	738.8	4318.6	3642.6
Credit deposit ratio	89.4	90.9	90.3	81.4	89.4	172.3	76.6	80.8
Liquidity. excess (+)/ shortfall(-)@	51.0	31.0	0.8	0.5	51.9	31.5	505.4	358.5
@ Conventional banks which have Islamic banking branches do not maintain SLR individually. The head offices of the respective bank maintain combinedly SLR and liquidity position.								

Sources: Annul Report of Bangladesh Bank 2011-2012.

The growth of Islamic banks under various indicators as such authorized capital, paid up capital, reserve fund, Total assets, total income, total expenditure, deposit, investement, manpower, net profit etc. proved that it has a great market opportunity and it increased day by day. In this chapter a quantitative analysis has been shown above variables of Islamic banks in Bangladesh over the period 2003 to 2012.

4.6.1 Growth in Authorized Capital

Authorized capital is the sum mentioned in the memorandum of association of a limited company an being the amount which the company is authorized to raise by issuing shares to the promoters, general public (Chowdhury, 2005). It is noted that

the authorized capital of Islamic banks is a smart figure over the years. With the above view the growth in authorized capital is given in the table 4.2.

Table 4.2
Growth in Authorized Capital of Islamic Banks in Bangladesh
(Amount in Million Taka)

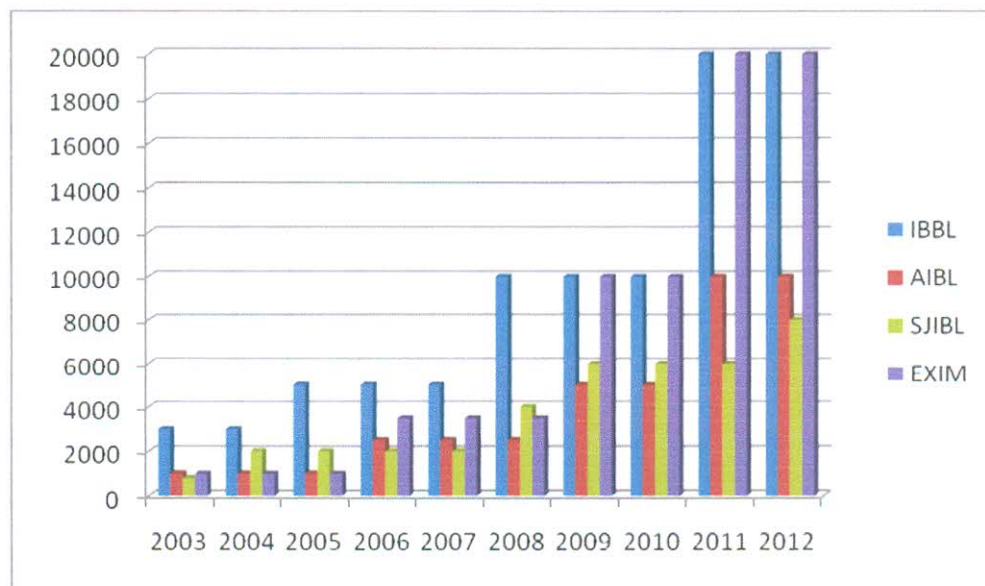
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	3000	1000	800	1000	5800	1450	3000	51.72
2004	3000	1000	2000	1000	7000	1750	3000	42.86
2005	5000	1000	2000	1000	9000	2250	5000	55.56
2006	5000	2500	2000	3500	13000	3250	5000	38.46
2007	5000	2500	2000	3500	13000	3250	5000	38.46
2008	10000	2500	4000	3500	20000	5000	10000	50.00
2009	10000	5000	6000	10000	31000	7750	10000	32.26
2010	10000	5000	6000	10000	31000	7750	10000	32.26
2011	20000	10000	6000	20000	56000	14000	20000	35.71
2012	20000	10000	8000	20000	58000	14500	20000	34.48
Avg.	9100	4050	3880	7350	24380.00			
SD	6367.45	3459.69	2457.7	7450.02	19379			
CV	69.97	85.42	63.18	101.36	79.49			
Max. Lev	20000	10000	8000	20000	58000			
Mini.Lev	3000	1000	800	1000	5800			
SGR	62.96	100	100	211.11	100			
CGR	1.95	1.75	1.68	1.99	2.34			

Source: Annual Reports of concerned banks, various issues

Table 4.2 presents the growth of authorized capital of Islamic Banks in Bangladesh. It is observed that in IBBL it increased from Tk. 3000 million in 2003 to Tk. 20000 million or 6.6 times in 2012 with an average of Tk. 9100 million. In AIBL it increased from Tk. 1000 million in 2003 to Tk. 10000 million or 10 times in 2012 with an average of Tk. 4050 million. In SJIBL it increased from Tk. 800 million in 2003 to Tk. 8000 million or 10 times in 2012 with an average of Tk. 3080 million. In EXIM Bank it increased from Tk. 1000 million in 2003 to Tk. 20000 million or 20 times in 2012 with an average of Tk. 7350 million. The AIBs average increased from Tk. 5800 million in

2003 to Tk. 58000 million or 10 times in 2012 with an average of Tk. 24380 million. It is found that the growth of authorized capital of EXIM Bank is remarkable. In 2003 when the leading bank IBBL had Tk. 3000 million authorized capital; and EXIM Bank had Tk. 1000 million in the same day, but in 2012 IBBL had Tk. 20000 million authorized capital which was 6.66 times in 2012 on the contrary, EXIM Bank also had the same amount of authorized capital which was 20 times in 2012.

Figure 4.1
Growth in Authorized Capital of Islamic Banks in Bangladesh



Source: Same as Table 4.2

4.6.2 Growth in Paid up Capital

Paid up capital is the total amount of share capital of a company that has been paid up the shareholders. This may be the same as the issued capital because the shares are fully paid (Chowdhury, 2005). With the above view the growth in paid up capital is given in the Table 4.3.

Table 4.3
Growth in Paid up Capital of Islamic Banks in Bangladesh
(Amount in Million Taka)

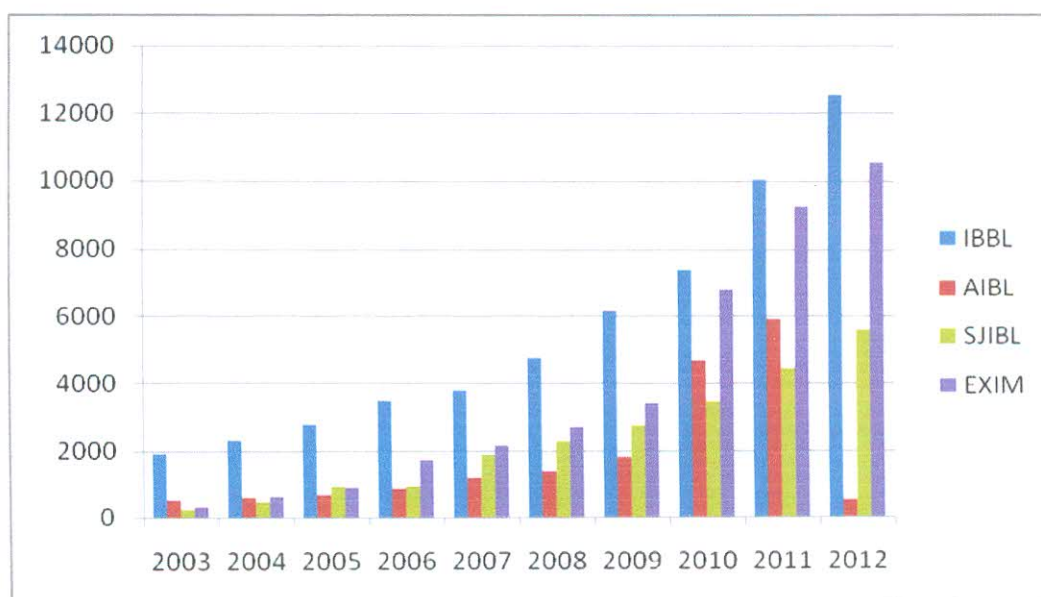
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	1920	506	231	313.88	2970.88	742.72	1920	64.63
2004	2304	586.96	467	627.75	3985.71	996.428	2304	57.81
2005	2764.8	677.94	936	878.85	5257.59	1314.4	2764.8	52.59
2006	3456	854.2	936	1713.76	6959.96	1739.99	3456	49.66
2007	3801.6	1153.18	1872	2142.2	8968.98	2242.25	3801.6	42.39
2008	4752	1383.81	2246	2677.75	11059.56	2764.89	4752	42.97
2009	6177.6	1798.95	2740	3373.96	14090.51	3522.63	6177.6	43.84
2010	7413.1	4677.28	3425	6832.27	22347.65	5586.91	7413.1	33.17
2011	10008	5893.37	4453	9223.56	29577.93	7394.48	10008	33.84
2012	12510	506	5566	10514.86	29096.86	7274.22	12510	42.99
Avg.	5510.60	2466.27	2287.20	3829.88	13431.56			
SD	3523.00	2469.95	1773.50	3696.56	10104.59			
CV	63.93	100.15	77.54	96.52	75.23			
Max. Lev	12510.00	7130.98	5566.00	10514.86	29577.93			
Mini.Lev	1920.00	506.00	231.00	313.88	2970.88			
SGR	61.28	145.48	256.61	361.11	97.71			
CGR	1.80	1.66	1.59	1.79	2.10			

Source: Annual Reports of concerned banks, various issues

Table 4.3 shows the growth of paid up capital of Islamic Banks in Bangladesh. Growth in paid up capital in IBBL was Tk. 12510 million or 6.51 times in 2012 as against Tk. 1920 million in 2003 with an average of Tk. 5510.60 million. In AIBL it was Tk. 5893.37 million or 11.64 times in 2011 as against Tk. 506 million in 2003 with an average of Tk. 2466.27 million. It is noted that the paid up capital was decreased in 2012 as amounted Tk. 506 million which was the same in 2003. In SJIBL it was Tk. 5566 million or 24.09 times in 2012 as against Tk. 231 million in

2003 with an average of Tk. 2287.20 million. In EXIM Bank it was Tk. 10514.86 million or 33.49 times in 2012 as against Tk. 313.88 million in 2003 with an average of Tk. 3829.88 million. In AIBs it increased from Tk. 2970.88 million in 2003 to Tk. 29096.86 million or 9.79 times in 2012 with an average of Tk. 13431.56 million. it is stated that the growth of paid up capital of EXIM Bank was significantly better than other Islamic Banks in Bangladesh. It was 33.49 times in the year 2012 from the base year 2003.

Figure 4.2
Growth in Paid up Capital of Islamic Banks in Bangladesh



Source: Same as Table 4.3

4.6.3 Growth in Shareholders' Equity

Shareholders equity represents the amount by which a company financed through common and preferred shares. Shareholders equity comes from two main sources. The first and original source is the money that was originally invested in the company, along with any additional investments made thereafter. The second comes from retained earnings which the company is able to accumulate over time through its operations. In most cases, the retained earnings portion is the largest component (Investopaedia). With the above view the growth in Shareholders Equity is given in the Table 4.4.

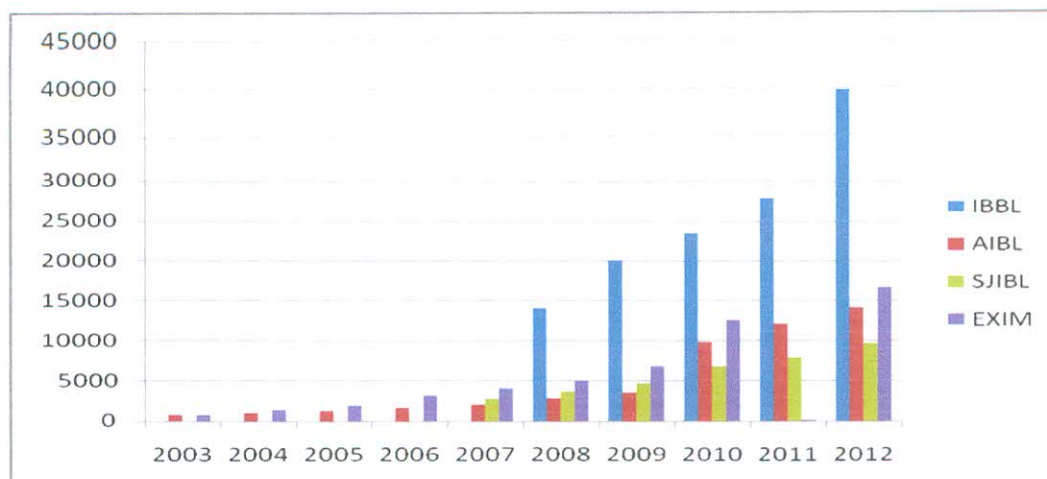
Table 4.4
Growth in Shareholders equity of Islamic Banks in Bangladesh
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	0	737.89	0	748.27	1486.16	371.54	748.27	50.35
2004	0	957.26	0	1400	2357.26	589.315	1400	59.39
2005	0	1220.16	0	1912.42	3132.58	783.145	1912.4	61.05
2006	0	1690.18	0	3111.69	4801.87	1200.47	3111.7	64.80
2007	0	2037.5	2788	4042.53	8868.03	2217.01	4042.5	45.59
2008	14060	2705.74	3605	4989.2	25359.9	6339.99	14060	55.44
2009	20106	3564.73	4676	6717.21	35063.9	8765.99	20106	57.34
2010	23494	9790.36	6748	12474.85	52507.2	13126.8	23494	44.74
2011	27800	11989.1	7917	144.84	47850.9	11962.7	27800	58.10
2012	39756	14050.7	9646	16641.86	80094.6	20023.6	39756	49.64
Avg.	12522.00	4874.36	3538.00	5218.29	26152.24			
SD	14679.00	5048.69	3631.90	5400.66	27109.54			
CV	117.23	103.58	102.66	103.49	103.66			
Max. Lev	39756.00	14050.70	9646.00	16641.86	80094.6			
Mini. Lev	0.00	737.89	0.00	144.84	1486.16			
SGR	20.31	200.46	27.33	236.01	587.71			
CGR	2.24	1.87	1.77	1.93	2.50			

Source: Annual Reports of concerned banks, various issues

Table 4.4 present the growth of shareholders equity of Islamic Banks in Bangladesh. It shows in the table that the data of IBBL in the year 2003 to 2007 is not available amount in the year 2012 is two-third of the total Islamic Banks in Bangladesh. In 2008 it was Tk. 14060 million which rose to Tk. 39756 million or 2.82 times in the year 2012 with an average of Tk. 12522 million. In AIBL it increased from Tk. 737.89 million in 2003 to Tk. 14050.07 million or 19.04 times in 2012 with an average of Tk. 4874.36 million. In SJIBL the data is not available in the year 2003 to 2006. But, it increased from Tk. 2788 million in 2007 to Tk. 9646 million or 3.45 times in 2012 with an average of Tk. 3538 million. In EXIM Bank it increased from Tk. 748.27 million in 2003 to Tk. 16641.86 million or 22.24 times in 2012 with an average of Tk. 5217.29 million. In AIBs it increased from Tk. 1486.16 million in 2003 to Tk. 80094.6 million or 53.89 times in 2012 with an average of Tk. 26152.24 million.

Figure 4.3
Growth in Shareholders equity of Islamic Banks in Bangladesh



Source: Same as Table 4.4

4.6.4 Growth in Reserve Fund

The reserve fund is profits in a business which have not been paid out as dividend but have been ploughed back into the business (Dictionary of Banking & Finance). It is divided generally into two classes, namely (i) capital reserve and (ii) revenue reserve. The reserve fund of Islamic Banks in Bangladesh is very rich. However, with the above view the growth in reserve fund is given in the Table 4.5.

Table 4.5
Growth in Reserve Fund of Islamic Banks in Bangladesh

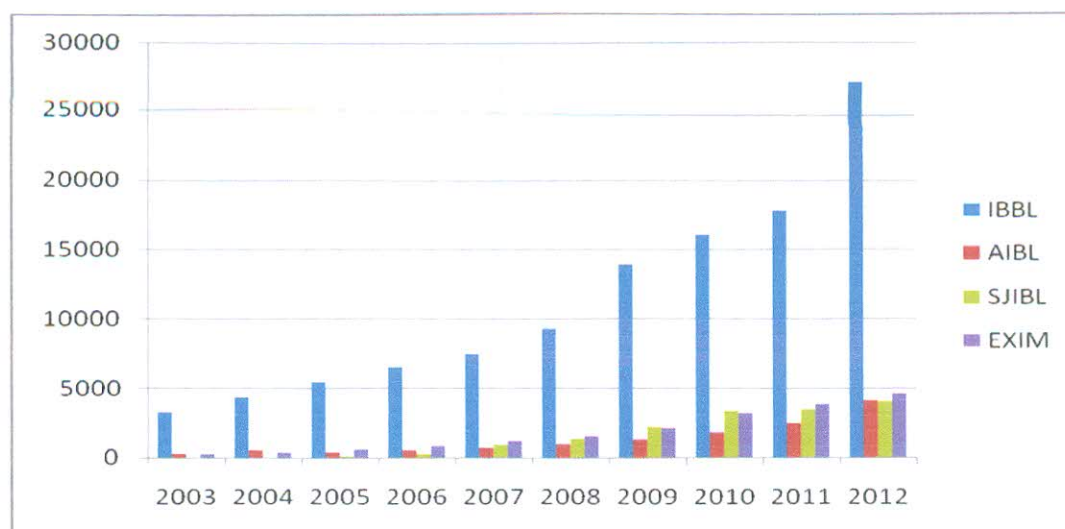
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	3280.4	231.89	16.44	228.2	3756.93	939.233	3280.4	87.32
2004	4329.9	488	16.44	357.33	5191.67	1297.92	4329.9	83.40
2005	5450.9	365.87	109.62	569.99	6496.38	1624.1	5450.9	83.91
2006	6551.2	536	267.13	810.88	8165.21	2041.3	6551.2	80.23
2007	7418.1	653	916	1134.64	10121.7	2530.44	7418.1	73.29
2008	9308.5	905.33	1359	1532.55	13105.4	3276.35	9308.5	71.03
2009	13928	1223.2	2187	2092.97	19431.2	4857.79	13928	71.68
2010	16081	1779.1	3323	3154.76	24337.9	6084.47	16081	66.07
2011	17793	2437.4	3464	3849.78	27544.2	6886.05	17793	64.60
2012	27246	4079.6	4000	4587.47	39913.1	9978.27	27246	68.26
Avg.	11139.00	1269.90	1565.90	1831.86	15806.37			
SD	7561.80	1205.40	1566.10	1543.45	11772.72			
CV	67.89	94.92	100.02	84.26	74.48			
Max. Lev	27246.00	4079.60	4000.00	4587.47	39913.1			
Mini. Lev	3280.40	231.89	16.44	228.20	3756.93			
SGR	81.18	184.37	2692.30	212.25	106.93			
CGR	2.07	1.50	1.51	1.54	2.21			

Source: Annual Reports of concerned banks, various issues

Table 4.5 shows the growth of reserve fund of Islamic Banks in Bangladesh. It is found that in IBBL it increased from Tk. 3280.4 million in 2003 to Tk. 27246 million or 8.30 times in 2012 with an average of Tk. 11139 million. In AIBL it increased from Tk. 231.89 million in 2003 to Tk. 4079.6 million or 17.59 times in 2012 with an average of Tk. 1269.90 million. In SJIBL it increased from Tk. 16.44 million in 2003 to Tk. 4000 million or 243.30 times in 2012 with an average of Tk. 1565.90 million. In EXIM Bank it increased from Tk. 228.2 million in 2003 to Tk. 4587.47 million or 20.10 times in 2012 with an average of Tk. 1831.86 million. The table shows that though the amount of reserve fund of IBBL is more than two-third of all the Islamic Banks in Bangladesh, the simple growth of trend of SJIBL was so high in the previous year. The SGR of EXIM Bank was also good.

Figure 4.4
Growth in Reserve Fund of Islamic Banks in Bangladesh



Source: Same as Table 4.5

4.6.5 Growth in Total Assets

An asset is the item of property or goods owned by any individual or business enterprise. In accounting terms it is any item real or fictitious that can be given a monetary value. Assets include as per consolidated balance sheet cash, balance with other banks and financial institutions, placement with banks and other financial institution, investments in share and securities, general investment, fixed assets including premises, non-banking assets. However, the growth trend of total assets of Islamic Banks in Bangladesh is very well. With the above view the growth in total assets is given in the Table 4.6.

Table 4.6
Growth in Total Assets of Islamic Banks in Bangladesh

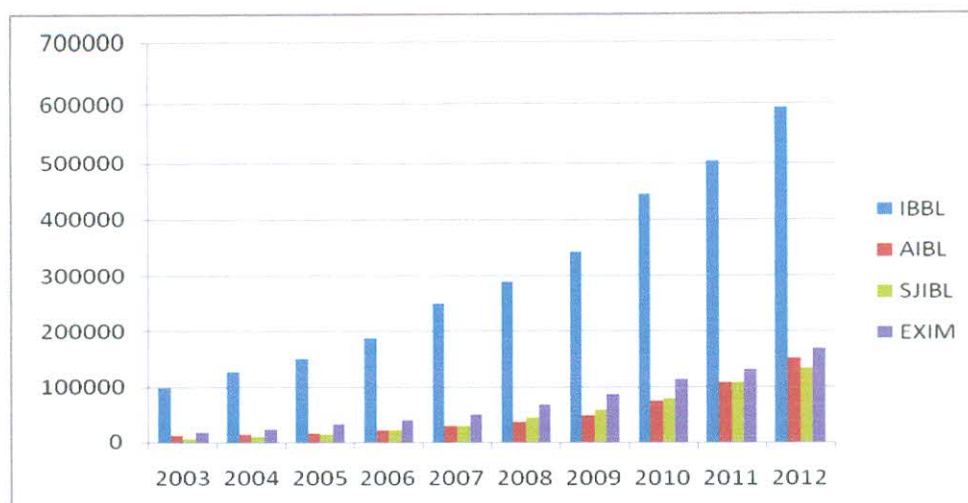
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	98047	10887	6423	17889	133246	33311.5	98047	73.58
2004	125777	12875	9742	24356	172750	43187.5	125777	72.81
2005	150960	15337	14448	33717	214462	53615.5	150960	70.39
2006	188115	21368	21343	41794	272620	68155	188115	69.00
2007	250013	30182	28347	51503	360045	90011.3	250013	69.44
2008	288017	37177	44110	68446	437750	109438	288017	65.79
2009	340638	48516	58921	86213	534288	133572	340638	63.76
2010	443685	74005	78800	113071	709561	177390	443685	62.53
2011	502613	106768	107229	129874	846484	211621	502613	59.38
2012	592581	149320	132823	167057	1041781	260445	592581	56.88
Avg.	298045.00	50644.00	50219.00	73392.00	472298.70			
SD	169124.00	46126.00	43655.00	49737.00	307190.3			
CV	56.74	91.08	86.93	67.77	65.04			
Max. Lev	592581.00	149320.00	132823.00	167057.00	1041781			
Mini. Lev	98047.00	10887.00	6423.00	17889.00	133246			
SGR	56.04	141.29	218.66	92.65	75.76			
CGR	3.29	2.73	2.69	2.76	3.59			

Source: Annual Reports of concerned banks, various issues

Table 4.6 shows growth of total assets of Islamic Banks in Bangladesh. Growth in total assets in IBBL was Tk. 592581 million or 6.04 times in 2012 as against Tk. 98047 million in 2003 with an average of Tk. 298045 million. In AIBL it increased from Tk. 10887 million in 2003 Tk. 149320 million which is 13.71 times in 2012. In SJIBL it increased from Tk. 6423 million in 2003 to Tk. 132823 million or 20.67 times with an average of Tk. 50219 million. In EXIM Bank it increased from Tk. 17889 million in 2003 to Tk. 167057 million in 2012 which is 9.33 times over the years with an average of Tk. 73392 million. In AIBs average increased from Tk. 33311.5 million in 2003 to Tk. 260445 million or 7.81 times in 2006 with an average of Tk. 472298.70 million.

Figure 4.5
Growth in Total Assets of Islamic Banks in Bangladesh



Source: Same as Table 4.6

4.6.6 Growth in Fixed Assets

Fixed assets include buildings, real estate, equipment and furniture's. In the area of financial performance the fixed assets of Islamic Banks in Bangladesh are increasing very rapidly. With the above view the growth in fixed assets is given in the Table 4.7.

Table 4.7
Growth in Total Fixed Assets of Islamic Banks in Bangladesh

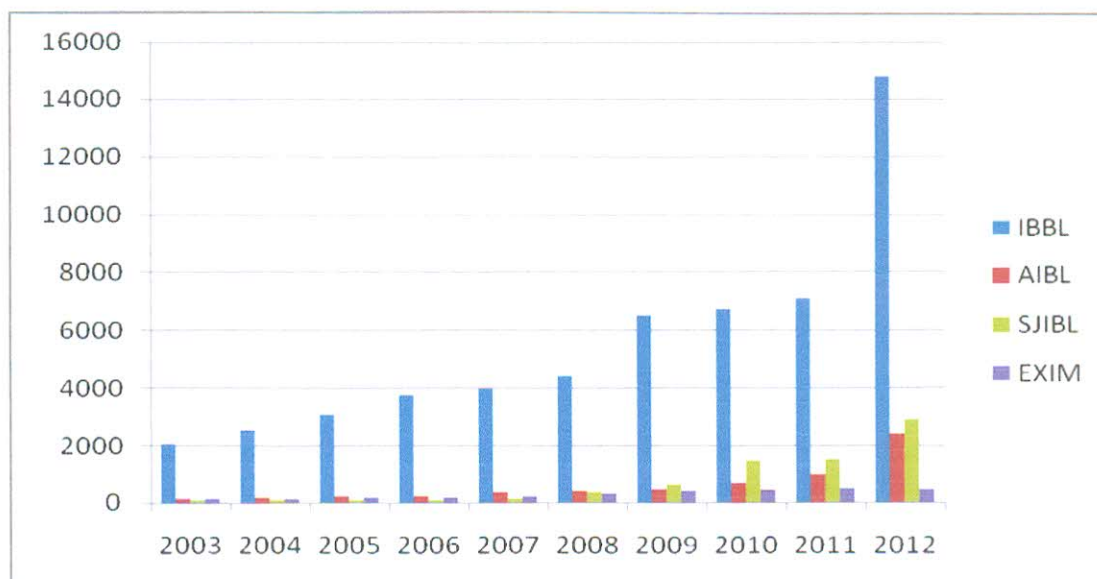
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	2036.7	126.23	77	127.72	2367.65	591.913	2036.7	86.02
2004	2552.7	195.17	77	150.82	2975.69	743.923	2552.7	85.79
2005	3068	208	83	166.98	3525.98	881.495	3068	87.01
2006	3724.7	215.1	93	178.43	4211.23	1052.81	3724.7	88.45
2007	3987.2	334.48	127	200.7	4649.38	1162.35	3987.2	85.76
2008	4407.2	396.76	339	293.53	5436.49	1359.12	4407.2	81.07
2009	6512.4	466.3	620	381.98	7980.68	1995.17	6512.4	81.60
2010	6748.4	655.39	1473	463.74	9340.53	2335.13	6748.4	72.25
2011	7100.2	968.13	1525	467.98	10061.3	2515.33	7100.2	70.57
2012	14808	2394.6	2898	433.09	20533.7	5133.42	14808	72.12
Avg.	5494.60	596.02	731.20	286.50	7108.26			
SD	3727.00	681.41	948.10	138.22	5419.358			
CV	67.83	114.33	129.66	48.25	76.24			
Max. Lev	14808.00	2394.60	2898.00	467.98	20533.7			
Mini. Lev	2036.70	126.23	77.00	127.72	2367.65			
SGR	69.68	199.67	407.07	26.57	85.25			
CGR	1.86	1.36	1.42	0.89	1.97			

Source: Annual Reports of concerned banks, various issues

Table 4.7 presents the growth of fixed assets of Islamic Banks in Bangladesh. Growth in fixed assets in IBNL was Tk. 14808 million or 727 times in as against Tk. 2036.7 million in 2003 with an average of Tk. 5494.60 million. In AIBL it was Tk. 2394.6 million or 14.97 times in 2012 as against Tk. 126.23 million in 2003 with an average of Tk. 596.02 million. In SJIBL it was Tk. 2898 million or 37.63 times in 2012 as against Tk. 77 million in 2003 with an average of Tk. 731.20 million. In EXIM Bank it was Tk. 433.09 million or 3.39 times in 2012 as against Tk. 127.72 million in 2003 with an average of Tk. 286.50 million. In AIBs it was Tk. 20533.7 million or 8.67 times in 2012 as against Tk. 2367.65 million in 2003 with an average of Tk. 7108.26 million. The statistics shows that the fixed assets of IBBL are so much higher than others Islamic Banks in Bangladesh. The SGR of SJIBL is higher than others banks. It can be said that viewing the data IBBL in the market leader of private commercial banking (PCB) sector.

Figure 4.6
Growth in Total Fixed Assets of Islamic Banks in Bangladesh



Source: Same as Table 4.7

4.6.7 Growth in Deposit

The deposit mobilization is the key function of a bank. About 95 percent of the working fund of a bank usually comes from deposits and remaining portion comes from paid up capital and reserve and surplus (Uddin, 2009). Every banks aim is to collect optimum deposit. That is why they offered lucrative deposit mode. In the banking sector of Bangladesh Islamic Banks are collecting a major portion of deposit

from clients. Against the above background table 4.8 shows the growth trend in deposits of Islamic Banks in Bangladesh.

Table 4.8
Growth in Deposits of Islamic Banks in Bangladesh

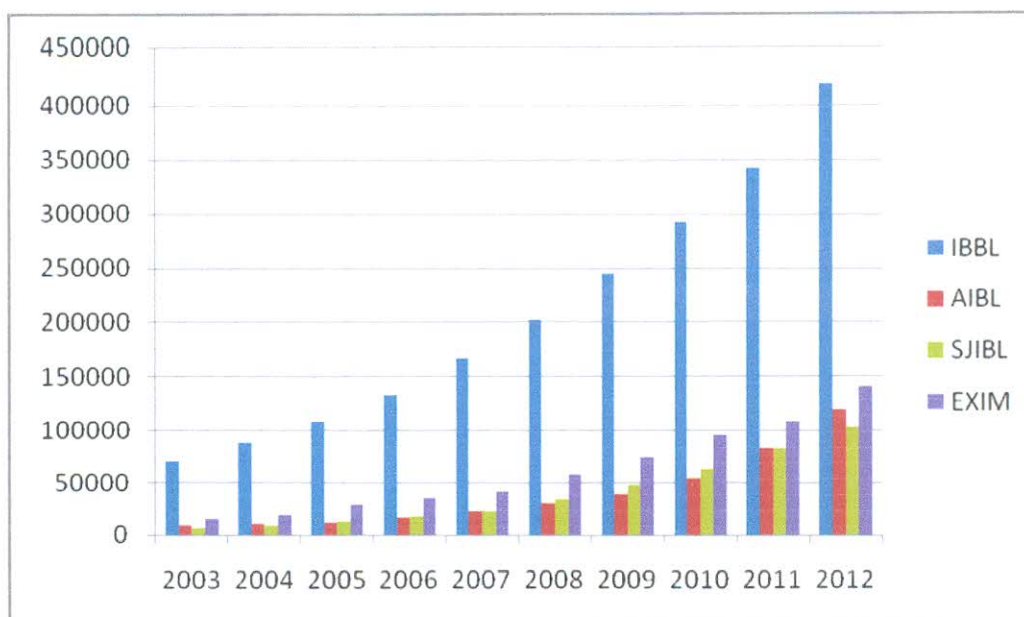
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	69942	8643.3	6039	15242.97	99867.3	24966.8	69942	70.03
2004	87841	10108	9092	19078.18	126119	31529.8	87841	69.65
2005	107779	11644	12205	28319.21	159947	39986.8	107779	67.38
2006	132419	16775	18091	35032.02	202317	50579.3	132419	65.45
2007	166325	23009	22618	41546.57	253499	63374.6	166325	65.61
2008	202115	29690	34280	57586.99	323672	80918	202115	62.44
2009	244292	38356	47459	73835.46	403942	100986	244292	60.48
2010	291935	53883	62965	94949.4	503732	125933	291935	57.95
2011	341854	82187	83350	107881.21	615272	153818	341854	55.56
2012	417844	118683	102177	140369.66	779074	194768	417844	53.63
Avg.	206235.00	39298.00	39828.00	61384.17	346744.13			
SD	116098.00	36173.00	33373.00	41895.14	226454.8			
CV	56.29	92.05	83.79	68.25	65.31			
Max. Lev	417844.00	118683.00	102177.00	140369.66	779074			
Mini. Lev	69942.00	8643.30	6039.00	15242.97	99867.3			
SGR	55.27	141.46	176.88	91.21	75.57			
CGR	3.13	2.63	2.58	2.68	3.45			

Source: Annual Reports of concerned banks, various issues

It is observed from table 4.8 that the amount of deposit in IBBL was Tk. 69942 million in 2003 and it increased to Tk. 417844 million in 2012 which is 5.97 times from the base year 2003. In AIBL it increased from Tk. 8643.3 million in 2003 to Tk. 118683 million or 13.73 times in 2012 with an uninterrupted increasing trend. In SJIBL it increased from Tk. 6039 million in 2003 to Tk. 102177 million or 16.91 times in 2012 with rapid growth trend. In EXIM Bank the amount of deposit increased from Tk. 15242.97 million in 2003 to Tk. 140369.66 million or 9.20 times in 2012. In AIBs the amount of deposits increased from Tk. 99867.3 million in 2003 to Tk. 779074 million or 7.80 times in 2012 with a gradual rapid growth trend over the years.

Figure 4.7
Growth in Deposits of Islamic Banks in Bangladesh



Source: Same as Table 4.8

4.6.8 Growth in Investment

The basic function of a bank is to collect deposits and lend it to the borrowers who act as an entrepreneur to generate the deposits and play a vital role in economic development. There are two types of investment by nature in bank; they are general investments which we called loans and advances and investment in share and securities. As a part of the money supply it is considered as the circulation of blood in the nerves of a dynamic and growing economy (Abedin, 1988). In the banking activities investment is one of the major factors for run the bank and development financial institution. After collecting deposits from various sectors and turning them into capital, banks provide these capitals as loans and advances to the debtors or fixed rate, which is a little higher than the rate of deposit collection (Chowdhury, 2005). It is the most important factor for the PCBs to maintain a steady and stable growth in their investment because without adequate investment their whole existence might come under Jeopardy (Ahmad, 2011). However, the collected amount of investment included both general investment and investment in shares and securities of the sample banks which is shown in the Table 4.9. With the above view, the Table 4.9 presents the growth in investment of Islamic Banks in Bangladesh.

Table 4.9
Growth in Investment of Islamic Banks in Bangladesh

(Amount in Million Taka)

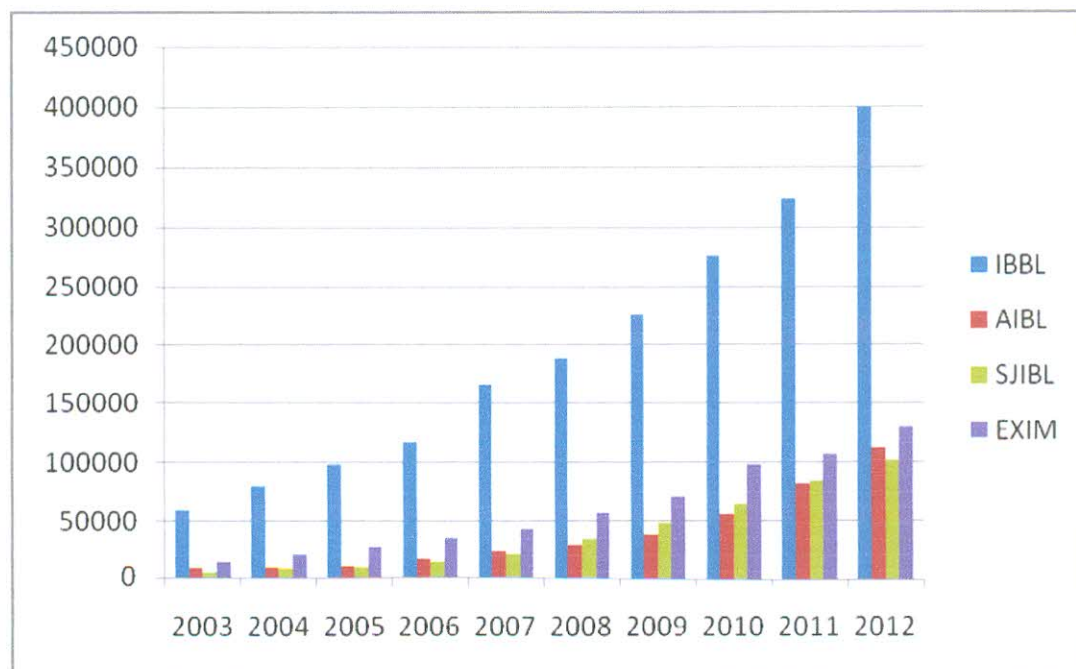
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	59042	7571.5	4269	14666.19	85548.7	21387.2	59042	69.02
2004	79393	8150.2	7149	20875.43	115568	28891.9	79393	68.70
2005	97178	11476	10590	27679.37	146923	36730.8	97178	66.14
2006	117133	17425	15516	34874.52	184949	46237.1	117133	63.33
2007	165286	23775	21476	42652.96	253190	63297.5	165286	65.28
2008	187587	28833	34063	56531.7	307015	76753.7	187587	61.10
2009	225752	37636	47441	70799.45	381628	95407.1	225752	59.15
2010	275494	55762	63669	97818.69	492744	123186	275494	55.91
2011	322773	81487	83969	106433.7	594663	148666	322773	54.28
2012	399931	112162	101348	128565.4	742006	185502	399931	53.90
Avg.	192957.00	38428.00	38949.00	60089.73	334130.27			
SD	112608.00	34857.00	34157.00	39410.72	227893			
CV	58.36	90.71	87.70	65.59	68.20			
Max. Lev	399931.00	112162.00	101348.00	128565.40	779074			
Mini. Lev	59042.00	7571.50	4269.00	14666.19	85548.7			
SGR	64.15	153.48	252.67	86.29	90.08			
CGR	3.12	2.61	2.58	2.65	3.43			

Source: Annual Reports of concerned banks, various issues

In IBBL it was Tk. 399931 million or 6.77 times in 2012 as against Tk. 59042 million in 2003 with the compound growth rate 3.12 percent. In AIBL it was Tk. 112162 million or 14.81 times in 2012 as against Tk. 7571.5 million in 2003 with the compound growth rate of 2.61 percent. In SJIBL it was Tk. 101348 million or 23.74 times in 2012 as against Tk. 4269 million in 2003 with the compound growth rate 2.58 percent. In EXIM Bank the absolute amount was Tk. 128565.4 million or 8.76 times in 2012 as against Tk. 14666.19 million in 2003 with the compound growth rate 2.65 percent. In AIBs it was Tk. 742006 million or 8.67 times in 2012 as against Tk. 85548.7 million in 2003. In relative terms with AIBs, the growth in investment in IBBL was significantly well enough in comparison to other Islamic Banks in

Bangladesh. The SGR of SJIBL is 252.67 percent. It proved that high growth trend of investment in SJIBL.

Figure 4.8
Growth in Investment of Islamic Banks in Bangladesh



Source: Same as Table 4.9

4.6.9 Growth in Foreign Exchange Business

In general terms, this refers to the exchange of one currency for another. In banking, a foreign exchange department may deal with the receipt and transmission of funds to and from countries abroad (Chowdhury, 2005). There are three major functions of foreign exchange business of a commercial bank in which,

- i. Export business
- ii. Import business
- iii. Remittance

However, Islamic Banks are doing well most of the cases. So, the growth of foreign exchange business is very fast in Islamic banks in Bangladesh. With the above view the growth in foreign exchange business is given in the Table 4.10.

Table 4.10
Growth in Foreign Exchange Business of Islamic Banks in Bangladesh

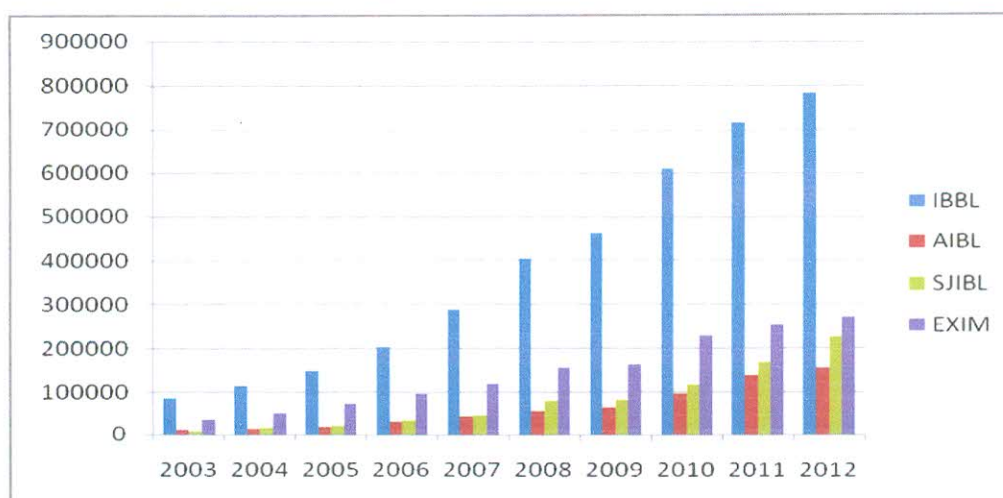
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	84643	10957	7354	34619.6	137574	34393.4	84643	61.53
2004	112624	13269	14324	49312.5	189530	47382.4	112624	59.42
2005	147642	18319	20099	72940	259000	64750	147642	57.00
2006	201822	29831	33501	96175.1	361329	90332.3	201822	55.86
2007	287919	42203	44869	117900.14	492891	123223	287919	58.41
2008	402695	56318	78396	156434.57	693844	173461	402695	58.04
2009	462370	63295	79450	162604.61	767720	191930	462370	60.23
2010	609331	95470	115079	227966.6	1047847	261962	609331	58.15
2011	716058	137003	166906	254407.47	1274374	318594	716058	56.19
2012	782598	155484	225553	270081.5	1433717	358429	782598	54.59
Avg.	380770.00	62215.00	78553.00	144244.21	665782.60			
SD	255571.00	51460.00	71900.00	84711.69	460812.7			
CV	67.12	82.71	91.53	58.73	69.21			
Max. Lev	782598.00	155484.00	225553.00	270081.50	1433717			
Mini. Lev	84643.00	10957.00	7354.00	34619.60	137574			
SGR	91.62	146.55	329.68	75.57	104.68			
CGR	3.46	2.74	2.92	2.95	3.78			

Source: Annual Reports of concerned banks, various issues

It is found that in IBBL it increased from Tk. 84643 million in 2003 to Tk. 782598 million or 9.24 times in 2012 with an average of Tk. 380770 million. In AIBL it increased from Tk. 10957 million in 2003 to Tk. 155484 million or 14.19 times in 2012 with an average of Tk. 62215 million. In SJIBL it increased from Tk. 7354 million in 2003 to Tk. 225553 million or 30.67 times in 2012 with an average of Tk. 78553 million. In EXIM Bank it increased from Tk. 34619.6 million in 2003 to Tk. 270081.5 million or 7.80 times in 2012 with an average of Tk. 144244.2 million. The AIBs average increased from Tk. 137574 million in 2003 to Tk. 1433717 million or 10.42 times in 2012 with an average of Tk. 665782.60 million.

Figure 4.9
Growth in Foreign Exchange Business of Islamic Banks in Bangladesh



Source: Same as Table 4.10

4.6.10 Growth in Return on Assets (ROA)

Growth in return on assets is very important of commercial banks. Return on assets of Islamic banks in Bangladesh is a very fluctuation trend over the years. With the above view the growth in Return on Assets is given in the Table 4.12.

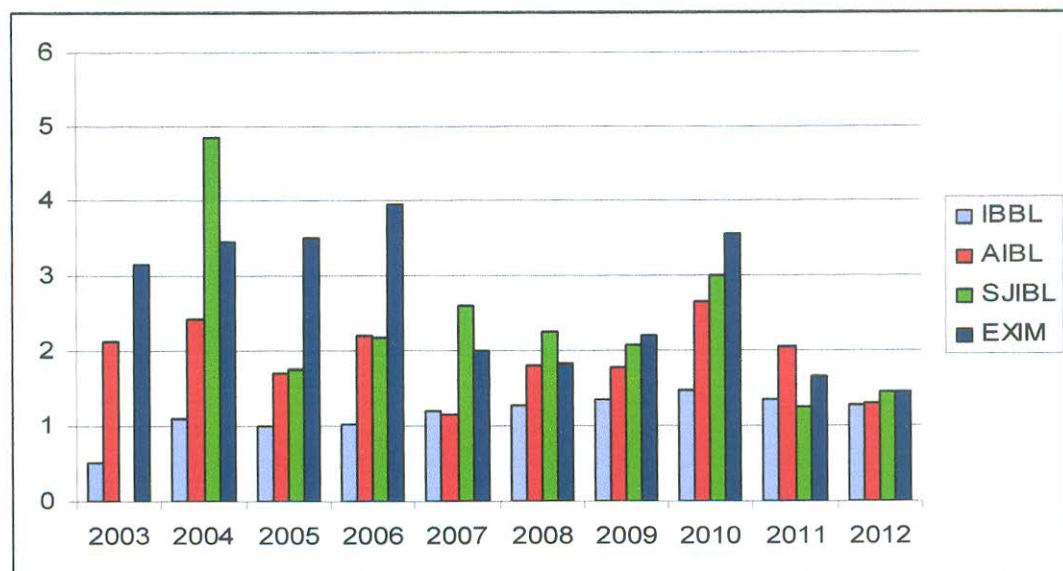
Table 4.11
Growth in Return on Assets (ROA) % of Islamic Banks in Bangladesh

(Amount in Figure)								
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	0.53	2.13	0	3.15	5.81	1.4525	3.15	54.22
2004	1.1	2.42	4.85	3.44	11.81	2.9525	4.85	41.07
2005	1	1.71	1.76	3.49	7.96	1.99	3.49	43.84
2006	1.03	2.2	2.17	3.94	9.34	2.335	3.94	42.18
2007	1.2	1.15	2.6	2	6.95	1.7375	2.6	37.41
2008	1.27	1.8	2.26	1.83	7.16	1.79	2.26	31.56
2009	1.34	1.77	2.08	2.19	7.38	1.845	2.19	29.67
2010	1.47	2.65	3.01	3.54	10.67	2.6675	3.54	33.18
2011	1.35	2.06	1.26	1.65	6.32	1.58	2.06	32.59
2012	1.27	1.3	1.44	1.45	5.46	1.365	1.45	26.56
Avg.	1.16	1.92	2.14	2.67	7.89			
SD	0.27	0.47	1.26	0.93	2.10			
CV	22.95	24.46	58.86	34.85	26.59			
Max. Lev	1.47	2.65	4.85	3.94	11.81			
Mini. Lev	0.53	1.15	0.00	1.45	5.46			
SGR	15.51	-4.33	-7.81	-6.00	-0.67			
CGR	-0.03	-1.98	0.04	-2.06	-1.89			

Source: Annual Reports of concerned banks, various issues

Table 4.11 shows the growth rate of return on assets (ROA) of the Islamic banks in Bangladesh. It is found that in IBBL it was 0.53 percent in 2003 with an average of 1.16 percent. It was the almost same in figure over the years. In AIBL it was 2.13 percent in 2012 with an average of 1.92 percent. The data of SJIBL in the year 2003 was not available. However, it was 4.85 percent in 2004, in the next year it was gradually decreased and it was 1.44 percent in 2012 with an average of 2.14 percent. In EXIM Bank the figure of return on assets was so satisfactory level. It was 3.15 percent in 2003 in the year 2012 it decreased from amounted as 1.45 percent. The presentation shows that returns on assets of all Islamic banks in Bangladesh are so balanced. Amongst the banks, EXIM Bank is in the highest position in return on assets.

Figure 4.10
Growth in Return on Assets (ROA) % of Islamic Banks in Bangladesh



Source: Same as Table 4.11

4.6.11 Growth in Total Income

Income is regarded as the closest proxy of its total output. It represents the reward or return of all banking operations (Abedin 1988). As a financial institution banks have to raise a satisfied income level. The reputation of a bank depends on it. Islamic banks of Bangladesh gained a remarkable income over the years. With the above view the growth in total income is given in the Table 4.12.

Table 4.12
Growth in Total Income of Islamic Banks in Bangladesh

(Amount in Million Taka)

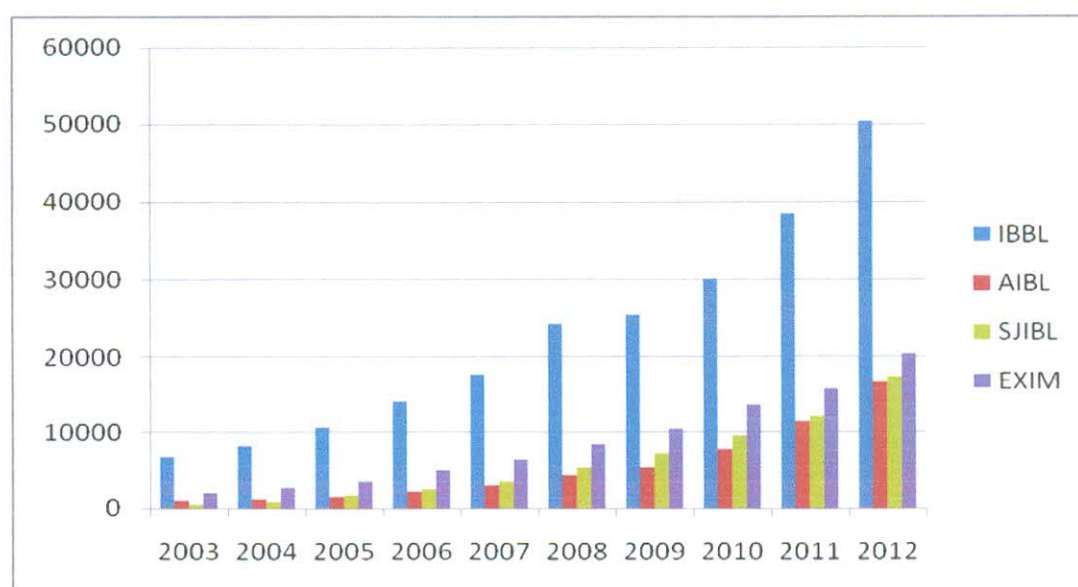
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	6710.4	987.68	536	1961.91	10196	2549	6710.4	65.81
2004	8262.7	1120.85	841	2644.59	12869.1	3217.29	8262.7	64.21
2005	10587	1452.69	1620	3433.39	17093.1	4273.27	10587	61.94
2006	14038	2172.48	2563	4967.57	23741.1	5935.26	14038	59.13
2007	17700	2955.61	3589	6407.96	30652.6	7663.14	17700	57.74
2008	24230	4393.15	5285	8356.82	42265	10566.2	24230	57.33
2009	25404	5305.63	7117	10383.62	48210.3	12052.6	25404	52.69
2010	30129	7685.57	9509	13723.95	61047.5	15261.9	30129	49.35
2011	38401	11332.6	12007	15801.88	77542.5	19385.6	38401	49.52
2012	50346	16692.6	17439	20357.48	104835	26208.8	50346	48.02
Avg.	22581.00	5409.88	6050.60	8803.92	42845.22			
SD	14089.00	5150.15	5520.30	6177.10	30819.22			
CV	62.39	95.20	91.24	70.16	71.93			
Max. Lev	50346.00	16692.60	17439.00	20357.48	104835			
Mini. Lev	6710.40	987.68	536.00	1961.91	10196			
SGR	72.25	176.68	350.39	104.18	103.13			
CGR	2.28	1.93	1.95	1.98	2.57			

Source: Annual Reports of concerned banks, various issues

Table 4.12 presents the total growth of income of the Islamic banks in Bangladesh. It is observed that in IBBL it increased from Tk. 6710.4 million in 2008 to Tk. 50346 million or 7.50 times in 2012 with an average of Tk. 22581.00 million. In AIBL it increased from Tk. 987.68 million in 2003 to Tk. 16692.6 million or 16.90 times in 2012 with an average of Tk. 5409.88 million. In SJIBL it increased from Tk. 536 million in 2003 to Tk. 17439 million or 32.53 times in 2012 with an average of Tk. 6050.60 million. In EXIM Bank it increased from Tk. 1961.91 in 2003 to Tk. 20357.48 million or 10.37 times in 2012 with an average of Tk. 8803.92 million. The

AIBs average increased from Tk. 10196 million in 2003 to Tk. 104835 million or 10.28 times in 2012 with an average of Tk. 42845.22 million. It is also observed that growth in total income of Islami Bank Bangladesh Limited was more than two-thirds of the total income of all Islamic Banks. The SGR of SJIBL is higher than other Islamic banks.

Figure 4.11
Growth in Total Income of Islamic Banks in Bangladesh



Source: Same as Table 4.12

4.6.12 Growth in Total Expenditure

Like income expenditure is also important factor of a commercial bank. Expenditure is treated as the closest proxy of all the inputs of banking production function. In other words, it represents the cost of all inputs used for its operation (Abedin, 1988).

Banks should keep in mind that without expanding their operation and business and developing their workforce, it would be very difficult for them to survive themselves in this tough competitive market (Ahmmed, 2011). With the above view the growth in total expenditure is given in the Table 4.13.

Table 4.13
Growth in Total Expenditure of Islamic Banks in Bangladesh
(Amount in Million Taka)

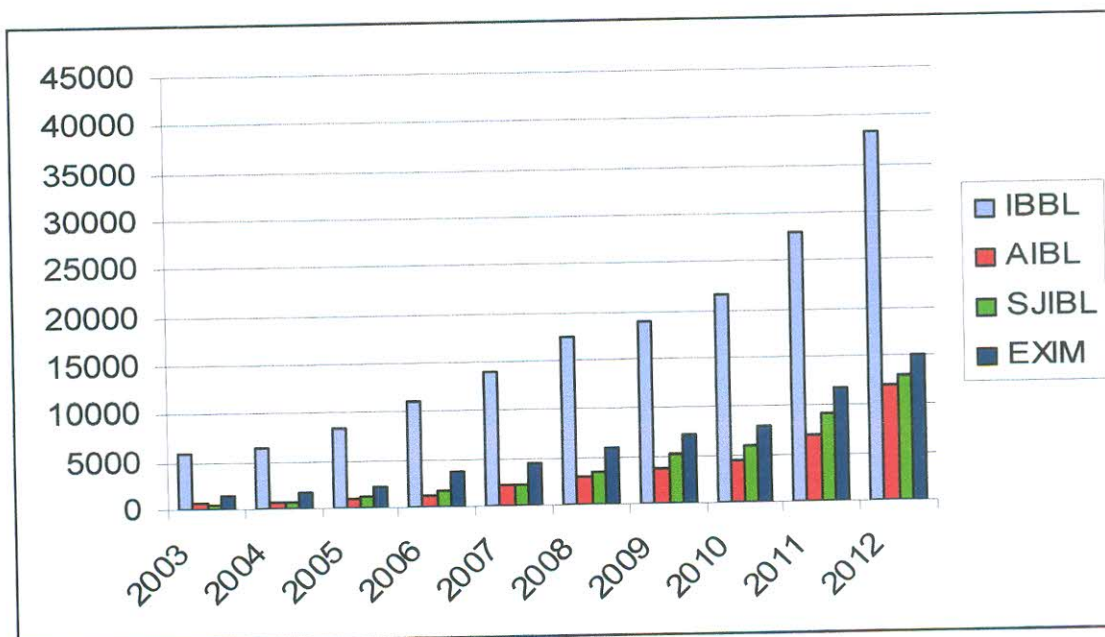
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	5904.4	681.34	512	1399.25	8496.99	2124.25	5904.4	69.49
2004	6419.7	771.96	767	1808.78	9767.44	2441.86	6419.7	65.73
2005	8424.4	974.68	1118	2257.63	12774.7	3193.68	8424.4	65.95
2006	11130	1202.71	1718	3588.89	17639.6	4409.9	11130	63.10
2007	13919	2199.43	2274	4499.76	22892.2	5723.05	13919	60.80
2008	17409	2865.05	3475	5838.43	29587.5	7396.87	17409	58.84
2009	18886	3575.8	5076	7201.84	34739.6	8684.91	18886	54.36
2010	21674	4462.3	5980	7830.16	39946.5	9986.62	21674	54.26
2011	28054	7005.81	9009	11846.06	55914.9	13978.7	28054	50.17
2012	38250	11937	12992	15023.14	78202.1	19550.5	38250	48.91
Avg.	17007.00	3567.61	4292.10	6129.39	30996.15			
SD	10284.00	3551.16	4076.50	4485.15	22306.99			
CV	60.47	99.54	94.98	73.17	71.97			
Max. Lev	38250.00	11937.00	12992.00	15023.14	78202.1			
Mini.Lev	5904.40	681.34	512.00	1399.25	8496.99			
SGR	60.87	183.56	270.83	108.18	91.15			
CGR	2.17	1.82	1.85	1.88	2.45			

Source: Annual Reports of concerned banks, various issues

Table 4.13 shows the growth of total expenditure of Islamic banks in Bangladesh. It is found in IBBL it increased from Tk. 5904.4 million in 2003 to Tk. 38250 million or 6.47 times in 2012 with an average of Tk. 17007.00 million. In AIBL it increased from Tk. 681.34 million in 2003 to Tk. 11937.00 million or 17.51 times in 2012 with an average of Tk. 3567.61 million. In SJIBL it increased from Tk. 512 million in 2003 to Tk. 12992 million or 25.37 times in 2012 with an average of Tk. 4292.10 million. In EXIM Bank the amount increased from Tk. 1399.25 million in 2003 to Tk. 15023.4 million or 10.73 times in 2012 with an average of Tk. 6129.39 million. The amount of AIBS increased from Tk. 8496.99 million in 2003 to Tk. 78202.1 million or 9.20 times

in 2012 with an average of Tk. 30996.15 million. In this case IBBL is the pioneer amongst all the Islamic banks in terms of expenditure. EXIM Bank is in the second highest position in expenditure growth.

Figure 4.12
Growth in Total Expenditure of Islamic Banks in Bangladesh



Source: Same as Table 4.14

4.6.13 Growth in Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is one of the commonly used macro prudential indicator for analyzing the health and stability to individual institution. Capital adequacy ultimately determines how well a bank can cope with the demands made by their clients. In other words, it is the ability of a bank to meet all its obligations, both in the short term and in the long term and absorb any losses that it may incur (Chowdhury, 2005). With the above view the growth in Capital Adequacy Ratio (CAR) is given in the Table 4.14.

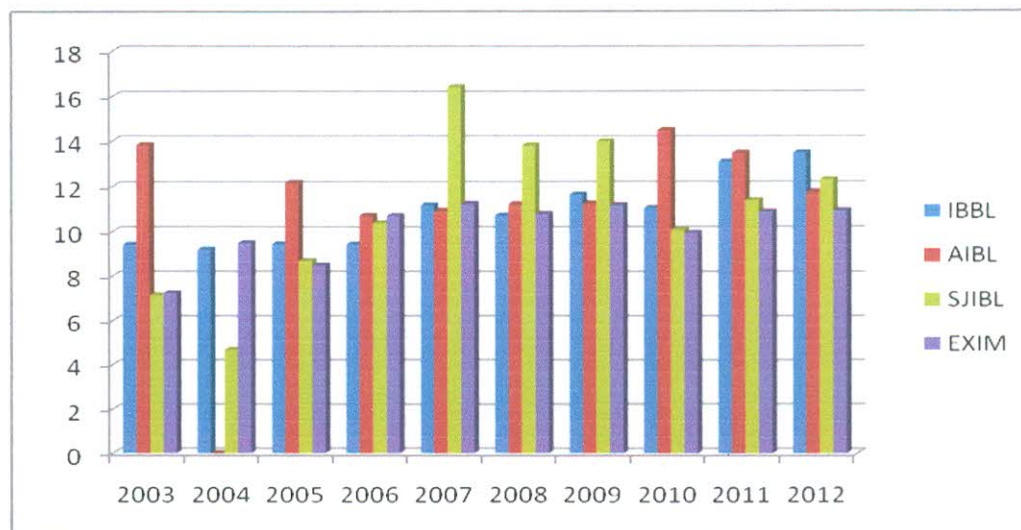
Table 4.14
Growth in Capital Adequacy Ratio (CAR) % of Islamic Banks in Bangladesh
(Amount in Figure)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	9.43	13.83	7.15	7.25	37.66	9.42	13.83	36.72
2004	9.21	0	4.69	9.49	23.39	5.85	9.49	40.57
2005	9.44	12.17	8.7	8.49	38.8	9.70	12.17	31.37
2006	9.43	10.71	10.39	10.70	41.23	10.31	10.71	25.98
2007	11.18	10.92	16.42	11.23	49.75	12.44	16.42	33.01
2008	10.72	11.21	13.81	10.79	46.53	11.63	13.81	29.68
2009	11.65	11.25	13.98	11.18	48.06	12.02	13.98	29.09
2010	11.06	14.49	10.08	9.95	45.58	11.40	14.49	31.79
2011	13.09	13.47	11.4	10.88	48.84	12.21	13.47	27.58
2012	13.49	11.75	12.31	10.94	48.49	12.12	13.49	27.82
Avg.	10.87	10.98	10.89	10.9	42.83			
SD	1.55	4.07	3.48	1.32	8.08			
CV	14.22	37.11	31.96	13.09	18.87			
Max. Lev	13.49	14.49	16.42	11.23	49.75			
Mini. Lev	9.21	0.00	4.69	7.25	23.39			
SGR	4.78	-1.67	8.02	5.65	3.20			
CGR	0.17	-2.08	0.20	0.15	0.30			

Source: Annual Reports of concerned banks, various issues

Table 4.14 shows that growth of Capital Adequacy Ratio (CAR) of the Islamic banks in Bangladesh. It is found that in IBBL it was 9.43 percent in 2003 and it rose to 13.49 percent which was 1.43 times in 2012 with an average of 10.87 percent. The AIBL had acquired 13.83 percent in 2003 but it was decreased in the year 2012 as figured 11.75 percent with an average of 10.98 percent. The CAR of SJIBL stood at 7.15 in 2003 and it increased from the base year to 12.31 percent in 2012 with an average of 10.89 percent. The EXIM Bank obtained CAR at 7.25 percent in 2003 and it increased at 10.94 percent in the year 2012 with an average of 10.9 percent.

Figure 4.13
Growth in Capital Adequacy Ratio (CAR) % of Islamic Banks in Bangladesh



Source: Same as Table 4.14

4.6.14 Growth in Cost of fund

Cost of fund is a basic function of a commercial bank. It indicates the efficiency of a bank. With the above view the growth in cost of fund is given in the Table 4.15.

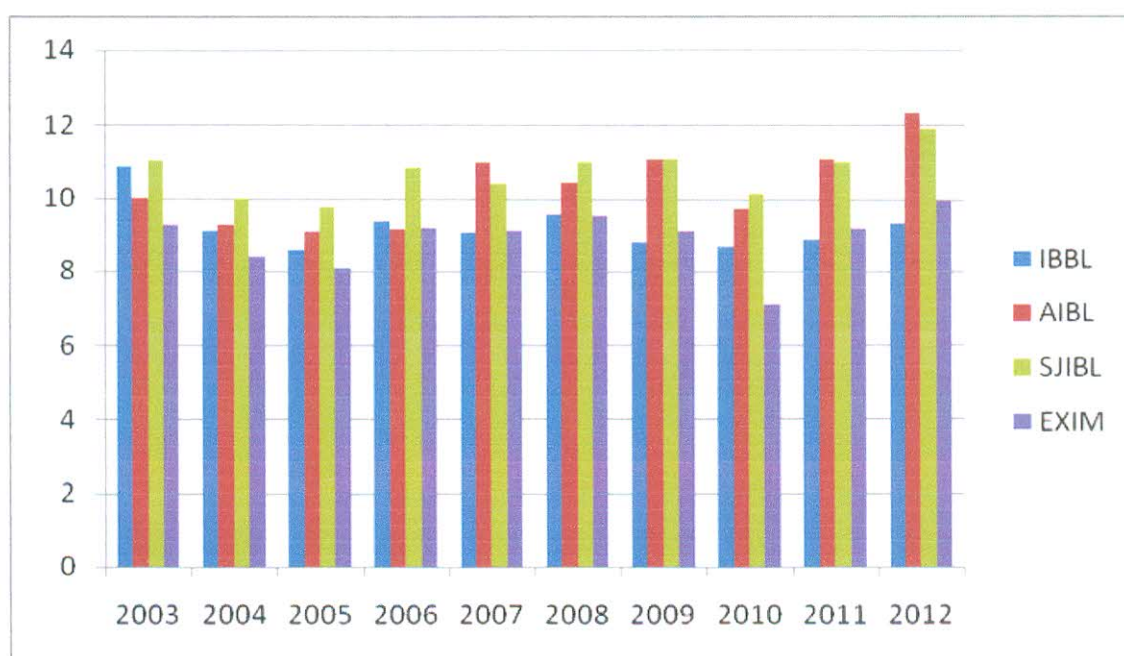
Table 4.15
Growth in Cost of fund of Islamic Banks in Bangladesh

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	(Amount in Figure)		
						Avg.	Max.	% of AIBS
2003	10.89	9.99	11.02	9.26	41.16	10.29	11.02	26.77
2004	9.08	9.24	9.99	8.4	36.71	9.1775	9.99	27.21
2005	8.58	9.04	9.76	8.08	35.46	8.865	9.76	27.52
2006	9.34	9.11	10.83	9.17	38.45	9.6125	10.83	28.17
2007	9.06	10.99	10.4	9.07	39.52	9.88	10.99	27.81
2008	9.56	10.46	10.99	9.52	40.53	10.1325	10.99	27.12
2009	8.76	11.08	11.07	9.09	40	10	11.08	27.70
2010	8.65	9.72	10.15	7.1	35.62	8.905	10.15	28.50
2011	8.86	11.08	10.98	9.15	40.07	10.0175	11.08	27.65
2012	9.32	12.34	11.88	9.96	43.5	10.875	12.34	28.37
Avg.	9.21	10.31	10.71	8.88	39.10			
SD	0.67	1.08	0.63	0.82	2.56			
CV	7.28	10.45	5.90	9.19	6.55			
Max. Lev	10.89	12.34	11.88	9.96	43.5			
Mini. Lev	8.58	9.04	9.76	7.10	35.46			
SGR	-1.60	2.61	0.87	0.84	0.63			
CGR	-2.05	0.10	-0.02	-0.04	0.10			

Source: Annual Reports of concerned banks, various issues

It is observed that in IBBL it was 10.89 percent in 2003 and the next years the rate of cost of fund was very fluctuate. It was near about 9 or 8.5 percent almost all the years. In 2012 it was 9.32 percent with an average of 9.21 percent. In AIBL it was 9.99 percent in 2003 and the rate of cost of fund was increased in the next year. In 2012 it was 12.34 percent with an average of 10.21 percent. In SJIBL it was 11.02 percent in 2003. The ratio was so fluctuated in the next years. In 2012 it was 11.88 percent with an average of 10.71 percent. In EXIM Bank it was 9.26 percent in 2003. The ratio was 9.96 percent in 2012 with an average of 8.88 percent. In AIBs it was 41.16 percent in 2003. In 2012 it was 43.5 percent with an average of 39.10 percent.

Figure 4.14
Growth in Cost of fund% of Islamic Banks in Bangladesh



Source: Same as Table 4.15

4.6.15 Growth in Net Profit

There is no any commercial organization which can run without profit. So, profit is essential for smooth operation of a commercial bank. In the banking sector in Bangladesh Islamic banks are the basically profitable institution. Profit can be measured in two ways, one is profit before tax and another is profit after tax and provisions which is called the net profit. In Bangladesh net profit of the Islamic banks is increasing very rapidly. With the above view the growth in Net Profit is given in the Table 4.16.

Table 4.16
Growth in Net Profit of Islamic Banks in Bangladesh

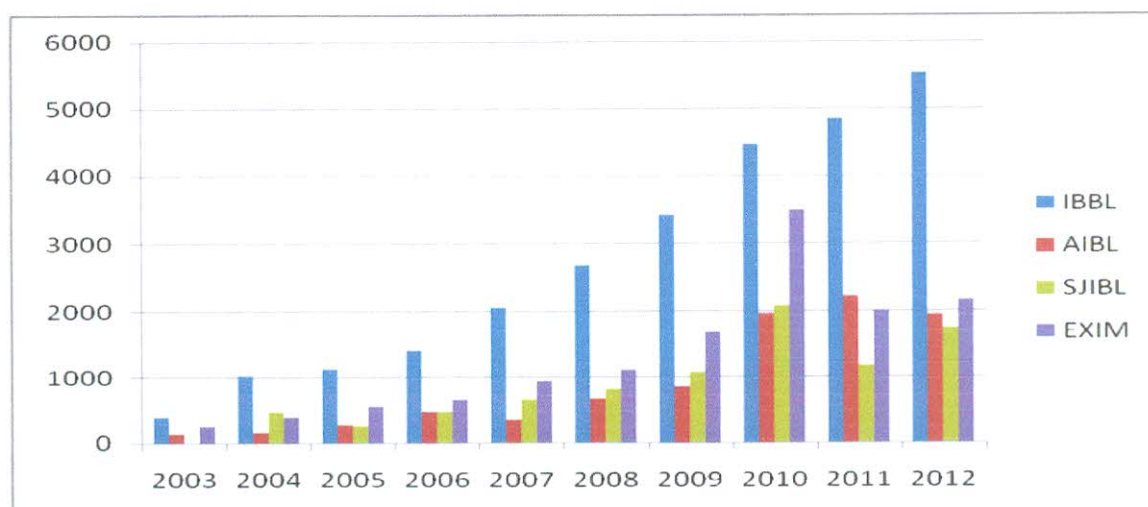
(Amount in Million Taka)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	391.41	127.06	0	254.79	773.26	193.315	391.41	50.62
2004	1013.7	154.76	473	381.8	2023.26	505.815	1013.7	50.10
2005	1125.8	262.9	256	555.34	2200.04	550.01	1125.8	51.17
2006	1400.6	470.03	463	650.29	2983.92	745.98	1400.6	46.94
2007	2049.1	347.31	647	930.84	3974.25	993.563	2049.1	51.56
2008	2674.8	668.23	818	1096.6	5257.63	1314.41	2674.8	50.87
2009	3403.6	858.99	1071	1694.1	7027.69	1756.92	3403.6	48.43
2010	4463.5	1959	2072	3476	11970.5	2992.63	4463.5	37.29
2011	4841.5	2198.8	1168	2009.4	10217.7	2554.43	4841.5	47.38
2012	5524	1945.4	1730	2157.6	11357	2839.25	5524	48.64
Avg.	2688.80	899.25	869.80	1320.70	5778.53			
SD	1792.80	816.88	651.77	1011.90	4136.87			
CV	66.68	90.84	74.93	76.62	71.59			
Max. Lev	5524.00	2198.80	2072.00	3476.00	11970.5			
Mini.Lev	391.41	127.06	0.00	254.79	773.26			
SGR	145.70	159.01	29.53	82.98	152.08			
CGR	1.58	1.30	1.29	1.31	1.80			

Source: Annual Reports of concerned banks, various issues

It is observed that in IBBL it was Tk. 5524 million or 14.11 times in 2012 as against Tk. 391.41 million in 2003 with average of Tk. 2688.80 million. In AIBL it was Tk. 1945.4 million or 15.31 times in 2012 as against Tk. 127.06 million 2003 with average of Tk. 899.25 million. In SJIBL the data was unavailable in the year 2003. However, it was Tk. 1730 million or 3.65 times in 2012 as against Tk. 473 million in 2004 with an average of Tk. 869.80 million. In EXIM Bank it was Tk. 2157.6 million or 8.46 times in 2012 as against Tk. 254.79 million in 2003 with an average of Tk. 1320 million. The amount of AIBs increased from Tk. 773.26 million in 2003 to Tk. 11357 million which was 14.68 times in 2012 with an average of Tk. 5778.53 million. In the net profit IBBL was the highest profit gainer bank over the series of the year.

Figure 4.15
Growth in Net Profit of Islamic Banks in Bangladesh



Source: Same as Table 4.16

4.6.16 Growth in Number of Shareholders

Banks collect liquidity from the capital market by investing in share and securities. The share of Islamic banks is very profitable. That is why the number of shareholders is increasing so rapidly day by day. With the above view the growth in Number of Shareholders is given in the Table 4.17.

Table 4.17
Growth in Number of Shareholders of Islamic Banks in Bangladesh

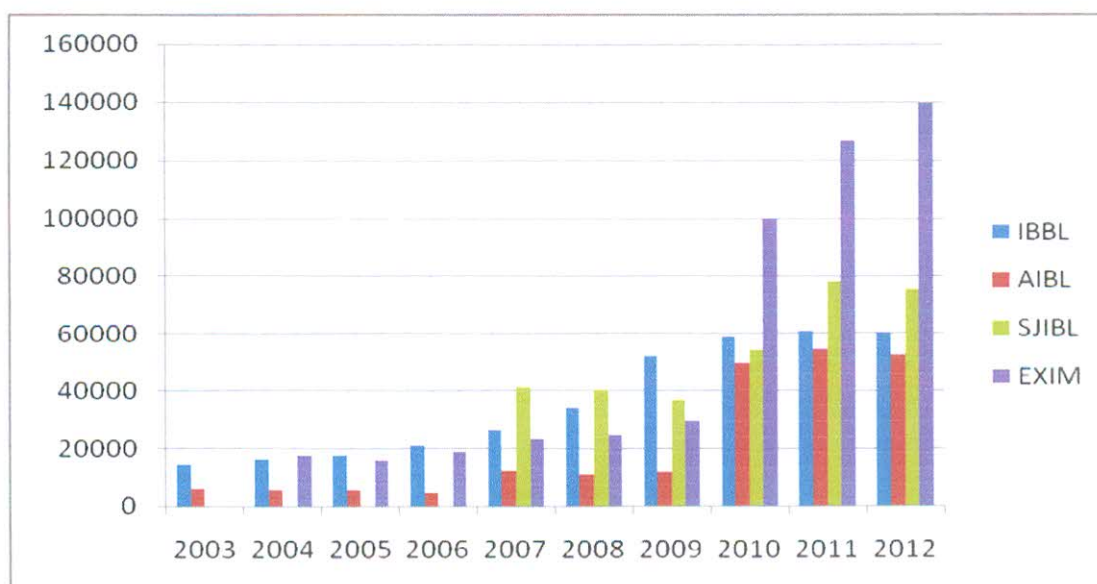
(Numbers in Unit)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	14196	5584	19	33	19832	4958	14196	71.58
2004	15892	5379	19	17617	38907	9726.75	17617	45.28
2005	17201	5402	19	15542	38164	9541	17201	45.07
2006	20960	4487	19	18771	44237	11059.3	20960	47.38
2007	26488	12013	40966	23284	102751	25687.8	40966	39.87
2008	33686	10664	39971	24387	108708	27177	39971	36.77
2009	52164	11382	36675	29302	129523	32380.8	52164	40.27
2010	58923	49386	54549	99882	262740	65685	99882	38.02
2011	60550	54267	78104	126681	319602	79900.5	126681	39.64
2012	60302	52739	75515	139482	328038	82009.5	139482	42.52
Avg.	36036.00	21130.00	32586.00	49498.00	139250.20			
SD	19819.00	21596.00	31236.00	51509.00	119885.30			
CV	55.00	102.20	95.86	104.06	86.09			
Max. Lev	60550.00	54267.00	78104.00	139482.00	328038			
Mini. Lev	14196.00	4487.00	19.00	33.00	19832			
SGR	36.09	93.83	44150.00	46953.00	172.68			
CGR	2.30	2.31	2.48	2.73	3.07			

Source: Annual Reports of concerned banks, various issues

Table 4.17 presents the absolute growth of number of shareholders of Islamic banks in Bangladesh. In IBBL it was 60302 in number which was 4.24 times in 2012 as against 14196 in number in 2003. In AIBL it was 52739 in number which was 9.44 times in 2012 as against 5584 in number in 2003. It was 9.71 times in 2011 as against the same year. The turmoil in share market affected the banking sector. So, the figure was decreased in 2012 in comparison to the year 2011. In SJIBL it was constant in growth rate or zero percent growth in the year 2003 to 2006. It was significantly increased in the year 2007 and the figure was 40966 in number with the simple growth rate 44150 percent. It was maximum level of 78104 in number in 2011 and minimum level was 19 in number in 2003 which was 4110.73 times from the base year 2003. In EXIM Bank it was 139482 in number which was 4226.72 times in 2012 as against 33 in number in 2003 with the simple growth rate 46953 percent. The EXIM Bank did a better job over the years though unrest situation in share market.

Figure 4.16
Growth in Number of Shareholders of Islamic Banks in Bangladesh



Source: Same as Table 4.17

4.6.17 Growth in Number of Employees

In the private commercial Banking sector Islamic banks are the highest employment generating institution through appointing a large scale of manpower. Efficient manpower is the key to success of any financial institution (Ahmad, 2011). The Islamic banks search efficient manpower through different strategic plan. The banks

do not appoint manpower only evaluating on their academic background, but also hardly evaluate their level of ethics and morality. Because honesty and Integrity is the pre-condition of banking business, an organization can achieve its objectives through its manpower (Shahid, 1987). With the above view the growth in Number of Employees is given in the Table 4.18.

Table 4.18
Growth in Number of Employees of Islamic Banks in Bangladesh

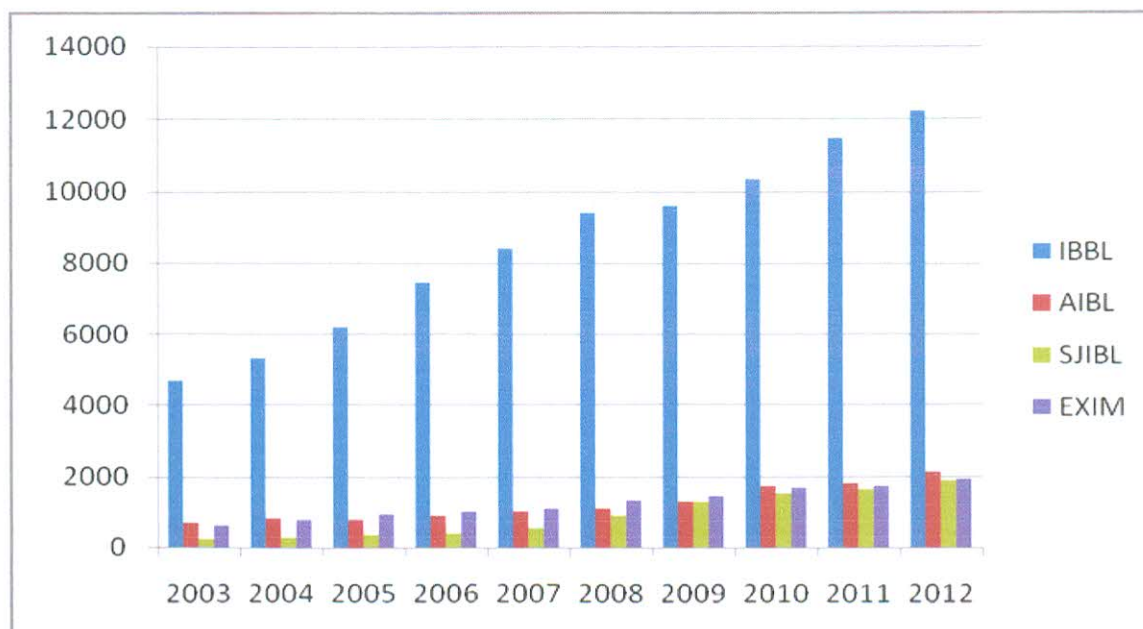
(Number of Unit)

Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	4673	685	243	627	6228	1557	4673	75.03
2004	5306	803	283	768	7160	1790	5306	74.11
2005	6202	771	340	934	8247	2061.75	6202	75.20
2006	7459	912	377	1020	9768	2442	7459	76.36
2007	8426	1033	555	1104	11118	2779.5	8426	75.79
2008	9397	1080	878	1312	12667	3166.75	9397	74.18
2009	9588	1296	1299	1440	13623	3405.75	9588	70.38
2010	10349	1711	1521	1686	15267	3816.75	10349	67.79
2011	11465	1807	1624	1724	16620	4155	11465	68.98
2012	12188	2110	1881	1909	18088	4522	12188	67.38
Avg.	8505.30	1220.80	900.10	1252.40	11878.60			
SD	2560.80	493.81	628.08	432.49	4063.38			
CV	30.11	40.45	69.78	34.53	34.21			
Max. Lev	12188.00	2110.00	1881.00	1909.00	18088			
Mini. Lev	4673.00	685.00	243.00	627.00	6228			
SGR	17.87	23.11	74.90	22.72	21.16			
CGR	1.70	1.24	1.28	1.21	1.84			

Source: Annual Reports of concerned banks, various issues

Table 4.18 shows the growth of manpower of Islamic banks in Bangladesh. Growth in manpower in IBBL it was 12188 in number which was 2.60 times in 2012 as against 4673 in number in 2003 with the compound growth rate 1.70 percent. In AIBL it was 2110 in number which was 3.08 times in 2012 as against 685 in number in 2003 with the compound growth rate 1.24 percent. In SJIBL it was significant simple growth rate in number of employees in comparison to all Islamic banks was 74.90 percent. In EXIM Bank it was 1909 in number which was 3.04 times in 2012 as against 627 in number in 2003 with an average 1252.40. It is observed that, the manpower was grown so rapidly in SJIBL amongst the sample banks.

Figure 4.17
Growth in Number of Employees of Islamic Banks in Bangladesh



Source: Same as Table 4.18

4.6.18 Growth in Number of Branches

Growth in Number of Branches is a major function of a commercial bank. One of the major objectives of Islamic banks is to increase their number of branches and established a network nationally and internationally for extension of banking services to their clients (Uddin, 2009). With the above view the growth in Number of Branches is given in the Table 4.19.

Table 4.19
Growth in Number of Branches of Islamic Banks in Bangladesh

(Number of Unit)

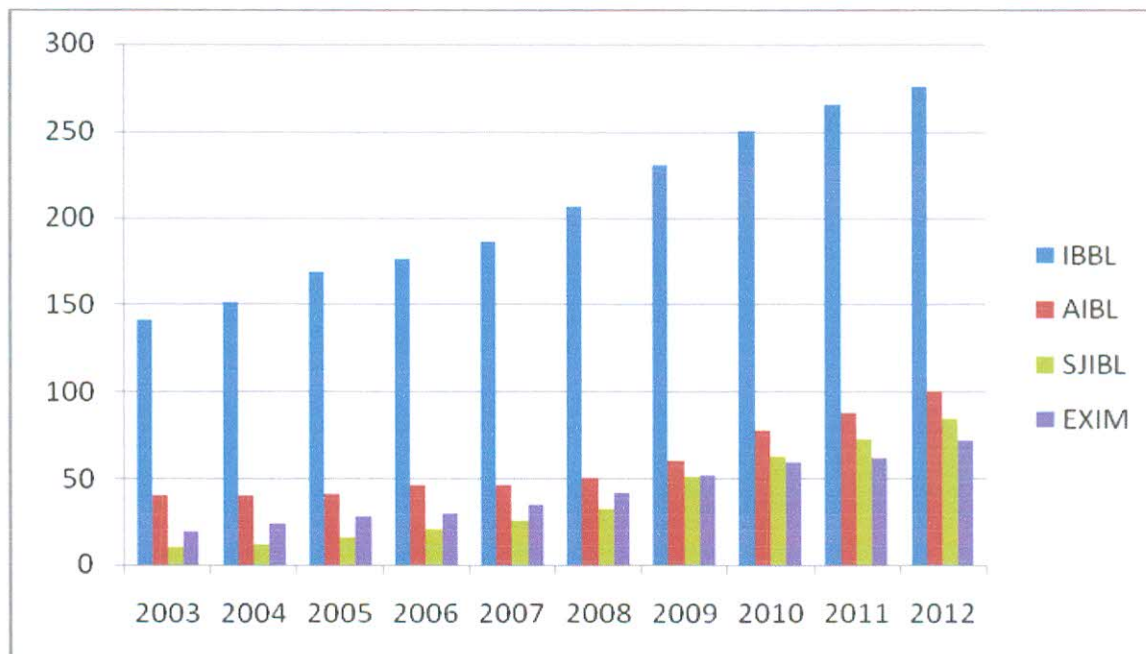
Year	IBBL	AIBL	SJIBL	EXIM	AIBS	Avg.	Max.	% of AIBs
2003	141	40	10	19	210	52.5	141	67.14
2004	151	40	12	24	227	56.75	151	66.52
2005	169	41	16	28	254	63.5	169	66.54
2006	176	46	21	30	273	68.25	176	64.47
2007	186	46	26	35	293	73.25	186	63.48
2008	206	50	33	42	331	82.75	206	62.24
2009	231	60	51	52	394	98.5	231	58.63
2010	251	78	63	59	451	112.75	251	55.65
2011	266	88	73	62	489	122.25	266	54.40
2012	276	100	84	72	532	133	276	51.88

Avg.	205.30	58.90	38.90	42.30	345.40			
SD	48.38	21.98	26.93	18.04	114.43			
CV	23.56	37.32	69.24	42.66	33.13			
Max. Lev	276.00	100.00	84.00	72.00	532			
Mini.Lev	141.00	40.00	10.00	19.00	210			
SGR	10.64	16.67	82.22	30.99	17.04			
CGR	0.72	0.58	0.61	0.55	0.90			

Source: Annual Reports of concerned banks, various issues

In IBBL it increased in number 141 in 2003 to 276 which was 1.95 times in 2012 with an average of 205.30 in number. In AIBL it increased in number 40 in 2003 to 100 which was 2.5 times in 2012 with an average of 58.90 in number. In SJIBL it increased in number 10 to 84 which was 8.4 times in 2012 with an average of 38.90 in number. In EXIM Bank it increased in number 19 in 2003 to 72 which was 3.78 times in 2012. In AIBs it increased in number 210 in 2003 to 532 which was 2.53 times in 2012 with an average of 345.40 in number. It is observed that the SGR of SJIBL was highest amongst the sample banks.

Figure 4.18
Growth in Number of Branches of Islamic Banks in Bangladesh



Source: Same as Table 4.19

Chapter Five

Conversion of Conventional Banking into Islamic Banking: An Overview

5.1 Introduction

From the very beginning it was not possible to establish a unique banking system in Bangladesh. So, Bangladesh got a multi-variation banking system comprising Nationalized Commercial Banks (NCBs), State owned Specialized Commercial Banks (SCBs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). In the Private Commercial Banks we see two types of Banks one is Conventional Bank and another is Islamic Bank. Now Bangladesh have 8 full fledged Islamic Banks, 8 Conventional Banks having separate Islamic Banking Branches and 7 conventional banks having Islamic Banking Windows for conducting banking business through Islamic shariah principles. Moreover, in the history of banking business of Bangladesh at least two conventional banks have been converted from conventional banking into Islamic banking namely Export Import Bank of Bangladesh Limited (EXIM BANK) which was converted on 1st July, 2004 and another is First Security Islami Bank Limited (FSIBL) was converted on 1st January 2009 respectively. Another two conventional banks also applied to central bank for converting from conventional bank to Islamic bank. The trend suggests that the concept of Islamic banking is very demandable phenomena not only in Bangladesh rather it is very popular to the Non-Muslim community across the world. Though Bangladesh has no separate Islamic Banking Act, the Islamic banking is doing well in comparison to conventional one. In this chapter we want to focus the Banking scenario of Bangladesh both conventional and Islamic, details of Export Import Bank of Bangladesh Limited (EXIM BANK) and First Security Islami Bank Limited (FSIBL), the reasons behind converting from conventional banking into Islamic banking and to know the system of conversion according to the BRPD circular no- 15 dated 09-11-2009.

5.2 Banking scenario in Bangladesh

As a developing country Bangladesh has a long historical background of banking. They have a long history of nearly one and a half centuries beginning from 1846. Prior to Independence in 1971, private individuals or companies owned the commercial banks (Abedin, 1990). Till March 1971 Bangladesh was a Pakistan known as East Pakistan. A Nine month liberation war resulted in the creation of Bangladesh on 16

December 1971. At the end of liberation war the banking sector of Bangladesh was in total disarray. With the exception of two local banks incorporated in the then East Pakistan, all the local banks become nonfunctional (Uddin, 2009). On the 16th December of 1971, just after liberation the then Dhaka office of the Deputy Governor of the State Bank Pakistan, had to take the responsibility of full fledged Central Bank of the country. It was not an easy task to take responsibility of structuring the war damaged economy of the country (Shakoor, 1989)

For better control and monitoring of the monetary resources, the GOB nationalized all the commercial banks of the country except foreign banks by Presidential Order Number 26. The ten Pakistani Banks were merged into four new banks and the two Bangladeshi banks were renamed (GOB, 1973). The structure of the Nationalized Banks with Authorized Capital and Paid up Capital in the year of 1972 as below-

Table 5.1
Structure of the Authorized and Paid-up Capital of the Nationalized Banks in 1972

(Amount in million taka)

Name of Bank	Inclusion of the Pakistani Banks	Authorized Capital	Paid-up Capital
1	2	3	4
1. Sonali Bank	1. National Bank of Pakistan 2. Bank of Bahawalpur Ltd. 3. The Premier Bank Ltd.	50	20 (40)
2. Janata Bank	4. United Bank Ltd. 5. Union Bank Ltd.	50	15 (30)
3. Agrani Bank	6. Habib Bank Ltd. 7. Commerce Bank Ltd.	50	10 (20)
4. Rupali Bank	8. Muslim Commercial Bank Ltd. 9. Standard Bank Ltd. 10. Australasia Bank Ltd.	50	10 (20)
Bangladeshi Banks Renamed			
5. Pubali Bank	11. Eastern Mercantile Bank Ltd.	50	10 (20)
6. Uttara Bank	12. Eastern Banking Corporation Ltd.	50	10 (20)
Total		300	75 (25)

Source: GOB, Resume of the Activities of Financial Institutions Bangladesh (First Issue), (Dhaka, 1973), pp. 11-12.

Of the total six commercial banks, Pubali Bank Ltd. and Uttara Bank Ltd. were subsequently transferred to the private sector with effect from January 1985. Rupali Bank was transferred as public limited company from December 1986. The rest three State Owned Banks were operating as public limited company from the quarter 'October-December' 2007. The two Govt. owned specialized banks were renamed as Bangladesh Krishi Bank and Bangladesh Shilpa Bank. In March 1987 Bangladesh Krishi Bank was bifurcated and another specialized bank emerged as Rajshahi Krishi Unnayan Bank (RAKUB) for Rajshahi Division. Bank of Small Industries & Commerce Bangladesh Ltd. (BASIC) started its operation as a private bank from September 1988. Later on BASIC was brought under direct control of the Government and was reckoned to as a specialized bank with effect from June 1993. From July 1995 again the BASIC was categorized as a private bank in 1997, Government decided to treat this bank as a specialized bank again. Bangladesh Shilpa Bank (BSB) & Bangladesh Shilpa Rin Sangstha (BSRS) merged and renamed as Bangladesh development Bank Limited (BDBL) from the quarter (January-March, 2010). Standard Chartered Grindlays Bank was merged with Standard Chartered Bank during the quarter (January-March, 2003). American Express Bank also merged with Standard Chartered Bank during the quarter (October-December, 2005). The Oriental Bank Ltd. An Islamic private bank was renamed as ICB Islamic Bank Ltd. from the quarter (April-June, 2008). Credit Agricole Indosuez, a foreign private bank is renamed as Commercial Bank of Ceylon Ltd. From the quarter (October-December, 2003), Shamil Bank is renamed as Bank Al-Falah Ltd. From the quarter (April-June, 2005), Arab Bangladesh Bank Ltd is renamed as AB Bank Ltd from the quarter (January-March, 2008) and Social Investment Bank Ltd is renamed as Social Islami Bank Ltd from the quarter (April-June, 2009). It is mentioned that First Security Bank Ltd has started its operation according to Islamic Shariah from the quarter (January-March'2009), Shahjalal Bank Ltd. has started its operation according to Islamic Shariah from the quarter 'April-June'2001 and it is renamed as Shahjalal Islami Bank Ltd. from the quarter 'April-June'2004 and EXIM Bank Ltd has also started its operation according to Islamic Sariah from the quarter (July-September, 2004). The branches of foreign banks operating in Bangladesh are being treated as foreign private banks.

Among all fourth generation Scheduled Banks “NRB COMMERCIAL BANK LTD.”, “SOUTH BANGLA AGRICULTURE AND COMMERCE BANK LTD.”, “MEGHNA BANK LTD.”, “THE FARMERS BANK LTD.”, and “UNION BANK LTD” have started their operation from the quarter April-June, 2013. “MIDLAND BANK LTD.”, “MODHUMOTI BANK LTD.”, “NRB BANK LTD.” have started their operation from the quarter July-September, 2013 and “NRB GLOBAL BANK LTD” have started their operation from the quarter October-December, 2013. It is mentioned that Union Bank Ltd. based on Islamic Shariah.

All such banks operating in Bangladesh with different paid-up capital and reserves having a minimum of an aggregate value of Tk. 50 lacs and conducting their affairs to the satisfaction of the Bangladesh Bank have been declared as scheduled banks in terms of section 37(2) of Bangladesh Bank Order 1972. In terms of section 13 of Bank Company Act, 1991, the minimum aggregate value was Tk. 20 crores. From 30th March’ 2003 it was Tk. 100 crores. From 8th October’ 2007 it was Tk. 200 crores. From 11th August’ 2011, it has been raised at the minimum of Tk.. 400 crores (as per Circular Letter No. BRPD (R-1) 717/ 2008 – 511 dated August 12, 2008).

List of the above mentioned 56 Banks is stated in the Appendix-1

5.2.1 Islamic Banking Activities

Bangladesh at its birth in March 1971, inherited an interest based banking system that was introduced during the British period 1757-1947 and Pakistani (1947-1971) rule (Ahmad, 2004). However in 30 March 1983 Islami Bank Bangladesh Limited started its journey as a first full -fledged Islamic Bank in Bangladesh. At present Islamic banking industry comprising 8 full fledged Islamic Banks, 19 Islamic banking branches of 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks is providing Islamic banking services in Bangladesh (www.bb.org)

Table 5.2
Islamic Banking Activities in Bangladesh, July-September 2014

	Sept-14#	Jun-14#	Sept-13	Changes		Percentage	
				Quarterly	Annual	Quarterly	Annul
Total Deposits* (In Crore Taka)	138372.7	133590.22	115331.94	4782.44	23040.73	3.58	19.98
a) Full-fledged Islamic Banks	131091.04	126671.44	108170.95	4419.59	22920.09	3.49	21.19
b) Conventional banks having Islamic banking branches	1.09.97	488.24	5355.39	271.73	-245.42	5.62	4.58
c) Islamic banking windows	2171.66	2080.54	1805.60	91.12	366.07	4.38	20.27
Total Investments*(In crore Taka)	117100.84	113800.57	99160.78	3300.28	17940.06	2.90	18.09
a) Full-fledged Islamic Banks	111474.81	111474.81	93998.30	3005.78	17476.51	2.77	18.59
b) Conventional banks having Islamic banking branches	3948.08	3948.08	3939.39	184.08	8.70	4.89	0.221
c) Islamic banking windows	1677.95	1677.95	1223.09	110.42	454.85	7.04	37.19
Investment/Deposit Ratio	0.85	0.85	0.86	-0.01	-0.01	-0.66	-1.57
a) Full-fledged Islamic Banks	0.85	0.85	0.87	-0.01	-0.02	-0.69	-2.14
b) Conventional banks having Islamic banking branches	0.77	0.77	0.74	-0.01	0.04	2.55	5.03
c) Islamic banking windows	0.77	0.77	0.68	2822.60	0.10	26.24	14.06
Liquidity Surplus(+)/Deficit(-) (In Crore Taka)	13580.30	13580.30	7380.52	2627.03	6199.79	28.14	84.00
a) Full-fledged Islamic Banks	11963.45	9336.42	760.70		6202.75	17.67	107.67
b) Conventional banks having Islamic banking branches	1404.48	11963.45	1252.03	210.92	152.45	-6.74	12.18
c) Islamic banking windows	212.38	227.73	367.79	-15.35	-155.41	28.14	-42.26
Total Branches	900	887	822	13	78	1.47	9.49
a) Full-fledged Islamic Banks	856	843	778	13	78	1.54	10.03
b) Conventional banks having Islamic banking branches	19	19	19	0	0	0.00	0.00
c) Islamic banking windows	25	25	25	0	0	0.00	0.00
Total Manpower	26526	26347	24230	179	2296	0.68	9.48
a) Full-fledged Islamic Banks	25991	23675	23675	198	2316	0.77	9.78
b) Conventional banks having Islamic banking branches	401	425	425	-19	-24	-4.52	-5.65
c) Islamic banking windows	134	134	130	0	4	0.00	3.08

Source: www.bb.org

However, Islamic Banking Industry accounted for more than one fifth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review (www.bb.org)

Table 5.3
List of Islamic Banks with number of branch

Name of the Bank	Urban	Rural*	Total
a) Full-fledged Islamic Banks	541	275	856
1. Islami Bank Bangladesh Limited*	208	48	286
2. ICB Islamic Bank Limited	28	5	33
3. Social Islami Bank Limited*	51	34	95
4. Al-Arafah Islami Bank Limited	71	47	118
5. EXIM Bank Limited	48	36	84
6. Shahjalal Islami Bank Limited	59	33	92
7. First Security Islami Bank Limited	66	62	128
8. Union Bank Limited	10	10	20
b) Islamic banking branches of conventional banks	18	1	19
1. The City Bank Limited	1	0	1
2. AB Bank Limited	1	0	1
3. Dhaka Bank Limited	2	0	2
4. Premier Bank Limited	2	0	2
5. Prime Bank Limited	5	0	
6. Southeast Bank Limited	4	0	5
7. Jamuna Bank Limited	2	0	2
8. Bank Alfalah Limited	1	0	1
9. HSBC Limited	0	0	0
c) Islamic Banking windows of Conventional banks	25	0	25
1. Sonali Bank Limited	5	0	5
2. Janata Bank Limited**	0	0	0
3. Agrani Bank Limited	5	0	5
4. Pubali Bank Limited	2	0	2
5. Trust Bank Limited	5	0	5
6. Standard Bank Limited	2	0	2
7. Bank Asia Limited	5	0	5
8. Standard Chartered Bank	1	0	1
d) Total=A+B+C	584	276	900

* Including SME ** Has taken permission for starting Islamic Banking Window from Bangladesh Bank, but not started yet.

Source: www.bb.org

5.2.2 Banking Sector Performance

The banking sector of Bangladesh comprises four categories of scheduled banks. These are State-owned Commercial Banks (SCBs), State-owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). Nine (9) newly licensed private commercial banks have

started functioning in this year. So the number of banks increased from 47 in 2012 to 56 in 2013. These banks had a total number of 8685 branches as of December 2013. The number of bank branches increased from 8322 of 2012 to 8685 due to opening of new branches mainly by the PCBs, DFIs and SCBs during the year. At the end of June 2014, the total number of bank branches increased further to 8794, with total number of banks remained unchanged at 56.

Table 5.4
Banking Systems Structure

(billion taka)

Bank types	2012			2013								
	Number of banks	Number of branches	Total assets	Present of industry assets	Deposits	Percent of deposits	Number of Bank	Number of branches	Total assets	Present of industry assets	Deposits	Percent of deposits
SCBs	4	3478	1831.9	26.1	1377.9	25.5	4	3520	2108.5	26.4	1631.2	26.0
DFIs	4	1440	385.5	5.5	260.4	4.8	4	1494	454.8	5.7	343.0	5.5
PCBs	30	3339	4371.5	62.2	3430.7	63.6	39	3602	4948.2	61.9	3939.3	62.8
FCBs	9	65	441.8	6.3	327.0	6.1	9	69	448.7	6.1	359.5	5.7
Total	47	8322	7030.7	100	5396.0	100	56	8685	8000.2	100	6273.0	100

Source: Bangladesh Bank, Annual Report 2012-13

5.3 Basic feature of conversion of conventional banking into Islamic banking

Bangladesh has two cases of conversion of conventional banking into Islamic banking in the banking sector. The Export Import Bank of Bangladesh Limited (EXIM BANK) was converted at first on 1st July 2004 and soon after First Security Bank Limited (FSIBL) was converted into Islami Bank and renamed First Security Islami Bank Limited (FSIBL). However, according to the Annual Reports the basic feature of the sample banks are stated below.

5.3.1 Export Import Bank of Bangladesh (EXIM) Limited

5.3.1.1 History of Establishment

Export Import Bank of Bangladesh Limited was established in the year 1999 under the leadership of Late Mr. Shahjahan Kabir, Founder Chairman who had a long dream of floating a commercial bank which would contribute to the socio-economic development of our country.

The Bank starts functioning from 3rd August, 1999 with its name as Bengal Export Import Bank Limited. On 16th November 1999, it was renamed as Export Import

Bank of Bangladesh Limited with Mr. Alamgir Kabir as the Founder Advisor and Mr. Mohammad Lakiotullah as the Founder Managing Director respectively. Both of them have long experience in the financial sector of our country. By their pragmatic decisions and management directives in the operational activities, this bank has earned a secured as well as distinctive position in the banking industry in terms of performance, growth, and excellent management. Under the leadership of Mr. Lakiotullah, the Bank has transferred all of its conventional banking operation into Shariah-based Islami Banking in the year July 2004.

5.3.1.2 Vision Mission and Corporate Culture

Vision

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

Mission

The Bank's mission gives emphasis on:

- Provide quality financial services especially in Foreign Trade
- Continue a contemporary technology based professional banking environment
- Maintain corporate & business ethics and transparency at all levels
- Sound Capital Base
- Ensure sustainable growth and establish full value to the honorable stakeholders
- Fulfill its social commitments and
- Above all, to add positive contribution to the national economy

Corporate Culture

Organizational culture is considered as an essential component of business corporations as it has the ability to bind organizational members together. The

culture and values of the bank have been proved as a source of competitive advantage and are acting as a key component to establish the relationship between the bank and employees and , in turn , between employees and customers.

EXIM Bank has also been able to improve organizational performance via improving the performance of individual contributors and also recognizes existing talents to fill up the higher vacancies within the organization or place them in the right position, wherein the best use of their abilities can be ensured. The culture of the bank promotes sharing of common goal which ensures harmonious relationship in the working environment.

5.3.1.3 Objectives of Conversion to Islamic Bank

The primary objective of establishing Islamic banks all over the world is to promote, foster and develop the application of Islamic principles in the business sector. More specially, the objectives of Islamic banking when viewed in the context of its role in the economy are listed as follows:

- To offer contemporary financial services in conformity with Islamic shari'ah.
- To contribute towards economic development and prosperity within the principles of Islamic justice.
- Optimum allocation of scarce financial resource, and
- To help ensure equitable distributions of income.

5.3.1.4 Flow chart of Islamizing of Conventional Bank into an Islamic Bank:

The Flow chart of Islamizing of conventional bank into Islamic bank is stated in Appendix-2

5.3.1.5 Corporate Information

The Corporate Information of EXIM Bank is stated in Appendix-3

5.3.1.6 Corporate Governance

Corporate governance (CG) is an important effort to ensure accountability and responsibility and is a set of principles, which should be incorporated into every part of the organization. Responsibility, Accountability, Fairness and Transparency (RAFT) – these four are considered “pillars” of the framework of corporate governance. It is viewed as structures and processes for decision-making, accountability, control and

behavior at the governing body. There is no alternative to effective corporate governance for continuous and sustainable growth of an organization, particularly in banking industry. The Bangladesh Securities and Exchange Commission (BSEC) has issued a Corporate Governance Guidelines for the companies that are listed with Stock Exchanges. At EXIM Bank, corporate governance is given importance.

Board of Directors

The Board of EXIM Bank consists of 15 directors including Independent Directors. Board members include persons of high caliber with academic and professional qualifications. In accordance with the directives of the regulatory authority, the Board looks after the corporate philosophy, policy issues, making rules and procedures, approving business targets & strategy to run the business. There are two key committees of the Board since long as per directives of Bangladesh Bank one is the Executive Committee and the other is Board Audit Committee since long as. In addition, The Board has already formed the Risk Management Committee as per recent directives of Bangladesh Bank in accordance with amendment of Bank Company Act, 1991.

Executive Committee

The Executive Committee comprises of 07 members as per directives of Bangladesh Bank. According to its charter, the Executive Committee takes decision on the routine and day to day operational matters beyond delegated power of management. The committee ensures implementation of policies, approves investments and other business proposals as per approved policy guideline of the board.

Audit Committee

The Board Audit Committee consists of 05 members including Independent Directors. The Committee carries out business according to its charter approved by the Board on the basis of guidelines of the Bangladesh Bank. The committee works out a plan of routine audit and inspection of Branches and Divisions of Head Office and discussed/ reviewed/evaluated and advised on audit and inspection report. The directors keep regular vigilance on the banking activities through the Audit Committee in order to ensure better internal control system.

Risk Management Committee

The Risk Management Committee consists of 05 members including Independent Directors. It has been constituted as per recent amendment of Bank Company Act, 1991. The newly formed Committee carries out business on the basis of guidelines of the Bangladesh Bank in order to managing and mitigating risk as well.

5.3.1.7 Shariah Supervisory Committee

EXIM Bank started its operation as a conventional bank on 3rd August, 1999. After that, to fulfill the demand of time and reach the benefit and worship of Islamic Banking at the doorsteps of mass people, the bank has been converted into full fledged Islamic Bank as a pioneer bank of the country on July 2004. A Shariah Supervisory Committee, consisting of renowned and judicious Mufti & well reputed banker of the country headed by Professor Maulana Mohammad Salah Uddin, honorable Khatib of Baitul Mukarram National Mosque, was formed to delineate, guide and supervise the implementation of Islamic Shariah Principles in each and every segment of banking operations. In spite of this, the bank has a team of erudite and experienced Muraquibs for regular inspection, monitor and advice to ensure compliance of Shariah norms in day to day operations and transactions of the bank which makes firm existence of EXIM Bank as a full fledged Islamic Bank by creating clear difference with conventional banking system.

5.3.1.8 Bank Operational Area

As a full-fledged Islamic bank in Bangladesh, EXIM Bank extended all Islamic banking services including wide range of saving and investment products, foreign exchange and ancillary services with the support of sophisticated IT and professional management. The investment portfolio of the bank comprises of diversified areas of business and industry sectors. The sectors include textiles, edible oil, ready-made garments, chemicals, cement, telecom, steel, real state and other service industry including general trade finance. The bank has given utmost importance to acquire quality assets and is committed to retain good customers through customer relationship management and financial counseling. At the same time efforts have been made to explore/induct new clients having good potentiality to diversify and create a well established structured investment portfolio and to minimize overall portfolio risk.

Investment: Bank's investment port-folio is segmented under the following heads:

- Retail/Consumers investment.
- Micro enterprise investment.
- Small and Medium Enterprise investment.
- Large and Corporate investment.
- Syndicate investment.

Modes of investments:

- Murabaha (MTR, MPI, MIB).
- Bai Muazzal.
- Izara Bil Baia.
- Wazirat Bil Wakala .
- Bai-Salam.
- Quard.
- Musharaka Documentary Bills (MDB)/LDBP.
- Bai-As-Sarf/FDBP.

EXIM Bank is very much responsive and interested to involve themselves both directly and indirectly with the development process of the banking industry and national economy. As we believe the development of small and medium-size enterprises plays a pivotal role in the growth and prosperity of a nation. Although large-scale corporations particularly industrial concerns contribute sizably/ largely in Gross Domestic Products (GDP) and other economic variables of prosperity but the significance of SMEs is widely recognized around the globe. SMEs make a substantial contribution towards GDP, revenue collection in the form of taxes, fostering entrepreneurship culture, employment opportunities, income generation, skills development of human resources, poverty alleviation, and improving the standard of living and quality of life. Above all the prime economic benefits of SMEs development include encouraging perfect competition and fair distribution of wealth. If there are only large-scale corporations either, then there will be a monopoly in an industry, with a single suppliers, or oligopoly with only few suppliers, or monopolistic competition with only some suppliers, then the major portion of national income and wealth will move within the hands of big capitalists. SME sector, however, begets fair competition and equitable distribution of wealth.

5.3.1.9 Financial Products and Services

In the competitive market condition every bank needs to introduce innovative products and services of its own in every year to attract customers and augment deposit mobilization process. The bank is maintaining its trend of bring in continuous improvement in respect of quality of services and promoting new products.

At present EXIM Bank has been offering following distinctive and customer friendly 23 basic deposit products having many more sub products that are being continuously reviewed and redesigned suiting to the customer's need from time to time:

- Al-Wadeeah Current Deposit Account
- Mudaraba Savings Deposit Account
- Mudaraba Special Notice Deposit (MSND) Account
- Mudaraba Cash Waqf Deposit Account
- Mudaraba Term Deposit Account
- Mudaraba Monthly Savings Deposit Scheme
- Mudaraba Monthly Income Deposit Scheme (MMIDS)
- Mudaraba Multiplus Savings Deposit Scheme
- Mudaraba Super Savings Deposit Scheme
- Mudaraba Student Savings Deposit Account
- Mudaraba Monthly Student Savings Scheme Account
- Mudaraba Hajj Deposit Scheme
- Mudaraba Denmohor/Marriage Savings Deposit Scheme
- Mudaraba Senior Monthly Benefit Scheme (MSMBS)
- Mudaraba Senior Monthly Savings Scheme (MSMSS)
- Mudaraba Femina Monthly Benefit Scheme (MFMBS).
- Mudaraba Femina Monthly Savings Scheme (MFMSS).
- Mudaraba Su- Grehini Monthly Benefit Scheme (MSMBS)
- Mudaraba Su- Grehini Monthly Savings Scheme (MSMSS).
- EXIM Kotipoti
- EXIM Millionaire
- EXIM Ruhama Three Years' Probable Double Benefit Scheme
- EXIM Ziadah Five Years' Probable Triple Benefit Scheme

All these products have been developed taking different socio-economic factors into consideration, such as per capita income, earning capacity, national propensity to

save and last but not the least to help building national savings. EXIM Bank always emphasize on the policy of retaining of existing customers and induction of new ones.

5.3.1.10 Financial overview of the Bank

In the year 2013 Bank achieved significant growth in its overall businesses. The operating profit of the bank was Tk.4, 927.89 million in 2013. Total deposit of the bank was increased from Tk. 140,369.66 million to Tk. 165,733.25 million in 2013 at a growth rate of 18.07%. Total Investment (General) was increased from Tk. 118,219.99 million to Tk. 143,847.38 million in 2013 at a growth rate of 21.68%. As on 31 December 2013 Investment to Deposit Ratio (ID) of the Bank was 86.79% due to harmonized growth in Investment (General) and Deposit. The bank maintained Capital Adequacy Ratio (CAR) at 13.30% as on 31 December 2013, which was 10.94% as on 31 December 2012. The ratio of classified Investment to total Investment came down to 3.67% as on 31 December 2013 from 4.27% of previous year.

5.3.1.10.1 Capital and Reserve Fund

As on 31 December 2013, total capital of the bank stood at Tk. 21,198.70 million, which is 16.38% higher than the previous year total capital of Tk. 18,214.31 million. The maximum part of the total capital as on 31 December 2013 consists of Tier-1 Capital of Tk. 18,556.59 million (87.54%) and the rest part consists of Tier-2 Capital of Tk. 2,642.11 million (12.46%). The incremental capital was generated mainly from the earnings of the bank.

As on 31 December 2013, Bank's Capital Adequacy Ratio (CAR) was 13.30% which is 3.30% higher than regulatory requirement of 10.00%. The maintenance of the regulator's minimum capital requirement came through the prudent management of over all assets of the Bank in 2013. As part of capital management, the bank emphasized on increasing rated exposures. As a result, the Risk Weighted Asset (RWA) of the bank decreased by 4.28% in 2013 from the year 2012, though total asset of the bank increased by 17.00% in the same period.

It may be mentioned here that the Bank started its operation in the year 1999 with Authorized Capital of Tk.1, 000.00 million and Paid-up Capital of Tk. 225.00 million.

The Authorized Capital was enhanced to Tk.3, 500.00 million, Tk.10, 000.00 million and Tk.20, 000.00 million in the years 2006, 2009 and 2011 respectively after obtaining approval from proper authority. The Bank went for IPO to raise Tk. 313.88 million as capital in the year 2004 and issued Rights Share for Tk. 571.25 million and Tk. 2,277.42 million @ 1R:2 (i.e. one rights share for every two shares) at par in the years 2006 and 2010 respectively.

5.3.1.10.2 Deposits

Total Deposit of the Bank was Tk.165, 733.25 million as on 31 December 2013 against Tk.140, 369.66 million as on 31 December 2012. The growth rate of Deposit was 18.07% in the year 2013. This growth in deposit has enabled the bank to keep Investment Deposit Ratio at 86.79% which is within the regulatory limit of 90%.

Bank employs its best efforts to increase the proportion of low/no cost deposit and achieve an ideal deposit mix. With the expansion of branch networks, service quality, competitive profit rate and innovative deposit products, bank continues to accelerate the growth of deposits.

Deposits

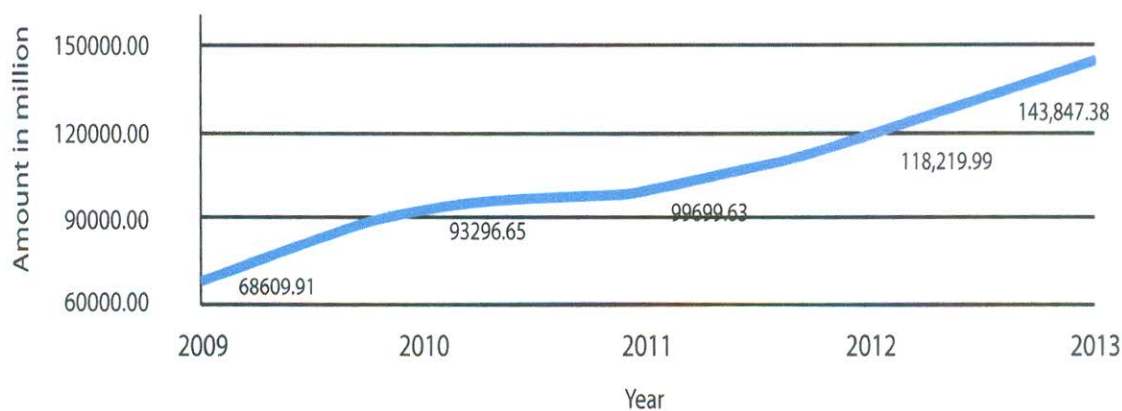


5.3.1.10.3 Investments (General)

Total Investment (General) of the Bank stood at Tk.143,847.38 million as on 31 December 2013 against Tk.118,219.99 million as on 31 December 2012 registering a growth of 21.68%. As on 31 December 2013 Classified Investment to total

Investment ratio was 3.67% which was 4.27% as on 31 December 2012. Bank maintained required provision against Investment (General) for the year 2013. Investment (General) has increased significantly over the years due to the existence of innovative Investment products.

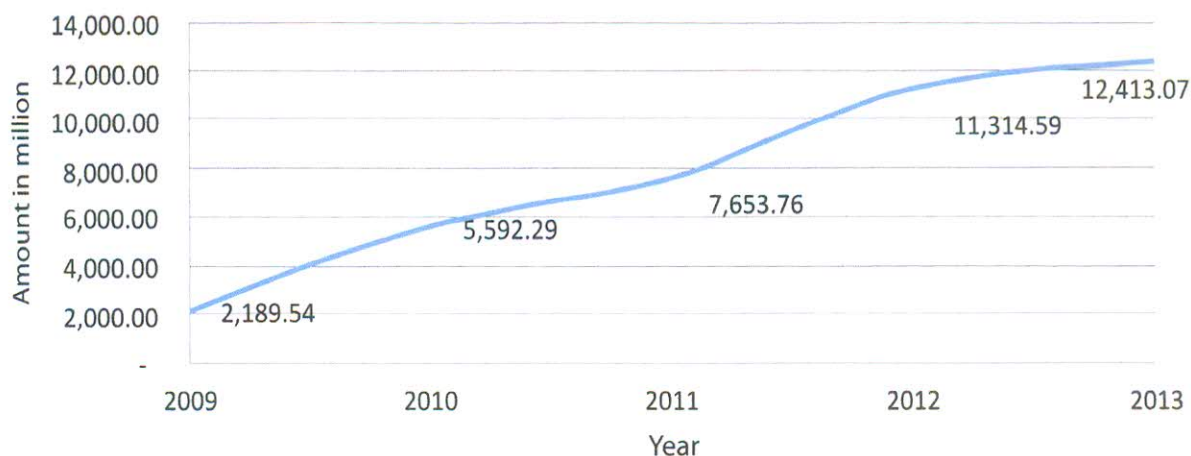
Investment (General)



5.3.1.10.4 Investments (Share and Securities)

The Investments (share and securities) portfolio of the Bank stood at Tk. 12,413.07 million (including equity investment in subsidiaries) as on 31 December 2013 against Tk. 11,314.59 million as on 31 December 2012. The portfolio mainly comprises of Bangladesh Government Islami Investment Bond (BGIIB), Shares of different companies and Investment in subsidiaries. Investment in shares and securities (others) of last 05 years is shown in the graph.

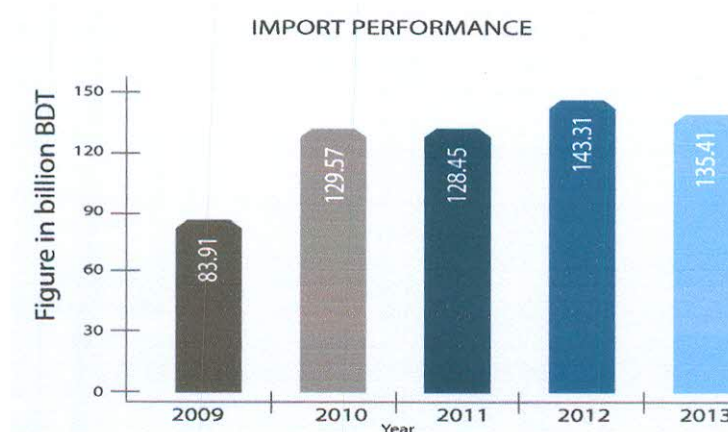
Investment in share and securities



5.3.1.10.5 Foreign Exchange Business

a. Import Performance

In the year 2013, import business of the bank was BDT. 135.41 billion (equivalent USD 1.73 billion) by handling 37,374 number of import letter of credits. Import Business plunged by 5.52% in 2013 than that of 2012.



b. Export Performance

In the year 2013, Export business of the bank was BDT. 130.35 billion (equivalent USD 1.67 billion) by handling 39,150 number of export documents. Export business achieved 7.73% growth in 2013 than that of 2012.



c. Foreign Remittance

In the year 2013, Bank received BDT. 2.90 billion (equivalent USD 0.04 billion) by handling 51,254 number of wage earners' remittances. Inward Remittance plunged by 49.92% in the year 2013 than that of 2012.

5.3.1.11 Corporate Social Responsibilities

At least 2% of annual profit of every year is put aside for the foundation to conduct Corporate Social Responsibilities (CSR) activities. The mainstream CSR activities that are carried out through this foundation are:

- Healthcare service.
- Scholarship program for brilliant poor student
- Education Promotion Scheme
- Helping people affected by natural calamities
- Helping people in slum areas
- Donation to educational institutions to setup computer lab
- Beautification of Dhaka City

5.3.1.12 Awards and Achievements

Awards

From the very beginning of its journey EXIM Bank set a standard in service which made the bank outstanding. Its commitment to the Quality Management, Good Governance, continuous effort to improve in all sectors, excellence in service as well as CSR activities always has been appreciated at home and abroad. In consequence, EXIM Bank achieved several national and international awards.

- ICMAB Best Corporate Award 2013
- International "BIZZ Award -2013"
- "International Diamond Prize for Excellence in Quality" award
- "World Finance" award

Achievements

- First private sector bank to open exchange house in UK
- Implementation of the world renowned Core Banking Software (TEMENOS T24)
- Conversion from Conventional Banking to Shariah Based Islami Banking

5.3.2 First Security Islami Bank Limited

5.3.2.1 History of Establishment

First Security Islami Bank is one of the Islami Bank which got new tradition for the purpose of modern Islami Banking program in the banking history of the country. It is

fully Shariah based Bank and following the Islamic Rules and Regulations. This bank is proceeding to its goal after starting its operation. First Security Islami Bank Limited started its operation on 25th October 1999 under the Company Act, 1994. In the beginning of the establishment, First Security Bank Limited started its operation as a conventional bank and on 1st January 2009, it was converted into a fully shariah based Islamic Bank. In side by side of conducting Town based Banking program, many branches were opened in rural areas of the country. The modern and quick banking network is the principal view of First Security Islami Bank Limited

Vision and Mission

a) Vision

To be the premier financial institution in the country by providing high quality products and services backed by latest technology and a team of highly motivated personnel to deliver excellence in Banking.

b) Mission

- ❖ To contribute to the socio-economic development of the country.
- ❖ To attain the highest level of satisfaction through the extension of services by dedicated and motivated professionals.
- ❖ To maintain continuous growth of market share by ensuring quality.
- ❖ To ensure ethics and transparency in all levels.
- ❖ To ensure sustainable growth and establish full value of the honorable shareholders and
- ❖ Above all, to contribute effectively to the national economy.

5.3.2.2 Corporate profile

The corporate profile of First Security Islami Bank Limited is stated Appendix-4

5.3.2.3 Managerial Information

There are following three sub-committee of the Board of Directors:

Executive Committee

The Executive Committee is comprised of five (5) members of the Board. The Committee takes decision on emergency matter as and when required and assists the Board of Directors to fulfill their responsibilities such as to set objectives, strategies and overall business plans for effective functioning of the bank.

Audit Committee

The Audit Committee is comprised of three (03) members of the Board. The Committee reviews the financial reporting process, the system of Internal Control, Management Information System; risk Management, The Bangladesh Bank, Internal & external Audit Reports, Audit process, compliance with laws and regulations and bank's own code of business conduct.

Risk Management Committee

A high-powered Committee named "Risk Management Committee" was formed in November, 2013 consisting of 03 members of the Board as per circular issued by the Central Bank. The Committee is to sit in at least 04 meetings in a calendar year to identify risks in the Bank and address the same with due diligence.

5.3.2.4 Shariah Supervisory Committee

The Bank has constituted a Shariah Council consisting prominent *Ulama*, Bankers, Lawyer and Economists to advice and guide on the implementation of Islamic Shariah in business activities.

5.3.2.5 Financial Products and Services

To suit the needs of clients of different strata in the society so as to tap resources for use in the banking channel for accelerating the pace of economic operation, mobilization of fund is one of the functions of banking business.

A) Deposit Schemes

With the view of above, FSIBL has been operating a number of popular and innovative financial products forms time to time considering the benefit of depositors, clients and Bank. Present deposit products of the Bank are:

- *Bandhan*
- *Ankur*
- *Hajj*
- *Aroba*
- *Unnoti*
- *Uddipon*
- *Niramoy*

- *Prapti*
- *Jakat*
- *Ghoroni*
- *Proyash*
- *Cash Waqfa*
- *Alo*
- *Probin*
- *Morjada*
- *Swadesh*
- *Triple Benefit*
- *Abosor*
- *Shomman*
- *Agrashor*
- *Suuvechha*
- *Projonmo*

Moreover, other principal deposit products of the Bank are as follows:

- *Al-Wadiah* Current Deposit Account
- *Mudaraba* Savings Deposit Account
- *Mudaraba* Term Deposit Receipt
- *Mudaraba* Monthly Deposit Scheme
- *Mudaraba* Deposit Double Scheme
- *Mudaraba* Special Notice Deposit
- *Mudaraba* Monthly Profit Savings Scheme
- Foreign currency Deposit

b) Investment Products

- Corporate Finance
- Commercial Finance
- Industrial Finance
- Lease finance
- Syndicate Finance
- Hire Purchase Finance
- Real Estate Finance
- Small and Medium Enterprise

c) Services

- ATM Card
- Education Remittance Service
- SMS Banking
- Locker Services
- Collections of Utility Bills
- Mobile Banking

5.3.2.6 Financial Overview of the Bank

In the backdrop of the challenging environment of 2013, FSIBL focused on core banking business, made positive growth in profitability and maintained a sound asset quality. The bank remained financially strong by dint of its resolute focus on the vision of becoming country's finest corporate citizen and also emphasize its' focus on SME, Retail Consumer and relentless pursuit of providing excellent and need based customer service.

The Bank mobilized deposits of TK. 139,520.95 million as at December 31, 2013 compared to TK. 109,905.57 million till 2012. Total investments and advances stood at TK. 114,601.80 million at the end of the year 2013, which was TK. 96,304.23 million at the end of the year 2012. Import business, Export business and Foreign Remittance collection were TK. 1,217.70 crore, Tk. 650.00 crore and Tk. 712.78 crore respectively during the year 2013. In 2013, the Bank was able to make pre-tax profit of TK. 2,043.81 million as compared to TK. 1,951.95 million in 2012 indicating 4.71% growth. Net profit after Tax stood TK. 769.12 million in 2013. Earning per share (EPS) stood at 1.87.

FSIBL made adequate provision against classified investment. Specific provision made is significantly higher than last year. Adequate provision made the Bank stronger than before. Tier-I capital stood at TK.: 5,955.12 million at the end of the year 2013 compared to TK. 5,262.08 million in 2012. Tier-II capital reached to TK. 3,306.12 million at the end of the year 2013 compared to TK. 2,883.24 million in 2012. Return on Asset (ROA) was 0.53% as on December 31, 2013. Capital Adequacy Ratio (CAR) of the bank stood at 10.13% against minimum requirement of 10.00% as per Basel II Capital Accord in December 2013.

Deposit

The deposit of First Security Islami Bank Limited stood at TK. 139,520.95 million as on December 31, 2013 as against TK. 109,905.57 million of 2012 registering an increase of TK. 29,598.37 million, i.e. 26.95% growth. Deposit is the life-blood of a bank. Bank has given utmost importance in mobilization of deposits introducing a few popular and innovative schemes.

Investment

First Security Islami Bank Limited has able to increase its investment despite adverse conditions in the domestic as well as in the global economy. Total amount of Investment of the bank stood at TK. 114601.80 million as on December 31, 2013 as against TK. 96,304.23 million as of December, 2010 showing an increase of TK. 18,297.58 million with a growth rate of 19%. Investments are the core assets of a bank. The bank gives emphasis to acquire quality assets and does appropriate lending risk analysis and follows all the terms and conditions of CAM (Credit Risk Management) while approving all sorts of investments to clients.

Import Business Import trade financed by FSIBL was Tk. 1,217.70 Crore in 2013. Large LCs were opened mainly for importing wheat, edible oil, capital machinery, coal, cotton, fabrics and accessories.

Export Business

FSIBL successfully handled export documents of Tk. 650.00 Crore during the 2013. Readymade garments, knitwear, finished leather goods, agro products etc. were the major export finance sectors.

Foreign Remittance

Bank has procured foreign remittance for Tk. 712.78 Crores of December 31, 2013. Meanwhile, the bank has made enormous progress in dealing remittance business with some leading exchange houses like Western Union, Placid NK Corporation, MoneyGram, Express Money, SuperX 10 Global Money, United Traders, UK etc. Moreover, our two Exchange Houses located in Canada & Italy have sent substantial amount of foreign remittance.

Correspondent Banking

Correspondent banks are the trade partner of international trade. FSIBL has already achieved tremendous success in Foreign Trade. The Bank has established correspondent relationship with 1400 branches of 200 different renowned Banks at financially important locations across the world.

5.3.2.7 Corporate Social Responsibilities

Aside banking activities, keeping eyes to Corporate Social Responsibility (CSR), the Bank has been trying to extend health service, education for the non-privileged people, provide stipends for the pupils of intelligence with disabilities, eliminate poverty, extend co-operations towards helpless & neglected people during natural calamities & disasters and help lagged-behind various groups of people every year. Moreover, the Bank contributes much to developing sports, literature and culture. In this line, about 7% of the operating profit was spent in various CSR Programs in 2013 which was 5% in the preceding year. Further, in the year under review, the bank started giving stipends to the insolvent and meritorious students across of the country.

5.4 Procedure of Conversion of Conventional Banking into Islamic Banking

In the case of conversion there arises a major question how it is converted or what are the legal procedures of conversion of conventional banking into Islamic Banking. With this end in view, Bangladesh Bank constituted a focus group comprising representatives of the central Bank, a number of Islamic Banks and the Central Shariah Board for Islamic Banks of Bangladesh to formulate an integrated guideline for conducting banking business of the Islamic Bank/ Islamic banking branches of conventional banks (www.bb.org)

The legal procedures of conversion of conventional banking into Islamic banking according to BRPD circular no 15 dated 09-11-2009 are stated in the Appendix- 5

Chapter Six

Comparative Growth Trend Analysis of Conventional Banking Period & Islamic Banking Period

6.1 Introduction

Though the Islamic Banking in Bangladesh operating a conventional banking based environment, the performance of Islamic banking is better in comparison to conventional one. The Islamic Banking industry nearly doubled in size in the past four years, outpacing the industry growth; it accounts for 21% of the banking sector, and in 2012 it crossed the BDT. 1.0 trillion thresholds in assets and deposits (Saqib, 2013). However, this chapter draws upon comparative growth trend analysis of conventional and Islamic banking period in which types of banking stream is relatively better performer in banking sector of Bangladesh. For measuring the financial performance the researcher has described elaborately various indicators of financial performance such as authorized capital, paid up capital, shareholder's equity, reserve fund, total assets, total liabilities, deposits, investment, foreign exchange business, export, import, income, expenditure, EPS, CAR, ROA, cost of fund, net profit etc. Tools of quantitative analysis as such average, standard deviation, coefficient of variation, simple growth rate and compound growth rate has been used to evaluating the growth trend of conventional and Islamic banking period of EXIM Bank and First Security Islami Bank Limited to prove in which types of banking perform better.

6.2 Comparative Growth Trend Analysis

The term 'Growth is very important for business and economics. Generally, it means an increase. On the other hand it is the process of rate of growing. It refers to an increase in some quantity over time (Wikipedia).

6.2.1 Growth Trend Analysis of Authorized Capital

Table 6.1
Comparative Growth Trend of Authorized Capital

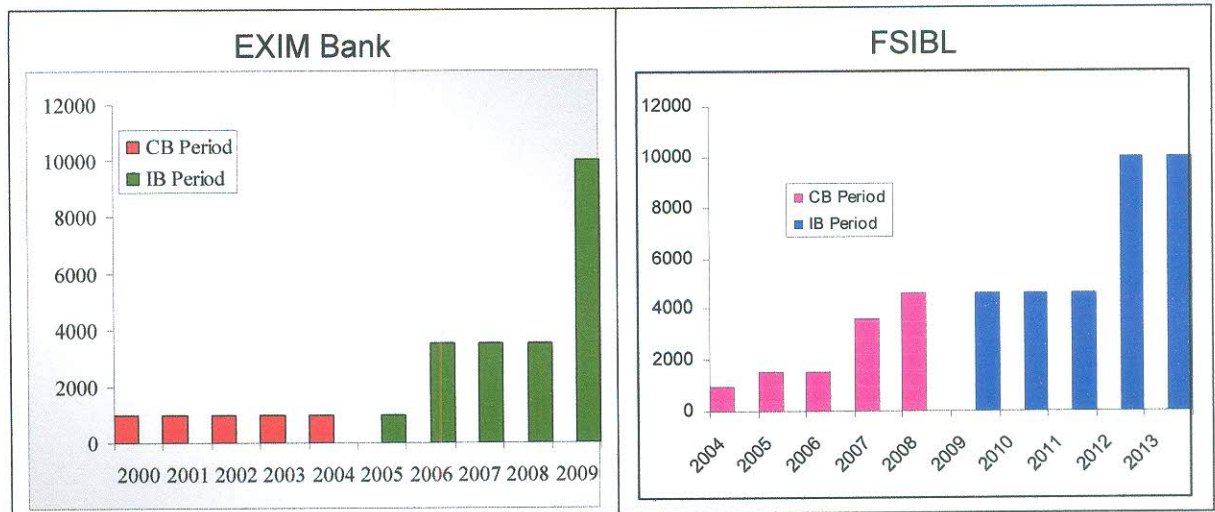
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	1000	2005	1000	2004	1000	2009	4600
2001	1000	2006	3500	2005	1500	2010	4600
2002	1000	2007	3500	2006	1500	2011	4600
2003	1000	2008	3500	2007	3600	2012	10000
2004	1000	2009	10000	2008	4600	2013	10000
Avg.	1000.00		4300.00		2440.00		6760.00
SD	0		3365.26		1569.39		2957.70
CV	0.00		78.26		64.32		43.75
SGR	0.00		225.00		90.00		29.35
CGR	-1.00		8.74		6.75		7.57

Source: Annual Reports of concerned banks , various issues

Table-6.1 shows a higher growth trend of authorized capital of the sample banks during Islamic banking period in comparison to conventional banking period. The overall scenario indicates that the bank perform well enough in Islamic banking period. In case of EXIM Bank the authorized capital was BDT. 100 million in 2000 and it was unchanged figure in the next 4 years. When the bank converted into Islamic banking in 2004 the authorized capital of the bank also was in same figure, but it was a tremendous growth in the next year and it reached at BDT. 10,000 million which was 10 times more from its conventional banking period. The value of standard deviation was 3365.26. The data of FSIBL show the same result as EXIM Bank. The value of average growth trend of FSIBL was 2440.00 in conventional banking period and it was 6760.00 in Islamic banking period which was 2.77 times more from conventional banking period. The value of standard deviation of Islamic banking period (2957.70) was also higher than conventional banking period (1569.39). The higher value of co-efficient of variation of conventional banking period indicates that the bank was less inconsistent and less stable in that time.

Figure 6.1
Comparative Growth Trend of Authorized Capital



Source: Same as Table 6.1

6.2.2 Growth Trend Analysis of Paid up Capital

Table 6.2
Comparative Growth Trend of Paid up Capital

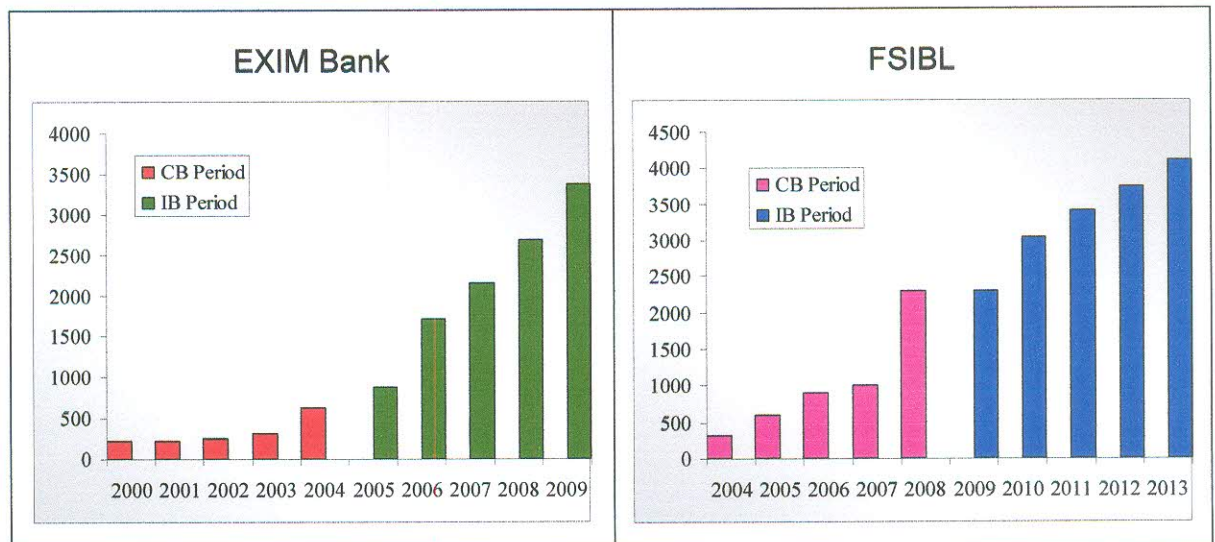
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	225	2005	878.85	2004	320	2009	2300
2001	225	2006	1713.76	2005	600	2010	3036
2002	253.12	2007	2142.2	2006	900	2011	3400
2003	313.88	2008	2677.75	2007	1000	2012	3740.35
2004	627.75	2009	3373.96	2008	2300	2013	4114.38
Avg.	328.95		2157.30		1024.00		3318.15
SD	170.93		946.38		761.50		695.55
CV	51.96		43.87		74.37		20.96
SGR	44.75		70.98		154.69		19.72
CGR	3.48		6.07		5.67		5.53

Source: Annual Reports of concerned banks , various issues

Table-6.2 similarly shows that comparative growth trend of paid up capital of EXIM Bank and FSIBL during the conventional banking period and Islamic banking period. In EXIM Bank, the data show a high growth rate of paid up capital during Islamic banking period in comparison to conventional banking period. The average growth of paid up capital of EXIM Bank was 328.95 in conventional banking period and it was 2157.30 in Islamic banking period which was 6.55 times more from conventional banking period. The value of standard deviation was 170.93 in conventional banking period and it was 946.38 in Islamic banking period which also indicates a high growth trend of Islamic banking in comparison to conventional banking period. In case of FSIBL the growth trend of paid up capital during Islamic banking period was more than three times high to conventional banking period. The average growth of paid up capital of FSIBL was 1024.00 in conventional banking period and it was 3318.15 in Islamic banking period. Though the average growth trend of FSIBL of conventional banking period was lower than Islamic banking period, the value of standard deviation, SGR and CGR was higher than Islamic banking period of the bank.

Figure 6.2
Comparative Growth Trend of Paid up Capital



Source: Same as Table 6.2

6.2.3 Growth Trend Analysis of Shareholders Equity

Table 6.3
Comparative Growth Trend of Shareholders Equity

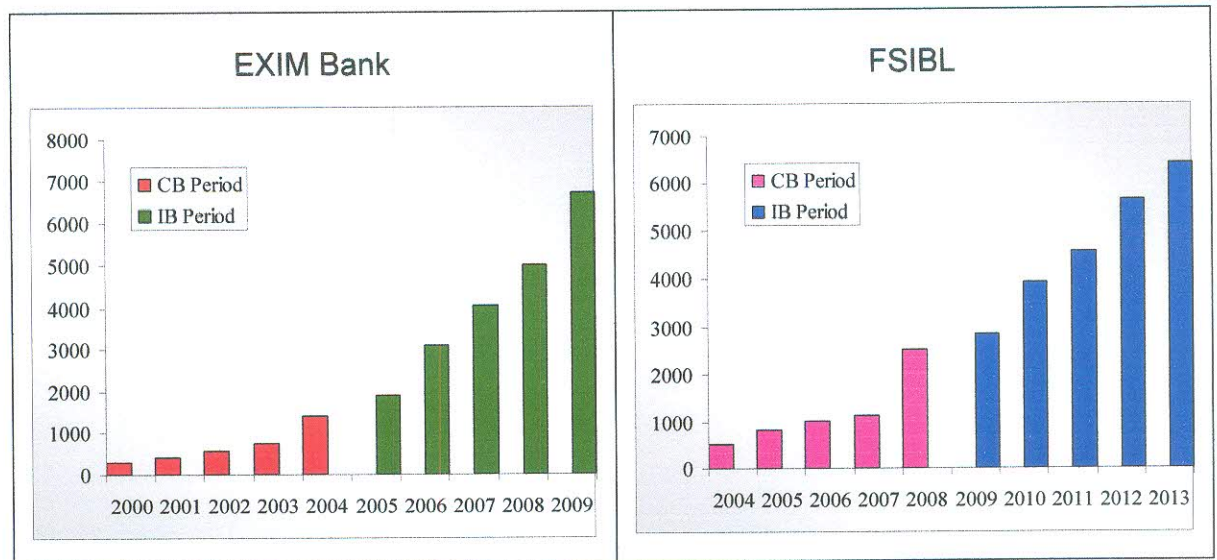
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	296.74	2005	1912.42	2004	530.99	2009	2855.41
2001	407.24	2006	3111.69	2005	820.88	2010	3920.41
2002	551.33	2007	4042.53	2006	1003.66	2011	4548.95
2003	748.27	2008	4989.2	2007	1134.29	2012	5664.48
2004	1400	2009	6717.21	2008	2538.57	2013	6433.6
Avg.	680.72		4154.61		1205.68		4684.49
SD	436.15		1829.69		778.75		1411.39
CV	64.07		44.04		64.59		30.13
SGR	92.95		62.81		94.52		31.33
CGR	4.76		7.33		5.69		6.73

Source: Annual Reports of concerned banks , various issues

Table-6.3 indicates the comparative growth trend of shareholders equity during the conventional banking period and Islamic banking period of the sample banks. In case of EXIM Bank the average growth was 680.72 million BDT. during the conventional banking period and it was 4154.61 million BDT. in the Islamic banking period which was 6.10 times more from conventional banking period. In case of FSIBL the average growth of shareholders equity was 1205.68 million BDT. during the conventional banking period and it was remarkably enhance in Islamic banking period when the bank was converted from conventional into Islamic banking and the figure was 4684.49 million BDT. which was 3.88 times more from conventional banking period. The value of standard deviation of conventional banking period of EXIM Bank was 436.15 and in the Islamic banking period it was 1829.69 respectively. The simple growth rate of conventional banking period of EXIM Bank was 92.95 and it was 62.81 in the Islamic banking period respectively. The simple growth rate of FSIBL was 94.52 in conventional banking period and it was 31.33 in Islamic banking period.

Figure 6.3
Comparative Growth Trend of Shareholders Equity



Source: Same as Table 6.3

6.2.4 Growth Trend Analysis of Reserve Fund

Table 6.4
Comparative Growth Trend of Reserve Fund

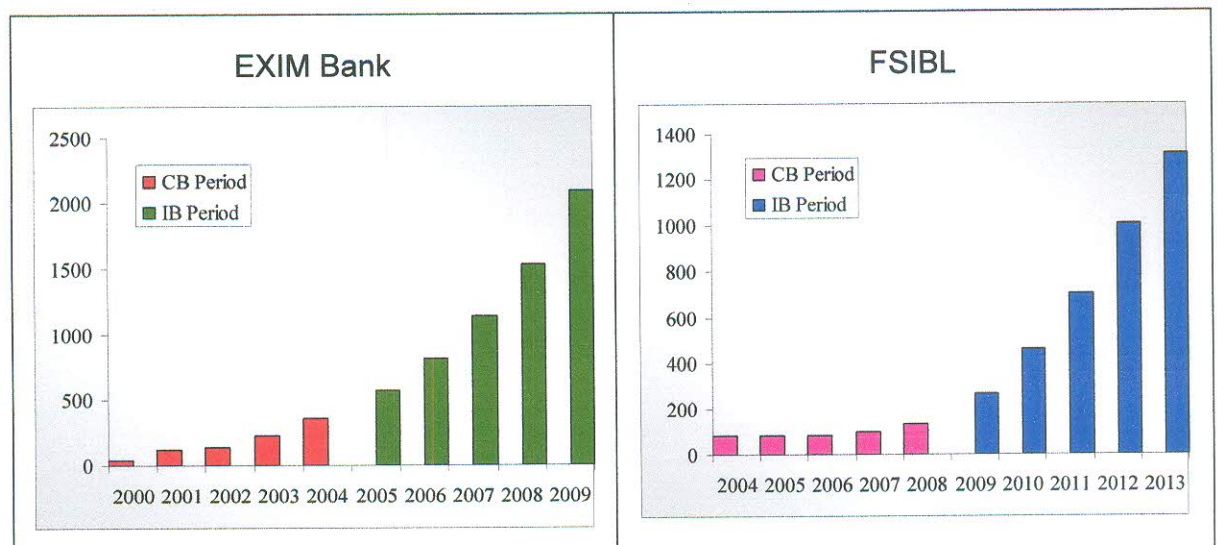
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	39.66	2005	569.99	2004	80.85	2009	263.44
2001	119.61	2006	810.88	2005	84.45	2010	460.16
2002	132.5	2007	1134.6	2006	84.45	2011	704.2
2003	228.2	2008	1532.6	2007	96.16	2012	1004.6
2004	357.33	2009	2093	2008	134.08	2013	1310.4
Avg.	175.46		1228.21		96.00		748.55
SD	121.72		603.45		22.06		418.83
CV	69.37		49.13		22.98		55.95
SGR	200.25		66.80		16.46		99.35
CGR	3.22		5.25		1.70		4.69

Source: Annual Reports of concerned banks , various issues

It is observed a higher growth trend of Reserve Fund of the bank during Islamic banking period in comparison to conventional baking period from table-6.4. The data of EXIM Bank show that the value of average growth trend was 175.46 in conventional banking period and it was 1228.21 in Islamic banking period which was 6.99 times from conventional banking period. At the same, the value of standard deviation was 121.72 during conventional banking period and it was 603.45 in Islamic banking period which was also 4.95 times form conventional banking period. Others value of growth trend was also higher than conventional banking period. In case of FSIBL it was observed mostly a little changed in reserved fund of the bank during conventional banking period. The value of average growth trend of FSIBL during conventional banking period was 96.00 and it was 748.55 in Islamic banking period which was 7.79 times from conventional banking period. The value of standard deviation of Islamic banking period was 418.83 and it was 22.06 in conventional banking period which was 18.98 times less from conventional banking period. Others indicators of growth trend was also higher than conventional banking period, but the higher value of CV of Islamic banking period (55.95) indicates that, though the bank was a rapid growth phenomena in Islamic banking period but it was less stable and less inconsistent in that time.

Figure 6.4
Comparative Growth Trend of Reserve Fund



Source: Same as Table 6.4

6.2.5 Growth Trend Aanalysis of Total Assets

Table 6.5
Comparative Growth trend of Total Assets

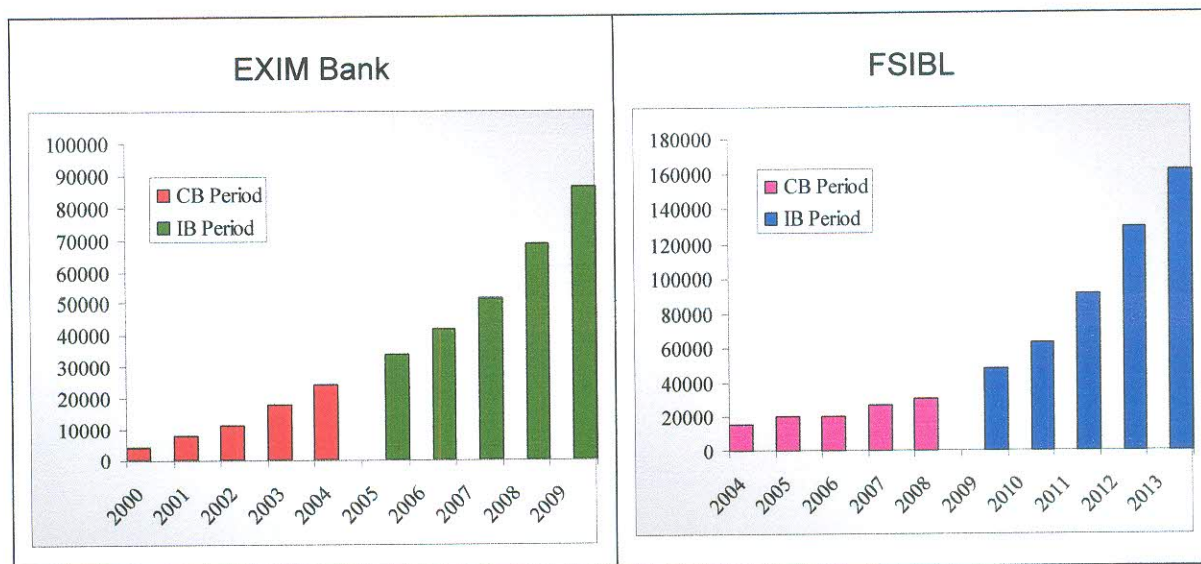
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	4301.23	2005	33716.7	2004	16169.26	2009	47978.55
2001	8035.32	2006	41793.5	2005	20260.33	2010	63619.79
2002	11374.7	2007	51503.0	2006	20448.66	2011	91012.89
2003	17888.66	2008	68446.5	2007	26942.0	2012	129733.17
2004	24355.75	2009	86213.4	2008	31239.0	2013	161822.98
Avg.	13191.13		56334.62		23011.85		98833.48
SD	7994.18		21129.33		6001.96		46930.42
CV	60.60		37.51		26.08		47.48
SGR	116.56		38.92		23.30		59.32
CGR	10.90		14.14		10.08		17.37

Source: Annual Reports of concerned banks , various issues

Table-6.5 represents the higher simple growth rate of EXIM Bank in conventional banking period in comparison to Islamic Banking period, but it shows the higher simple growth rate of FSIBL of Islamic banking period in comparison to conventional banking period at the same. The value of SGR of EXIM Bank in conventional banking period was 116.56 and it was 38.92 in the Islamic banking period which was 2.99 times more from Islamic banking period. The value of SGR of FSIBL in conventional banking period was 23.30 and it was 59.32 in Islamic banking period. The value of compound growth rate of EXIM Bank in conventional banking period was 10.90 and it was 14.14 in Islamic banking period. Here we see the higher growth trend of EXIM Bank in Islamic banking period. At the same in FSIBL, the value of compound growth rate was 10.08 in conventional banking period and it was 1.37 in Islamic banking period. The data also represent that the CGR of FSIBL of Islamic banking period is higher than conventional banking period.

Figure 6.5
Comparative Growth trend of Total Assets



Source: Same as Table 6.5

6.2.6 Growth Trend Aanalysis of Total Liabilities

Table 6.6
Comparative Growth trend of Total Liabilities

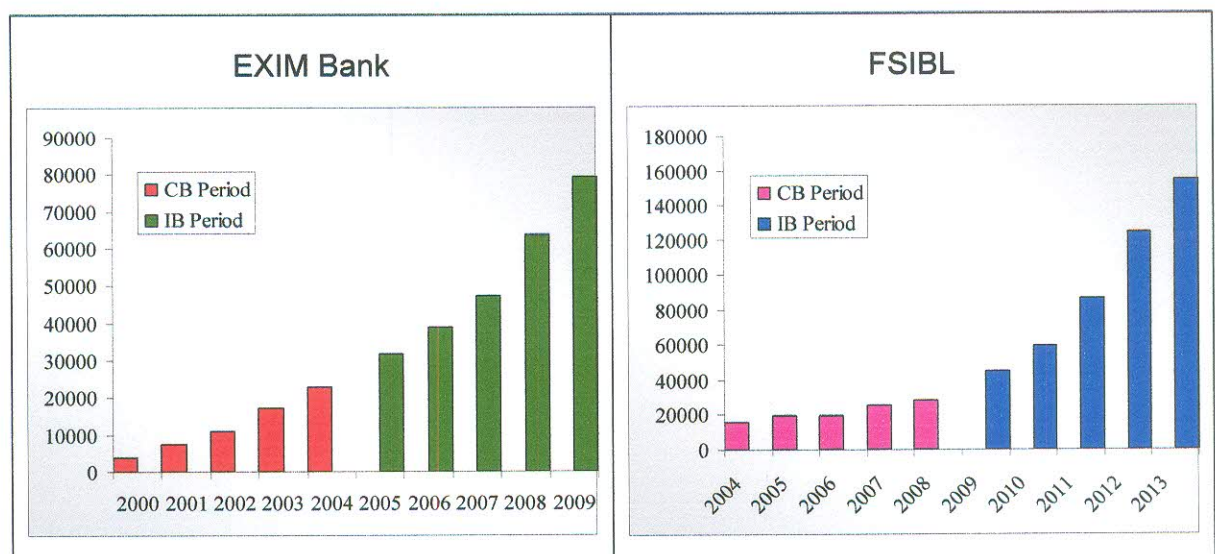
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	4004.5	2005	31804.28	2004	15638.27	2009	45113.14
2001	7573.36	2006	38681.86	2005	19439.45	2010	59699.78
2002	10823.37	2007	47460.50	2006	19445.00	2011	86463.94
2003	17140.38	2008	63457.26	2007	25807.48	2012	124068.69
2004	22955.75	2009	79496.16	2008	28700.82	2013	155389.38
Avg.		52180.01		21806.20		94146.99	
SD		19319.63		5309.57		45540.91	
CV		37.02		24.35		48.37	
SGR		37.49		20.88		61.11	
CGR		13.78		9.69		17.22	

Source: Annual Reports of concerned banks , various issues

It is observed by analyzing table-6.6 a higher rate of growth trend of total liabilities in the same banks during Islamic banking period in comparison to conventional banking period. Growth in total liabilities of EXIM Bank was BDT. 22955.75 million or 5.76 times in 2004 as against BDT. 4004.50 million in 2000 with an average of BDT. 12499.47 million in conventional banking period. It was BDT. 79496.16 million or 2.49 times in 2009 as against BDT. 31804.28 million in 2005 with an average of BDT. 52180.01 million in Islamic banking period. The average growth rate of EXIM Bank during Islamic banking period was 4.17 times more from conventional banking period. In FSIBL, the average growth rate was 21806.20 in conventional banking period; it was 94146.99 in Islamic banking period which was 4.31 times more from conventional banking period. Though the average growth rate of FSIBL in Islamic banking period was higher than conventional banking period, the value of standard deviation was lower from Islamic banking period. The data indicate that the growth of total liabilities of conventional banking period was rapidly in comparison to Islamic banking period. The SGR and CGR of FSIBL during Islamic banking period were higher than conventional banking period.

Figure 6.6
Comparative Growth trend of Total Liabilities



Source: Same as Table 6.6

6.2.7 Growth Trend Aanalysis of Deposit

Table 6.7
Comparative Growth trend of Deposit

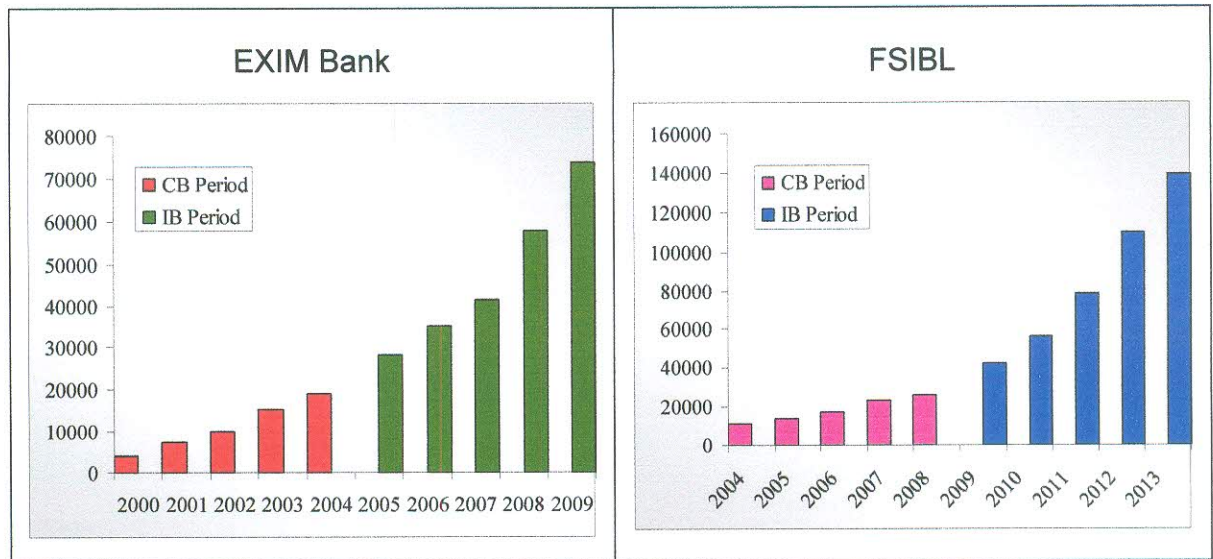
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	3934.47	2005	28319.21	2004	11231.67	2009	42423.09
2001	7389.54	2006	35032.02	2005	14012.17	2010	56344.95
2002	9945.22	2007	41546.57	2006	17592.00	2011	78145.04
2003	15242.97	2008	57586.99	2007	23504.04	2012	109905.57
2004	19078.18	2009	73835.46	2008	25854.54	2013	139520.95
Avg.	11118.07		47264.05		16438.88		85267.92
SD	6067.53		18397.16		9708.87		39602.27
CV	54.57		38.92		59.06		46.44
SGR	96.22		40.18		499.79		57.22
CGR	10.09		13.61		11.53		16.65

Source: Annual Reports of concerned banks , various issues

According to the table-6.7 comparative growth trend of deposits of the sample banks are focused. In EXIM Bank during the conventional banking period it was BDT. 19078.18 million or 4.84 times in 2004 as against BDT. 3934.47 million in 2000 with an average of BDT. 11118.07 million. The value of SGR was 96.22 and CGR was 10.09 at the same time. In the Islamic Banking period of EXIM Bank it was BDT. 73835.46 million or 2.60 times in 2004 as against BDT. 28319.21 million in 2000 with an average of BDT. 47264.05 million. The SGR was 40.18 and CGR was 13.61 at the same time. In FSIBL during the conventional banking period it was BDT. 25854.54 million or 20.99 times in 2008 as against BDT. 1231.67 million in 2004 with an average of BDT. 16438.88 million. In the Islamic banking period of FSIBL it was BDT. 139520.95 million or 3.28 times in 2013 as against BDT. 42423.09 in 2009 with an average of BDT. 85267.92 million. The value of SGR was 57.22 and CGR was 16.65 in Islamic banking period. The statistics shows that the value of SGR of FSIBL in conventional banking period was 8.73 times more form Islamic banking period and the CGR was lower from Islamic banking period.

Figure 6.7
Comparative Growth trend of Deposit



Source: Same as Table 6.7

6.2.8 Growth Trend Analysis of Investment

Table 6.8
Comparative Growth trend of Investment

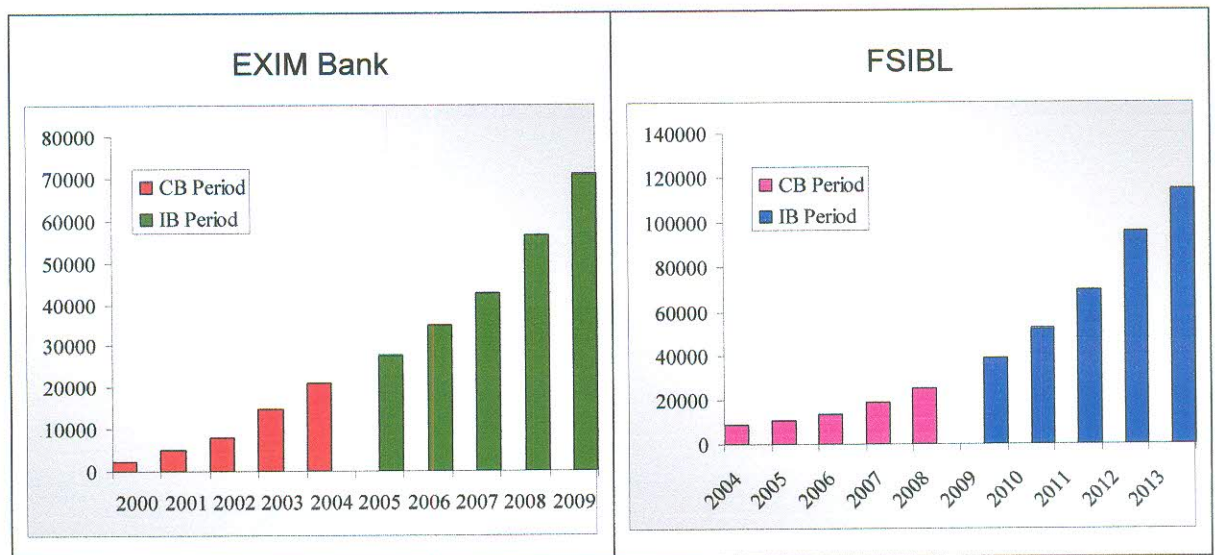
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	2170.53	2005	27679.37	2004	8500.27	2009	38725.87
2001	5131.55	2006	34874.52	2005	10722.32	2010	52123.90
2002	7954.56	2007	42652.96	2006	13646.38	2011	69467.32
2003	14666.19	2008	56531.70	2007	18616.22	2012	96304.23
2004	20875.43	2009	70799.45	2008	25094.65	2013	114601.80
Avg.	10159.65		46507.60		15315.97		74244.62
SD	7568.14		17286.31		6649.38		31181.16
CV	74.49		37.17		43.41		42.00
SGR	215.44		38.95		48.81		48.98
CGR	10.69		13.41		10.35		15.60

Source: Annual Reports of concerned banks , various issues

Table-6.8 demonstrates the comparative growth trend of Investment of conventional and Islamic banking period of the sample banks. The result of EXIM Bank shows that the value of compound growth rate of Islamic banking period was higher than conventional banking period. It proves high rate of return from Investment during the Islamic banking period. In FSIBL the results shows the same scenario i.e. the value of compound growth rate of Islamic banking period of FSIBL was higher than conventional banking period. The statistics of CGR proved that after conversion of FSIBL from conventional banking into Islamic banking, the Investment of the bank has been raised rapidly. The value of coefficient of variation of EXIM Bank was 74.49 in conventional banking period and it was 37.17 in Islamic banking period which was less than conventional banking period. The statistics shows that though the average growth trend of Islamic banking period was higher than conventional banking period, the SGR was less than conventional banking period of EXIM Bank. The value of CV of FSIBL during conventional banking period was 43.41 and it was 42.00 in Islamic banking period. The coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous (Gupta & Gupta, 2012). The statistics of FSIBL during conventional banking period shows that it was less stable or less consistent than Islamic banking period at the same time.

Figure 6.8
Comparative Growth trend of Investment



Source: Same as Table 6.8

6.2.9 Growth Trend Aanalysis of Foreign Exchange Business

Table 6.9
Comparative Growth trend of Foreign Exchange Business

(Amount in million)

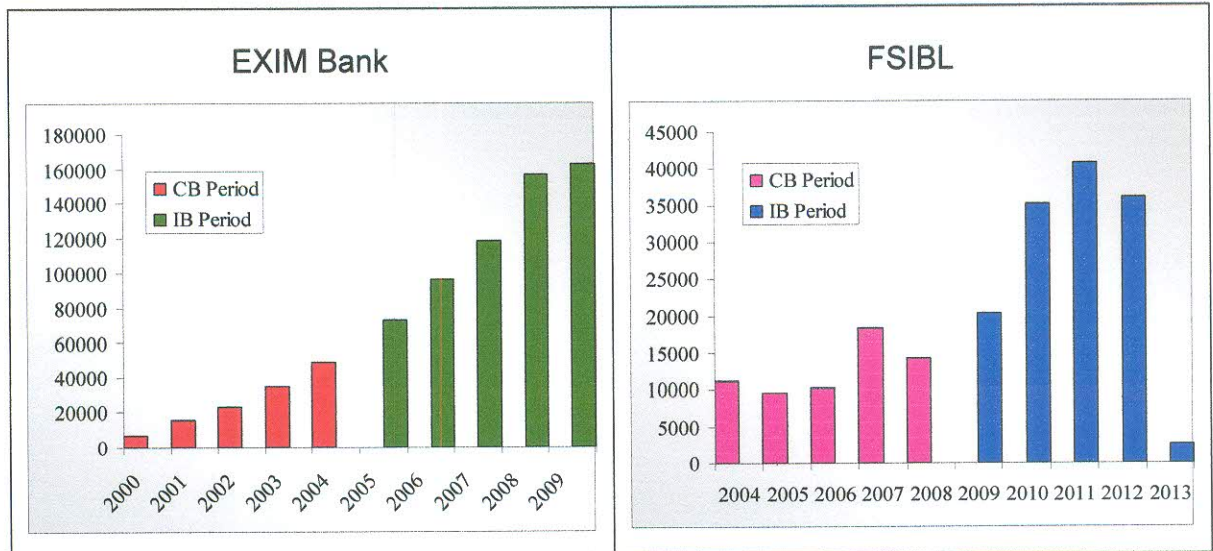
EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	6997.00	2005	72940.00	2004	11096.22	2009	20208.92
2001	15961.90	2006	96175.10	2005	9524.01	2010	35103.57
2002	23240.80	2007	117900.14	2006	10161.44	2011	40807.30
2003	34619.60	2008	156434.57	2007	18322.84	2012	36067.20
2004	49312.50	2009	162604.61	2008	14238.00	2013	2580.48
Avg.	26026.36		121210.88		12668.50		26953.49
SD	16486.79		38477.20		3642.81		15660.02
CV	63.35		31.74		28.75		58.10
SGR	151.19		30.73		7.08		-21.81
CGR	13.34		16.30		6.49		N/A

Source: Annual Reports of concerned banks , various issues

According to the analysis of table-6.9, it is observed that the growth trend of foreign exchange business of EXIM Bank was rapid growth phenomenon in Islamic banking period and the case of FSIBL was almost same. In EXIM Bank during conventional banking period it was BDT. 49312.50 million or 7.04 times in 2004 as against BDT. 6997.00 in 2000 with an average of BDT. 26026.36 million. In Islamic banking period it was BDT. 162604.61 million or 2.22 times in 2009 as against BDT. 72940.00 million in 2005 with an average of BDT. 121210.88 million. The results shows that growth trend of foreign exchange business of EXIM Bank was higher during conventional banking period in comparison to Islamic banking period, though the average growth trend of Islamic banking period was higher than conventional banking period. In FSIBL during conventional banking period the foreign exchange business was much fluctuated. In 2004 it was BDT. 11096.22 million, but it decreased in the year 2005 and it amounted BDT. 9524.01. Again it increased from previous year in 2006. The statistics shows a drastic change of foreign exchange business in 2007 and unfortunately it was decreased again in the year 2008. The result shows a dramatic change in foreign exchange business of FSIBL during conventional banking period. It is also observed fluctuate figures of foreign exchange business of FSIBL in Islamic banking period. Just after conversion from

conventional banking into Islamic banking, the figures of foreign exchange business was changed tremendously over the years 2009, 2010 and 2011. But we see the decreased trends in the year 2012 and 2013.

Figure 6.9
Comparative Growth trend of Foreign Exchange Business



Source: Same as Table 6.9

6.2.10 Growth Trend Aanalysis of Investment as a % total deposit

Table 6.10
Comparative Growth trend of Investment as a % total deposit

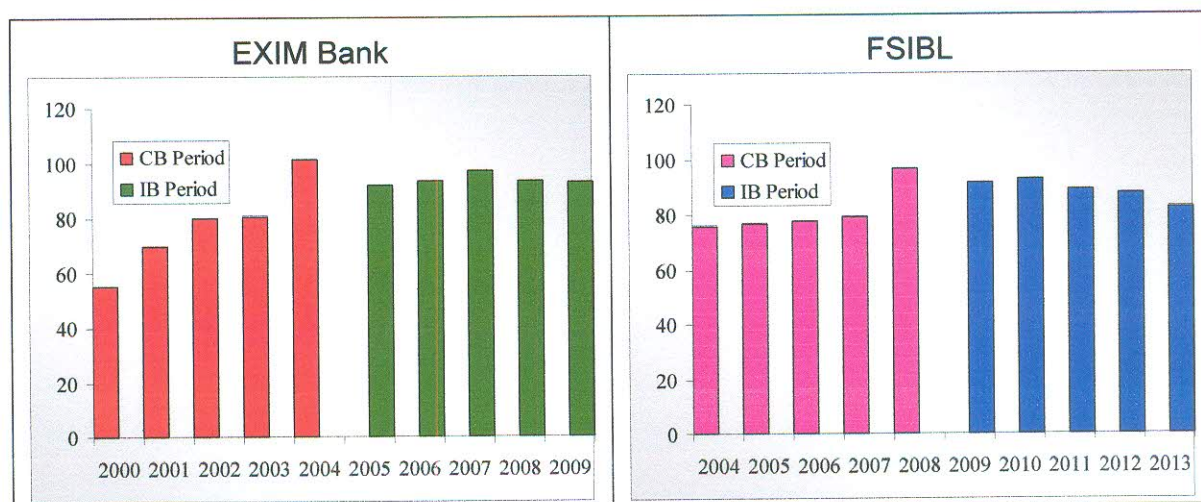
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	55.16	2005	91.97	2004	75.68	2009	91.28
2001	69.44	2006	93.18	2005	76.85	2010	92.51
2002	79.98	2007	96.75	2006	77.57	2011	88.90
2003	80.62	2008	93.14	2007	79.20	2012	87.62
2004	101.33	2009	92.92	2008	96.39	2013	82.14
Avg.	77.31		93.59		81.14		88.49
SD	16.94		1.83		8.62		4.04
CV	21.91		1.96		10.63		4.56
SGR	20.93		0.26		6.84		-2.50
CGR	1.61		-0.01		1.13		N/A

Source: Annual Reports of concerned banks , various issues

Table-6.10 shows the mean, SD, CV, SGR and CGR values for specific variables relating investment as a percentage of total deposits of sample banks during the conventional banking period and Islamic banking period. The average growth trend of EXIM Bank during conventional banking period was 77.31% but the data show that it was 55.16% investment as a percentage of deposit in 2000 and it was tremendous growth in 2004 where the investment as a percentage of total deposit was 101.33% which is near about double from the starting year. But in Islamic banking period the statistics shows that there was a stable scenario of investment as a percentage of total deposits. Though the average growth trend of EXIM Bank in Islamic banking period was higher than conventional banking period the value of simple growth rate was 80.5 times less than conventional banking period. The data of FSIBL show that it was very closed in figure in the year 2004, 2005, 2006 and 2007; but in 2008 the last year of conventional banking period it jumped at 96.39% of investment as a percentage of total deposits which was the highest figure over the years. In Islamic banking period of FSIBL, we see a scarce behavior of investment as a percentage of total deposits. The growth trend was gradually declining over the years, though the average growth trend of Islamic banking period was higher than conventional banking period.

Figure 6.10
Comparative Growth trend of Investment as a % total deposit



Source: Same as Table 6.10

6.2.11 Growth Trend Analysis of Total Income

Table 6.11
Comparative Growth trend of Total Income

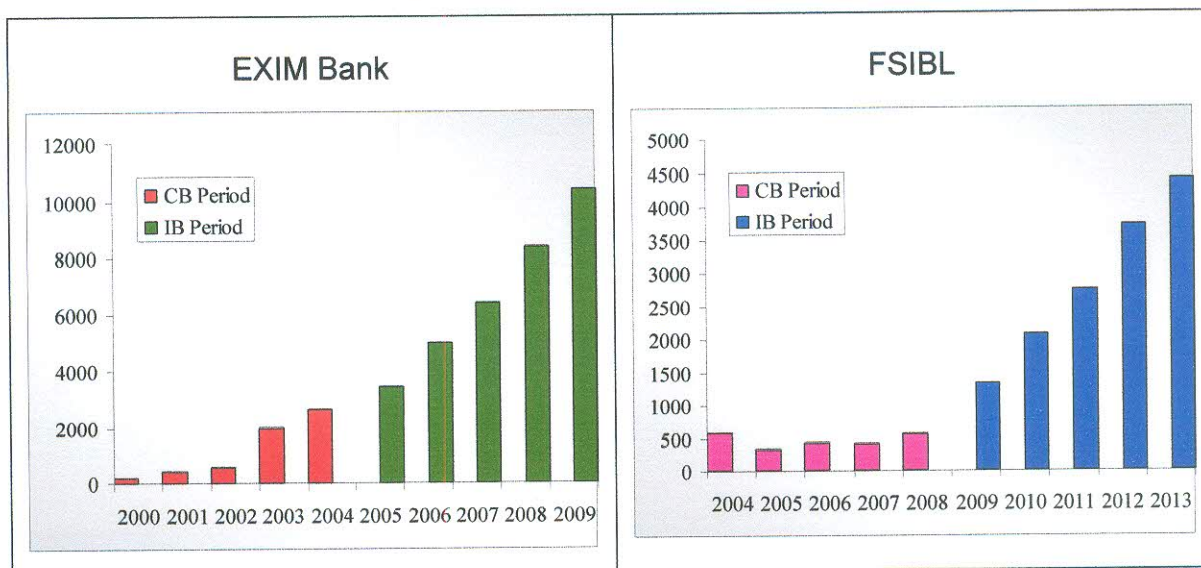
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	187.38	2005	3433.39	2004	591.67	2009	1327.63
2001	419.54	2006	4967.57	2005	325.79	2010	2085.20
2002	588.18	2007	6407.96	2006	421.95	2011	2738.25
2003	1961.91	2008	8356.82	2007	414.53	2012	3734.68
2004	2644.59	2009	10383.62	2008	572.78	2013	4409.60
Avg.	1160.32		6709.87		465.34		2859.07
SD	1080.31		2741.85		113.40		1237.90
CV	93.10		40.86		24.37		43.30
SGR	327.84		50.61		-0.80		58.04
CGR	6.04		8.13		N/A		6.45

Source: Annual Reports of concerned banks , various issues

It is observed from the table-6.11 the total income of EXIM Bank was higher in Islamic banking period in comparison to conventional banking period. In conventional banking period it was 1160.32 at the same it was 6709.87 in Islamic banking period which was 5.78 times more than conventional banking period. A high rate of CV (93.10) of conventional banking period indicates that it was less stable or less inconsistent than Islamic banking period (40.86). The value of standard deviation also indicates that the bank performed better in Islamic banking period (2741.85) in comparison to conventional banking (1080.31) period. In FSIBL, we see a high average growth trend of Islamic banking period in comparison to conventional banking period. The average growth trend of Islamic banking period was 2859.07 and it was 465.34 in conventional banking period which was 6.14 times more from conventional banking period. The value of standard deviation was 113.40 in conventional banking period and it was 1237.90 in Islamic banking period. It also indicates that, the growth trend of Islamic banking period was so fast than conventional banking period of FSIBL.

Figure 6.11
Comparative Growth trend of Total Income



Source: Same as Table 6.11

6.2.12 Growth Trend Analysis of Total Expenditure

Table 6.12
Comparative Growth trend of Total Expenditure

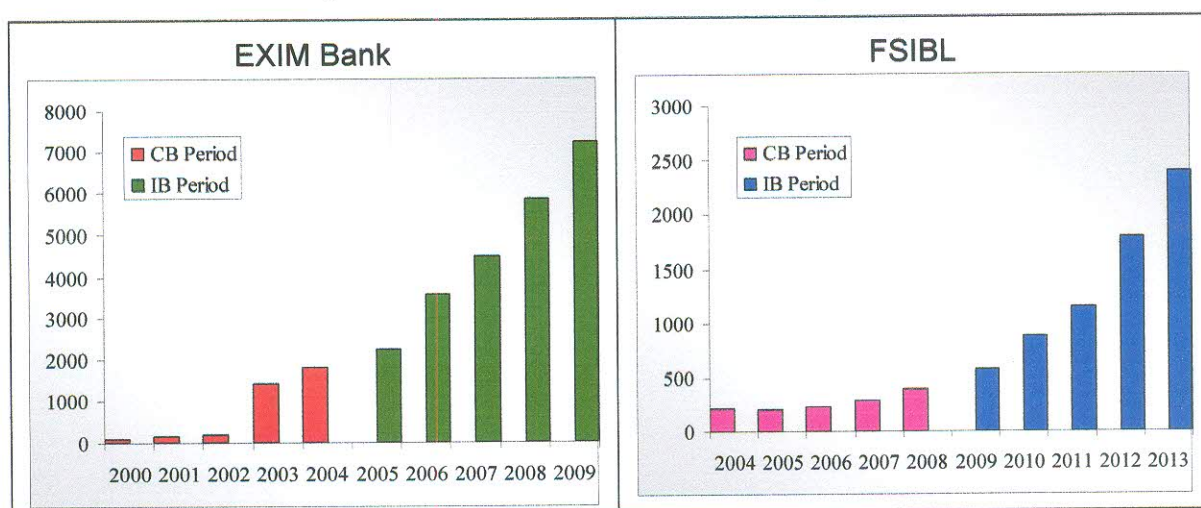
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	87.71	2005	2257.63	2004	207.93	2009	576.79
2001	145.69	2006	3588.89	2005	200.61	2010	881.60
2002	201.39	2007	4499.76	2006	219.33	2011	1148.66
2003	1399.25	2008	5838.43	2007	286.00	2012	1792.72
2004	1808.78	2009	7201.84	2008	383.17	2013	2383.88
Avg.	728.56		4677.31		259.41		1356.73
SD	813.18		1923.05		77.04		728.44
CV	111.61		41.11		29.70		53.69
SGR	490.56		54.75		21.07		78.33
CGR	5.44		7.39		2.64		5.52

Source: Annual Reports of concerned banks , various issues

Table-6.12 similarly shows high average growth trend of total expenditure of EXIM Bank during Islamic banking period in comparison to conventional banking period. The average growth trend of EXIM Bank during conventional banking period was 728.56 and it was 4677.31 in Islamic banking period which was 6.41 times more from conventional banking period. The value of coefficient of variation also indicates that the bank was less inconsistent or less stable during conventional banking period. The CV was 41.11 in Islamic banking period, which proves high inconsistency and high stability of the bank. The CGR of Islamic banking period (7.39) of EXIM Bank was also higher than conventional banking period (5.44). The data also show a tremendous growth of expenditure of FSIBL during Islamic banking period. The average growth of expenditure of FSIBL during conventional banking period was 259.41 and it was 1356.73 in Islamic banking period which was 5.23 times more from conventional banking period which proves the Islamic banking period was less stable and less inconsistent in comparison to conventional banking period. The CGR of Islamic banking period (5.52) of FSIBL was higher than conventional banking period (2.64).

Figure 6.12
Comparative Growth trend of Total Expenditure



Source: Same as Table 6.12

6.2.13 Growth Trend Analysis of Earning Per Share

Table 6.13
Comparative Growth trend of Earning per Share

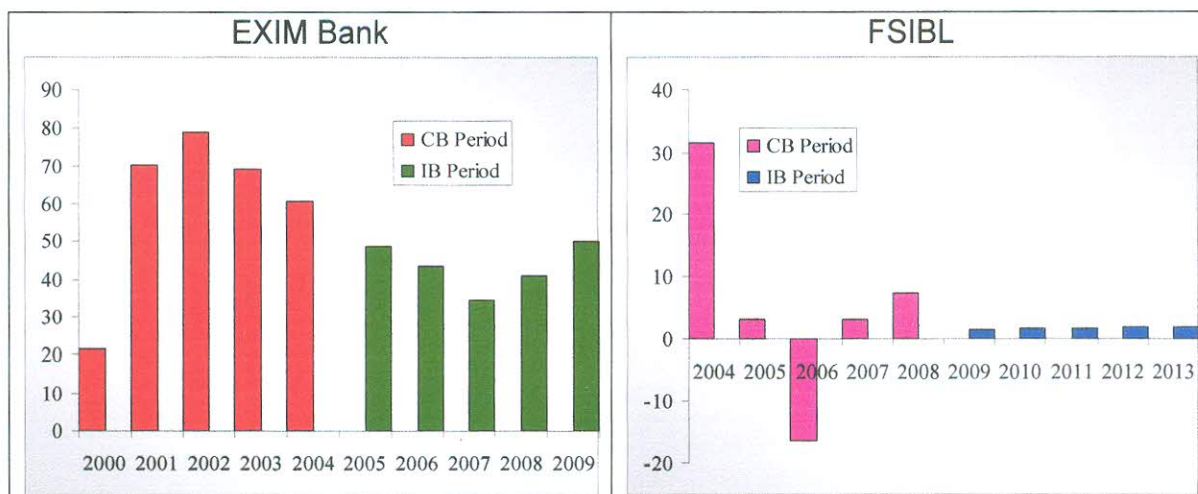
(Amount in Figure)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	21.39	2005	48.61	2004	31.71	2009	1.42
2001	70.25	2006	43.48	2005	3.06	2010	1.61
2002	79.14	2007	34.76	2006	-16.28	2011	1.71
2003	69.20	2008	40.95	2007	3.20	2012	1.85
2004	60.82	2009	50.21	2008	7.35	2013	1.87
Avg.	60.16		43.60		5.81		1.69
SD	22.62		6.20		17.14		0.19
CV	37.61		14.23		295.16		10.96
SGR	46.08		0.82		-19.21		7.92
CGR	1.51		0.12		N/A		-0.18

Source: Annual Reports of concerned banks , various issues

Table-6.13 exhibits the growth trend of earning per share of the sample banks. The data show an inequity character of stock market in Bangladesh. The average growth of EPS of EXIM Bank during conventional banking period was higher than Islamic banking period. The average growth of EPS of the EXIM Bank during conventional banking period was 60.16% and it was 43.60% in Islamic banking period. The SGR was also higher than Islamic banking period. In FSIBL the statistics shows that an up and down character of EPS over the years. In conventional banking period the rate played a peculiar game of up and down. In the year 2004 it was 31.71% but in next year it decrease in 3.06%. The average growth of EPS of FSIBL in conventional banking period was 5.81% and it was 1.69% in Islamic banking period which was 3.43 times less from conventional banking period.

Figure 6.13
Comparative Growth trend of Earning Per Share



Source: Same as Table 6.13

6.2.14 Growth Trend Analysis of Capital Adequacy Ratio %

Table 6.14
Comparative Growth trend of Capital Adequacy Ratio %

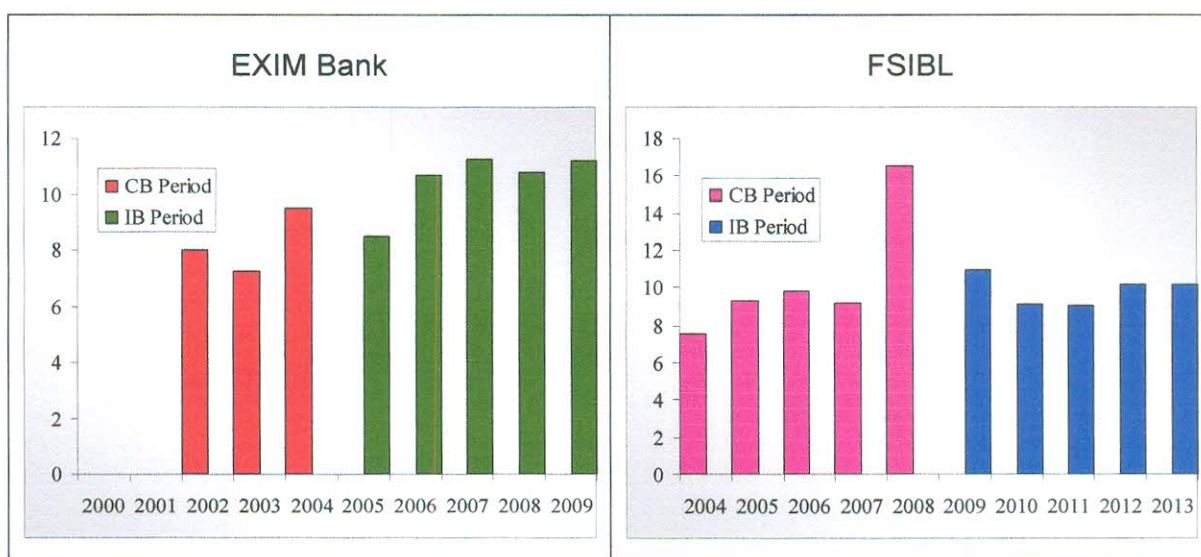
(Amount in Figure)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	0	2005	8.49	2004	7.57	2009	10.91
2001	0	2006	10.70	2005	9.30	2010	9.09
2002	8.00	2007	11.23	2006	9.79	2011	9.07
2003	7.25	2008	10.79	2007	9.15	2012	10.20
2004	9.49	2009	11.18	2008	16.49	2013	10.13
Avg.			10.48		10.46		9.88
SD			1.14		3.47		0.79
CV			10.84		33.19		8.01
SGR			7.92		29.46		-1.79
CGR			0.28		0.73		N/A

Source: Annual Reports of concerned banks , various issues

Table-6.14 states the Capital Adequacy Ratio (CAR) of the sample banks over the years. The data show that the average growth of CAR of EXIM Bank during Islamic banking period was higher than conventional banking period. The average growth trend of CAR of conventional banking period was 4.95 percent; it was 10.48 percent in Islamic banking period which was 2.11 times more from conventional banking period. The high value of CV of conventional banking period (92.73) proved the instability of the bank during conventional banking period. In FSIBL the data show an opposite scenario of EXIM Bank. It is observed by the statistics that the growth of CAR of FSIBL in conventional banking period was higher than Islamic banking period. The average growth of CAR of FSIBL in conventional banking period was 10.46 percent; it was 9.88 percent in Islamic banking period. The result shows that the difference of the percentage of CAR of FSIBL of conventional and Islamic banking period was a tolerable figure.

Figure 6.14
Comparative Growth trend of Capital Adequacy Ratio %



Source: Same as Table 6.14

6.2.15 Growth Trend Aanalysis of Cost of Fund

Table 6.15
Comparative Growth trend of Cost of Fund

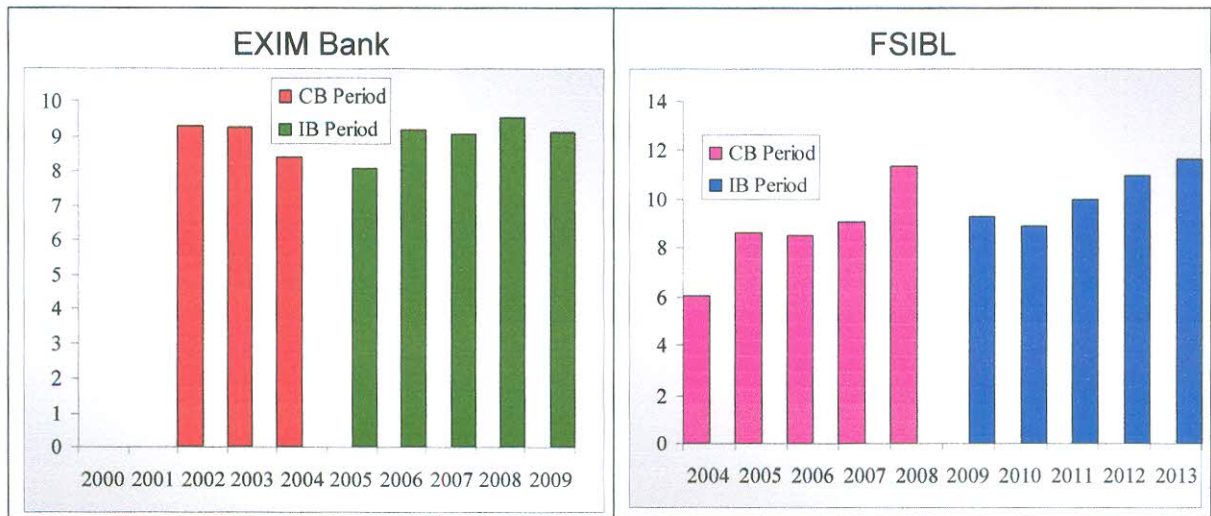
(Amount in Figure)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	0	2005	8.08	2004	6.06	2009	9.28
2001	0	2006	9.17	2005	8.64	2010	8.90
2002	9.29	2007	9.07	2006	8.52	2011	10.01
2003	9.26	2008	9.52	2007	9.06	2012	11.00
2004	8.40	2009	9.09	2008	11.37	2013	11.64
Avg.	5.39		8.99		8.73		10.17
SD	4.93		0.54		1.89		1.15
CV	91.53		5.99		21.63		11.30
SGR	N/A		3.13		21.91		6.36
CGR	0.70		0.00		0.52		0.24

Source: Annual Reports of concerned banks , various issues

It is observed in table-6.15 the higher cost of fund during Islamic banking period in comparison to conventional banking period of the sample banks. The average growth of cost of fund of EXIM Bank during conventional period was 5.39 percent and it was 8.99 percent in Islamic banking period. The higher rate of cost of fund of the banking during Islamic banking period indicates that the bank was less profitable or less efficient in comparison to conventional banking period. In FSIBL the data show the same result. The average growth trend of cost of fund of FSIBL during conventional banking period was 8.73, percent but it was 10.73 percent in Islamic banking period. The value of CV of FSIBL during conventional banking period (21.63) was also so high which indicates the less inconsistency and less stability of the bank. But the higher rate of cost of fund of the bank during Islamic banking period proved that the bank was less profitable and less efficient in comparison to conventional banking period.

Figure 6.15
Comparative Growth trend of Cost of Fund



Source: Same as Table 6.15

6.2.16 Growth Trend Analysis of Return on Assets (before tax) %

Table 6.16
Comparative Growth trend of Return on Assets (before tax) %

(Amount in Figure)

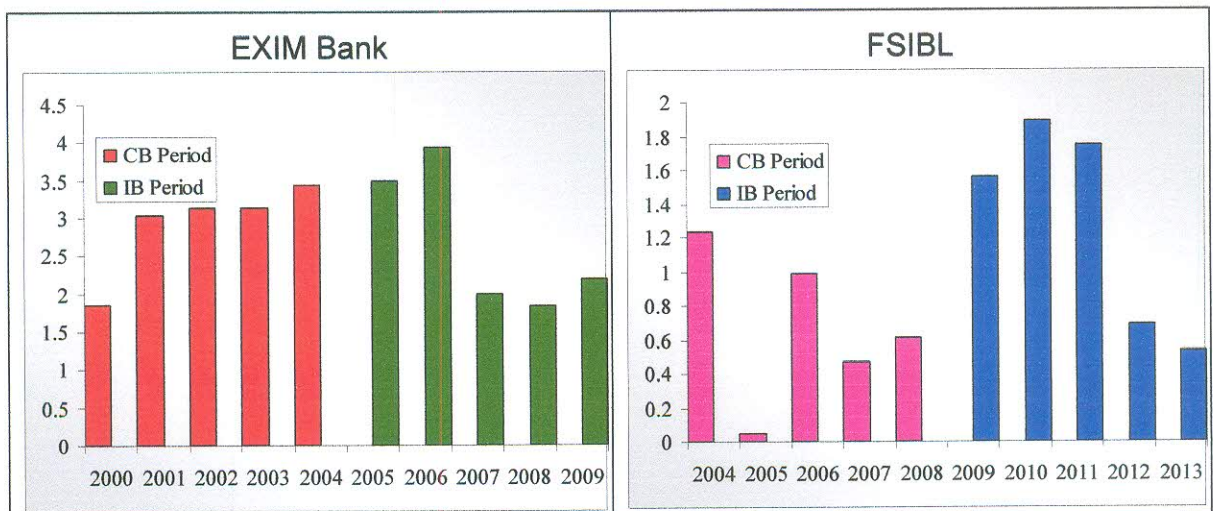
EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	1.86	2005	3.49	2004	1.23	2009	1.56
2001	3.03	2006	3.94	2005	0.05	2010	1.89
2002	3.15	2007	2.00	2006	0.99	2011	1.75
2003	3.15	2008	1.83	2007	0.47	2012	0.69
2004	3.44	2009	2.19	2008	0.61	2013	0.53
Avg.	1.95		2.69		0.67		0.01
SD	1.78		0.96		0.46		0.01
CV	91.49		35.60		68.56		48.98
SGR	N/A		-9.31		-12.60		-16.51
CGR	0.36		N/A		N/A		N/A

Source: Annual Reports of concerned banks , various issues

Table-6.16 demonstrates the comparative growth trend of return on assets (ROA) of conventional and Islamic banking period. The data of EXIM Bank show that the average growth of ROA was higher during Islamic banking period in comparison to conventional banking period. Besides, the value of Coefficient of variation during Islamic banking period (35.60%) was less than conventional banking period (91.49%). It indicates that the bank was more inconsistent and more stable during

Islamic banking period than conventional banking period. In FSIBL the average growth rate was 0.67 percent in conventional banking period, at the same it was 1.28 percent in Islamic banking period. The value of coefficient of variation of Islamic banking period was (46.98) less than conventional banking period (68.56). It also indicates that the bank was more inconsistent and more stable during Islamic banking period than conventional banking period.

Figure 6.16
Comparative Growth trend of Return on Assets (before tax) %



Source: Same as Table 6.16

6.2.17 Growth Trend Aanalysis of Net Profit

Table 6.17
Comparative Growth trend of Net Profit

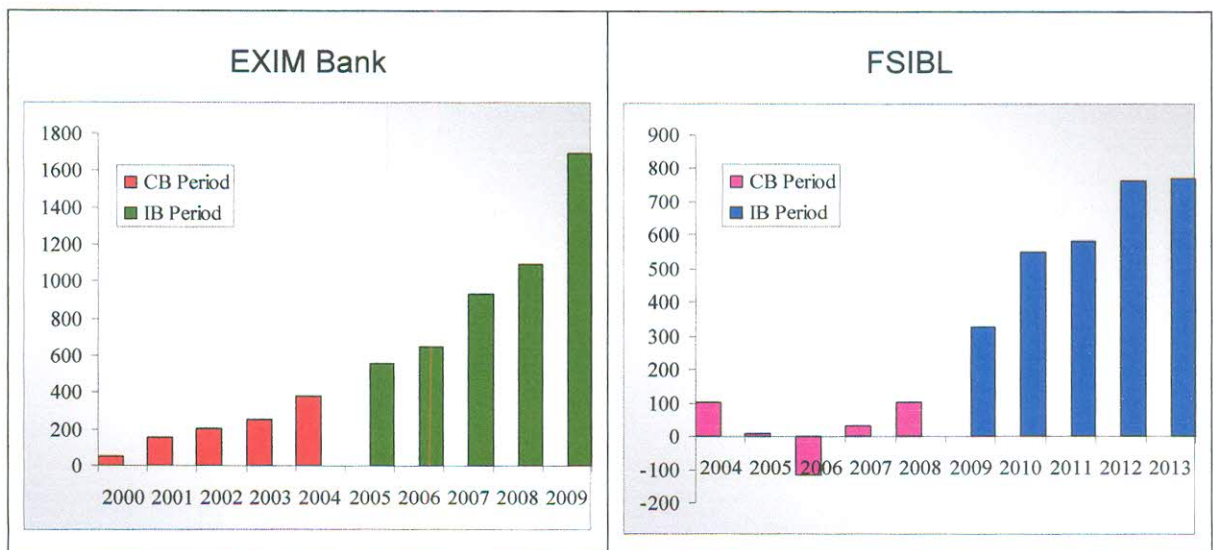
(Amount in million)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	48.13	2005	555.34	2004	101.48	2009	326.83
2001	158.05	2006	650.29	2005	9.88	2010	548.60
2002	201.42	2007	930.84	2006	-117.24	2011	579.93
2003	254.79	2008	1096.63	2007	30.63	2012	761.86
2004	381.80	2009	1694.10	2008	104.28	2013	769.12
Avg.	208.84		985.44		25.81		597.27
SD	122.97		451.35		90.31		181.95
CV	58.88		45.80		349.96		30.46
SGR	173.32		51.26		0.69		33.83
CGR	3.27		4.81		0.29		3.59

Source: Annual Reports of concerned banks , various issues

Table-6.17 presents a gradual increasing trend of net profit of EXIM Bank over the years both conventional and Islamic banking period, but FSIBL focused a vulnerable scenario of net profit in conventional banking period because in that time the bank was listed as a problem bank by central bank, though after conversion from conventional to Islamic banking a positive changing trend was observed in terms of net profit. However, the data show during conventional banking period the average growth of EXIM Bank was 208.84, at the same it was 985.44 in Islamic banking period which was 4.71 times more from conventional banking period. The value of standard deviation of EXIM Bank during conventional banking period was 122.97 and it was 451.35 in Islamic banking period. The data also establish the higher growth trend of the bank during Islamic banking period. The data of FSIBL show a frustrated scene of the banking during conventional banking period. The net profit of FSIBL was BDT. 101.48 million in 2004 but it was dropped in BDT. 9.88 million in 2005 and in 2006 the bank loss BDT. 117.24 million. During Islamic banking period the bank tried to look back and a positive change was observed in that years. The bank earned BDT. 326.83 million in 2009 and it was BDT. 769.12 million in 2013 with an average growth at BDT. 597.27 million. The value of CV was 349.96 in conventional banking period and it was 30.46 in Islamic banking period. The higher rate of CV during conventional banking period proved that the bank was less inconsistent and less stable in that time.

Figure 6.17
Comparative Growth trend of Net Profit



Source: Same as Table 6.17

6.2.18 Growth Trend Analysis of Number of Employees

Table 6.18
Comparative Growth trend of Number of Employees

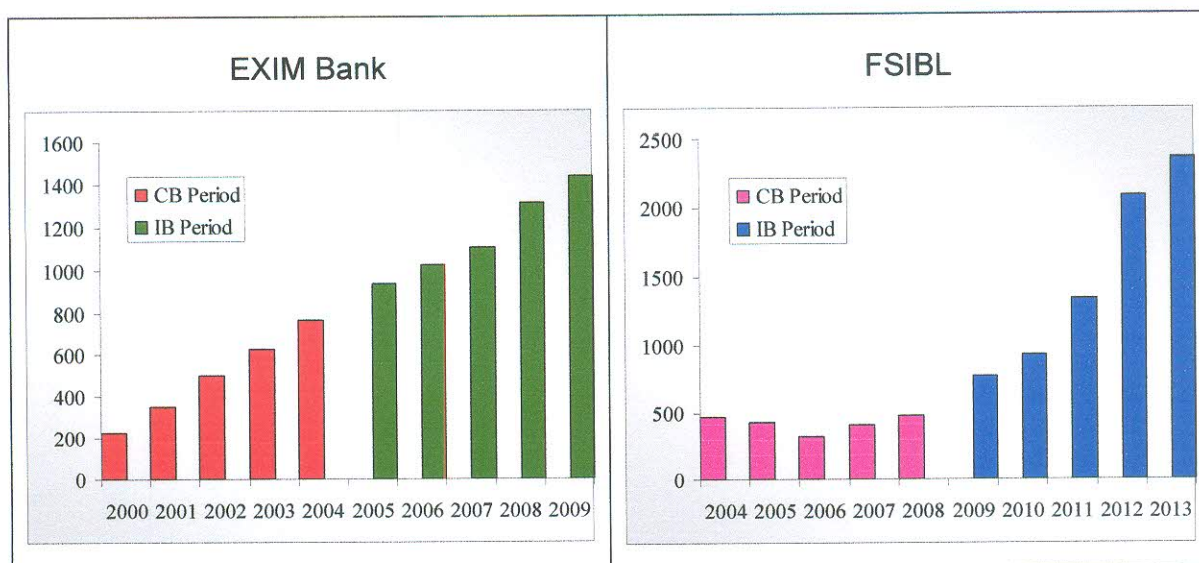
(Numbers in Unit)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	228	2005	934	2004	467	2009	775
2001	353	2006	1020	2005	430	2010	929
2002	500	2007	1104	2006	324	2011	1342
2003	627	2008	1312	2007	412	2012	2090
2004	768	2009	1440	2008	485	2013	2367
Avg.	495.20		1162.00		423.60		1500.60
SD	214.14		209.34		62.75		702.93
CV	43.24		18.02		14.81		46.84
SGR	59.21		13.54		0.96		51.35
CGR	3.82		3.74		1.06		5.32

Source: Annual Reports of concerned banks , various issues

Table-6.18 shows a high growth trend of number of employees during Islamic banking period of the same banks. In EXIM Bank the average growth was 495.20 during conventional banking period, it was 1162.00 in Islamic banking period which was 2.34 times more from conventional banking period. In FSIBL, the average growth was 423.60 during conventional banking period; it was 1500.60 in Islamic banking period which was 3.54 times from conventional banking period. The data of Islamic banking period of FSIBL prove the higher manpower generating bank in comparison to conventional banking period. Other indicators of growth trend analysis of FSIBL in Islamic Banking period was also higher than conventional banking period.

Figure 6.18
Comparative Growth trend of Number of Employees



Source: Same as Table 6.18

6.2.19 Growth Trend Analysis of Number of Branches

Table 6.19
Comparative Growth Trend of Number of Branches

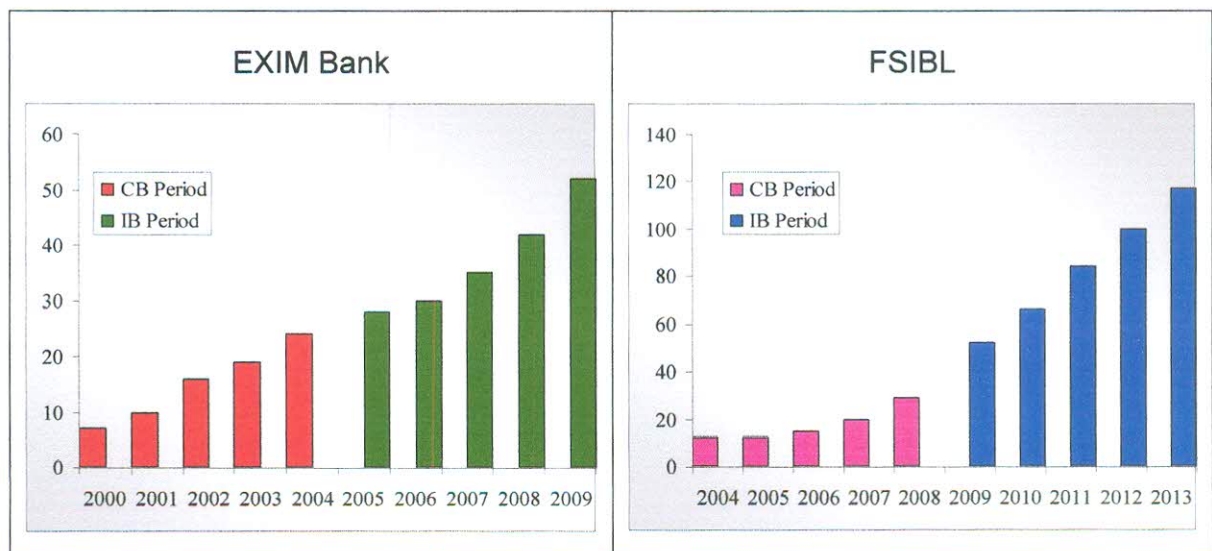
(Numbers in Unit)

EXIM Bank				FSIBL			
Conventional Banking Period		Islamic Banking Period		Conventional Banking Period		Islamic Banking Period	
Year	Data	Year	Data	Year	Data	Year	Data
2000	7	2005	28	2004	12	2009	52
2001	10	2006	30	2005	12	2010	66
2002	16	2007	35	2006	15	2011	84
2003	19	2008	42	2007	20	2012	100
2004	24	2009	52	2008	29	2013	117
Avg.	5.39		37.40		17.60		83.80
SD	6.83		9.79		7.16		25.95
CV	126.79		26.17		40.70		30.96
SGR	60.71		21.43		35.42		31.25
CGR	1.03		1.21		1.03		1.84

Source: Annual Reports of concerned banks, various issues

According to Table-6.19 we can see a higher growth trend of number of branches of the sample bank during Islamic banking period. The data of EXIM Bank present the number of branches was 7 in 2000 during conventional banking period, it was 24 in 2004; where value of mean was 5.39 and standard deviation was 6.83; the number of branches of EXIM was 28 in 2005 during Islamic banking period, it was 52 in 2009; where value of mean was 37.40 and standard deviation was 7.79. The data indicates that the branches were increased rapidly during Islamic banking period. In FSIBL the data show a highly growth trend of the branches during Islamic banking period. The number of branches of FSIBL was 12 in 2004 during conventional banking period and the value of average was only 17.60 and the standard deviation was 7.16. But it was 52 in 2009 during Islamic banking period and it enhanced at 117 in 2013 which was 9.75 times more from conventional banking period. The value of average growth was 83.80 and the value of standard deviation was 25.95. The value of SGR was 31.25 in Islamic banking period and it was 35.42 in conventional banking period. The value of CGR was 1.03 in conventional banking period and it was 1.84 in Islamic banking period. The higher value of CV of conventional banking period (84.70) indicates that the bank was less stable and less unified in that time.

Figure 6.19
Comparative Growth Trend of Number of Branches



Source: Same as Table 6.19

Chapter Seven

Comparative Financial Ratio Analysis of Conventional Banking Period and Islamic Banking Period

7.1 Introduction

Financial performance analysis represents the real strength and weakness of a financial institution. The aim of this chapter is to indicate the facts of financial performance by analyzing several tools of financial performance measures such as profitability, liquidity, business development, and efficiency and productivity. In order to examine the comparative ratio analysis regarding profitability, liquidity, business development, and efficiency and productivity ratios of conventional banking period and Islamic banking period both of EXIM Bank limited and FSIBL we have used 13 financial ratios. The data of the study have been compiled from the Annual Reports. In the Bank performance study, this type of inter-bank analysis is pretty common (Sabi, 1996). Mean and standard deviation has been used to measure the growth of the ratios and finally a t-test also used to draw comparison between two segments of time i.e. conventional banking period and Islamic banking period. Statistical results of the ratio analysis evaluate the banks performance in when did it performed better.

7.2 Profitability Ratio Analysis

7.2.1 Return on Assets (ROA)

Table 7.1
Comparative Performance of Return on Assets (ROA) %

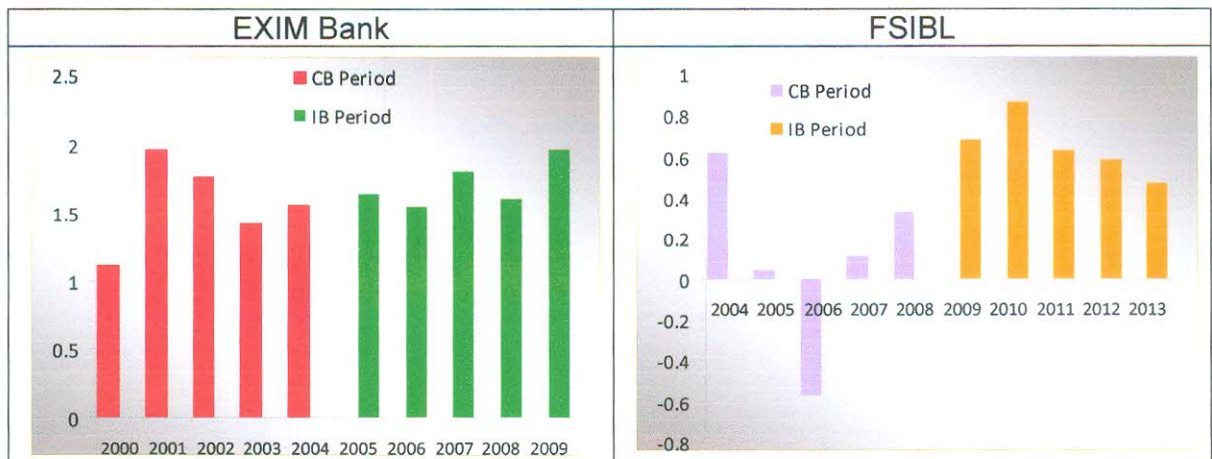
EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	1.11	1.96	1.77	1.42	1.56	1.56	0.33
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	1.64	1.55	1.80	1.60	1.96	1.71	0.17
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	0.62	0.04	-0.57	0.11	0.33	0.11	0.44
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	0.68	0.86	0.63	0.58	0.47	0.64	0.14

Source: Annual Reports of concerned banks , various issues

Table 7.1 indicates various important points of comparison of ROA between Islamic banking period and conventional banking period. The data of EXIM Bank show that ROA of Islamic banking period was higher than conventional banking period over the years, but it was higher than Islamic banking period only in the year 2001 where the value of ROA in conventional banking period was 1.96 percent and it was 1.55 percent in Islamic banking period. The data of EXIM Bank show so fluctuated figures over the years. It was 1.11 percent in 2000, and 1.96 percent was in the next year which was 43% increase. But the value of ROA in 2002 was 1.77 which was 10% decreased from pervious year. Finally, the average value of ROA of Islamic banking period (1.71) was higher than conventional banking period (1.56%). However, statistics also indicates that there is no difference between the two means at 5% significance level (see Table-7.14).

In case of FSIBL the data show the same result. The value of ROA of Islamic banking period was higher than conventional banking period. In 2006 when the bank was selected as a problem bank, the value of ROA was -0.57%. It was 0.62% in 2004 but it decreased significantly from 0.62% to 0.04% (85% decreased). In the year 2007 the value of ROA was 0.11%, but it increased from 0.11% to 0.33% percent (66% increased) in 2008. In the Islamic banking period the value of ROA was so impartial in changing. The value of standard deviation was 0.14% in Islamic banking period, but it was 0.44% in conventional banking period. However, the mean value of ROA of FSIBL was 0.11% in conventional banking period and it was 0.64% in Islamic banking period which was 5.81 times more from conventional banking period.

Figure 7.1
Comparative Performance of Return on Assets (ROA) %



Source: Same as Table 7.1

7.2.2 Return on Equity (ROE)

Table 7.2
Comparative Performance of Return on Equity (ROE)%

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	16.21	38.81	36.53	34.05	27.27	30.57	9.12
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	29.03	20.89	23.02	21.98	25.22	24.03	3.22
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	19.11	1.20	-11.68	2.70	4.10	3.09	10.95
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	11.44	13.99	12.74	13.44	11.95	12.71	1.04

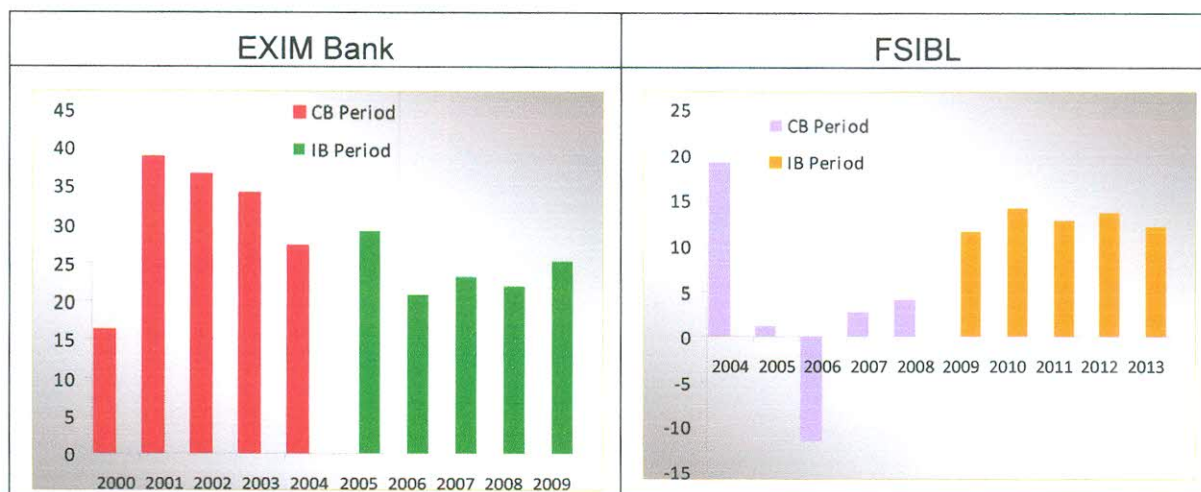
Source: Annual Reports of concerned banks, various issues

Table 7.2 shows that the value of ROE of EXIM Bank was higher in conventional banking period in comparison to Islamic banking period. It was a remarkable change from the year 2000 to 2001. The value of ROE was 16.21% in 2000 and it increased at 38.81% in 2001 which was 58% increased from the previous year. It was started decreasing trends of ROE in the year 2002 and 2003 and finally it was valued 27.27% in 2004. But, in Islamic Banking period it was observed a reasonable value of standard deviation. The mean value of ROE of EXIM Bank was 30.57% in conventional banking period and it was 24.03% in Islamic banking period.

The data of FSIBL show opposite scenario of EXIM Bank. The value of ROE of FSIBL was higher in Islamic banking period over the years in comparison to conventional banking period. It was 1.20% in 2005 and it decreased so considerably from the previous year. In 2004 the value of ROE was 19.11% but it decreased 93% from the previous year. In 2006 it was significantly observed that the value of ROE was -11.68%, when the bank was a problem bank. But in 2007 it was 2.70% and in the year 2008 it was valued 4.10% which was 34% increased from previous year. In Islamic banking period the value of ROE of FSIBL was an increasing trend. The data prove that after conversion from conventional into Islamic the bank could employed its equity and earn

a handsome amount of return. So, the bank was more profitable during Islamic banking period. An average of ROE of FSIBL was 3.09% in conventional banking period and it was 12.71% in Islamic banking period. The difference of the two means is strongly significant at 5% significance level (see Table-7.15).

Figure 7.2
Comparative Performance of Return on Equity (ROE) %



Source: Same as Table 7.2.

7.2.3 Profit Expense Ratio (PER)

Table 7.3
Comparative Performance of Profit Expense Ratio (PER) %

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	0.91	1.67	1.67	0.24	0.24	0.95	0.72
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	0.30	0.24	0.25	0.23	0.26	0.26	0.03
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	0.95	0.08	-0.60	0.20	0.49	0.22	0.57
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	1.12	1.11	1.06	0.83	0.64	0.95	0.21

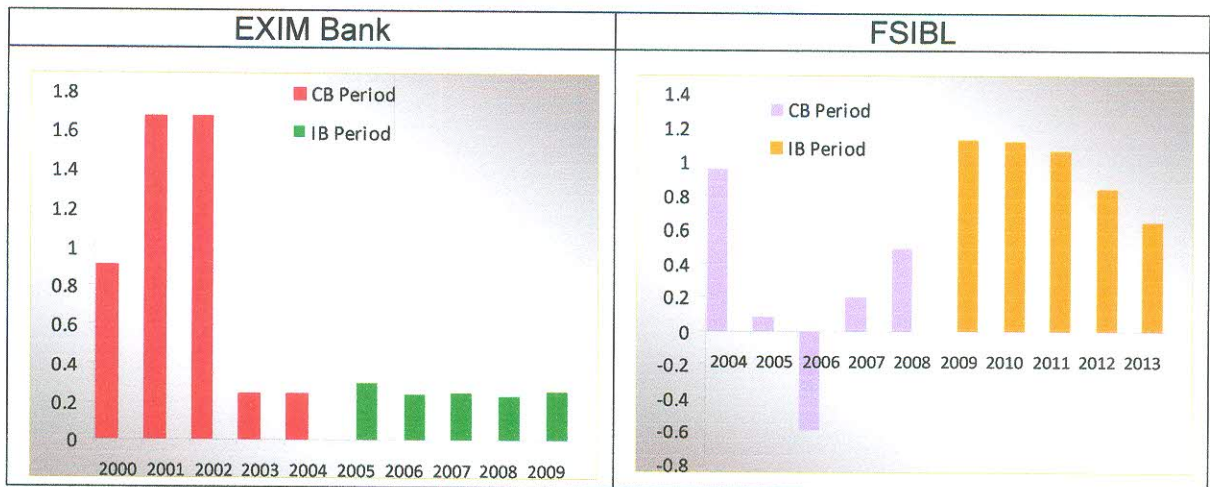
Source: Annual Reports of concerned banks, various issues

Profit Expense Ratio (PER) is one of the important indicators of measurement of profitability. It is observed from table 7.3 that the value of PER of EXIM Bank was

higher in conventional banking period in comparison to Islamic banking period over the years. The analysis of PER of Islamic banking period and conventional banking period indicates that the bank have generated consistently higher profits for every BDT. of expense spent during 2000-2004. The value of PER of EXIM Bank was 0.91% in 2000 and it increased at 1.67% in the next year which was 45 percent increase from the previous year. In 2002, it was the same value and it decreased at .24% in 2003 and 2004 which was 85 percent decrease from previous years. However, it was also higher from Islamic banking period. In the Islamic banking period the EXIM Bank performed a lower value of PER. It was .30% in 2005 and it decreased at 0.24% in 2005, 0.25% in 2007 again it decreased at 0.23% in 2008. Finally, in 2009 it was 0.26%. The data indicate a poor value of PER over the years during Islamic banking period. The mean value of PER of EXIM Bank was 0.95 in conventional banking period and it was 0.26 in Islamic banking period. The difference between two means is strongly significant at 5% significance level (see Table 7.14).

In FSIBL the data show opposite result of EXIM Bank. It indicates that the bank was more profitable during Islamic banking period. There was a poor value of PER in conventional banking period. It was 0.95% in 2004 and it decreased at 0.08% in the next year which was 91 percent decrease from the previous year. In 2006 it was 0.06% and it esteemed at 0.20% in 2007 and 0.49% in 2008. The value of PER of FSIBL was 1.12% in 2009 when the bank converted into Islamic banking. It was 1.11% in 2010 and 1.06% in 2011. Finally, it was observed that the value of PER was in decreasing trend in the next two years. However, the value of PER of FSIBL was higher in Islamic banking period in comparison to conventional banking period. The mean value of PER of FSIBL was 0.22 in conventional banking period and it was 0.95 in Islamic banking period which was 76 percent increase from conventional banking period. The difference in the two means is statistically different at 5% significance level (see Table 7.15%)

Figure 7.3
Comparative Performance of Profit Expense Ratio (PER) %



Source: Same as Table 7.3.

7.2.4 Earning Per Share (EPS)

Table 7.4
Comparative Performance of Earning Per Share (EPS)

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	21.39	70.25	79.14	69.20	60.82	60.16	22.62
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	48.61	43.48	34.76	40.95	50.21	43.60	6.20
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	31.71	3.06	-16.28	3.20	7.35	5.81	17.14
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	1.42	1.61	1.71	1.85	1.87	1.69	0.19

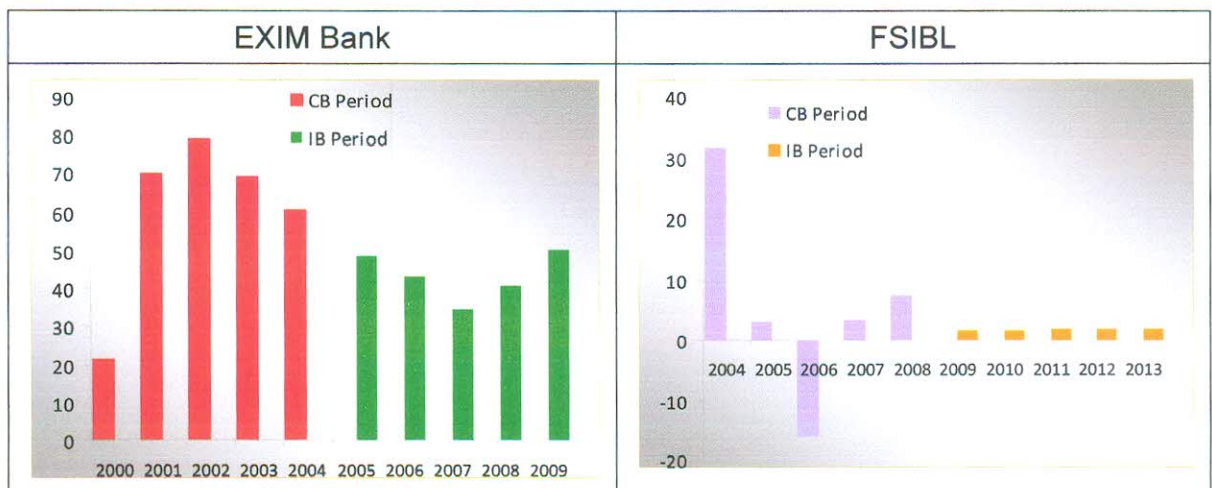
Source: Annual Reports of concerned banks, various issues

Earning per share (EPS) is one of the major indicators of profitability. Bangladesh faced various complexities in stock market, and it affects all the financial institutions. So, the banking sector also affected by that complexity. So, earnings from stock market always may not same. The data of EXIM Bank show that the bank got best return from stock market during conventional banking period. Earning per share was Tk. 21.39 in 2000 and it increased at Tk. 70.25 in 2001 which was 69 percent

increase from previous year. Then it increased at Tk. 79.14 in 2002 and again it decreased in 2003 and 2004. In Islamic banking period the EPS did not cross Tk. 50 except in 2009. The EPS was Tk. 50.21 in that year and it was Tk. 40-45 average over the rest of the years. However, the value of mean was 60.16 in conventional banking period and it was 43.60 in Islamic banking period. The difference of two means is strongly significant at 5% significance level (see Table 7.14).

In case of FSIBL the data indicate same result of EXIM Bank. The value of EPS was higher in conventional banking period, but it was so negligible amount in comparison to EXIM Bank. The EPS was Tk. 31.71 in 2004 and it decreased at Tk. 3.06 in 2005. It was significantly decreased in 2006. After that the bank did not performed well in stock market because it was selected a problem bank in that time. All the selected sample years of Islamic banking period did not cross Tk. 2.00. The data show a serious sock in earnings from stock market of the bank. The value of mean of FSIBL was 5.81 in conventional banking period and it was 1.69 in Islamic banking period which was 70 percent less from conventional banking period. The difference between two means is less than 5% significance level (see Table 7.15)

Figure 7.4
Comparative Performance of Earning Per Share (EPS)



Source: Same as Table 7.4.

7.3 Liquidity Ratio

7.3.1 Loan to Deposit Ratio (LDR) %

Table 7.5
Comparative Performance of Loan Deposit Ratio (LDR) %

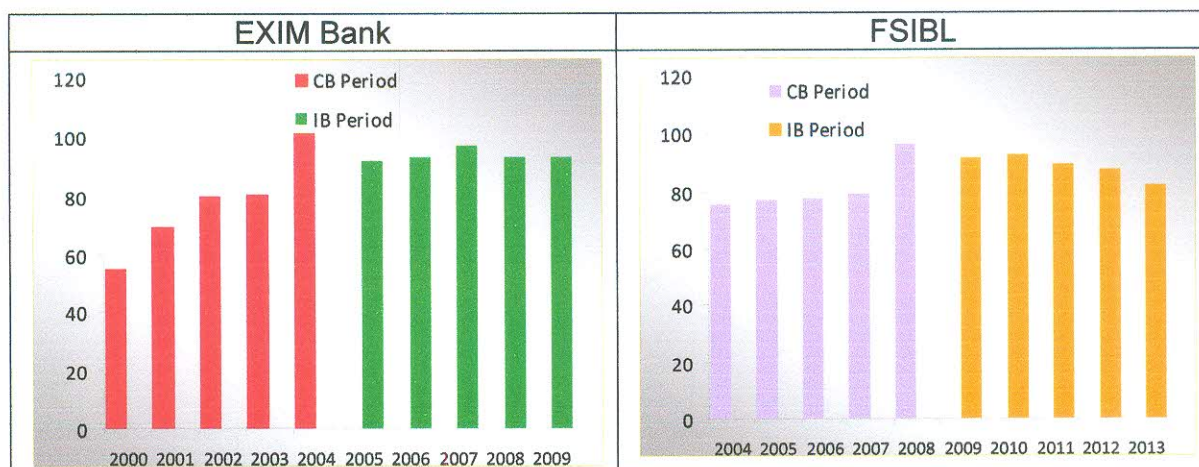
EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	55.16	69.44	79.98	80.62	101.33	77.31	16.94
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	91.97	93.18	96.75	93.14	92.92	93.59	1.83
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	75.68	76.85	77.57	79.20	96.39	81.14	8.62
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	91.28	92.51	88.90	87.62	82.14	88.49	4.04

Source: Annual Reports of concerned banks, various issues

Table 7.5 exhibits higher Loan to Deposit Ratio (LDR) of EXIM Bank during Islamic banking period in comparison to conventional banking period. The data of EXIM Bank show that it was 55.16% in 2000. Gradually it was in increasing trends and it remarkably reached at 101.33% in 2004 which is selected as conventional banking period. Though the value of standard deviation of conventional banking period was higher than Islamic banking period, the actual LDR was lower than Islamic banking period. The LDR of EXIM was over 90% in all the years of Islamic banking period. The value of mean of Islamic banking period was 93.59 and it was 77.30 in conventional banking period. Statistically there is no difference between the two means at 5% level of significance (see Table 7.14)

The data of FSIBL indicate also a higher LDR in Islamic banking period. The LDR was 75.68% in 2004 and it started a slow growth tendency in 2005, 2006 and 2007. But surprisingly it jumped at 96.39% in 2008 the last year of conventional banking period. After conversion in 2009 the LDR was 91.28%; it increased at 92.51% in 2010 but it was decreased over the next three years. The overall declining trend of LDR in Islamic banking period indicates the tendency of comparatively more increase in deposits than loans (financing). The mean value of LDR was 81.14 in conventional banking period and it was 88.49 in Islamic banking period. The difference of the two means is statistically different at 5% significance level (see Table 7.15)

Figure 7.5
Comparative Performance of Loan Deposit Ratio (LDR) %



Source: Same as Table 7.5.

7.3.2 Equity Multiplier (EM)

Table 7.6
Comparative Performance of Equity Multiplier (EM) %

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	14.49	19.73	20.63	23.90	17.39	19.23	3.53
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	17.63	13.43	12.74	13.71	12.83	14.07	2.03
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	30.45	24.68	20.37	23.75	12.30	22.31	6.67
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	16.80	16.22	20.00	22.90	25.15	20.21	3.85

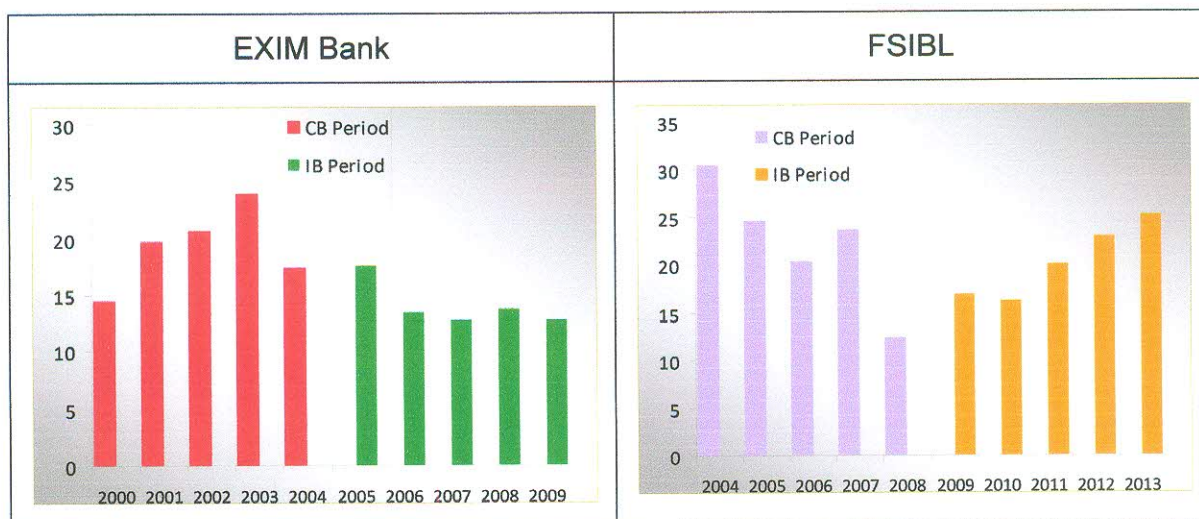
Source: Annual Reports of concerned banks, various issues

It is observed from table 7.6 a higher value of Equity multiplier (EM) of EXIM Bank during conventional banking period in comparison to Islamic banking period. The data show gradual growth tendency over the years. It was 14.49% in 2000 and it increased at 19.73% in 2001, 20.63% in 2002 and 23.90% in 2003. But the value was gradually decreased over the years in Islamic banking period. The value of EM

was 17.63% in 2005; it decreased at 13.43% in 2006 and 12.74% in 2007. The mean value of EM was 19.23 in conventional banking period and it was 4.7 in Islamic banking period and the difference between two means is significant at 5% significance level (see Table 7.14)

The data of FSIBL also indicate the same result. The value of EM was higher in conventional banking period in comparison to Islamic banking period. In the conventional banking period it was 30.45% in 2004 but surprisingly it decreased from the next years and it was 12.30% in the last year of conventional banking period which was 59 percent decreased from 2004. However, the value of EM was 16.80% in 2009 in Islamic banking period and the Data show a gradual growth tendency over the next years in Islamic banking period. It increased at 25.15% in 2013 the last year of Islamic banking period. Though it was growing gradually over the years but the value was lower from conventional banking period. So, the analysis of EM resulted that the bank was more liquid in conventional banking period. The mean value of FSIBL was 22.31 in conventional banking period and it was 20.21 in Islamic banking period. The difference between two means is not strongly significant (see Table 7.15)

Figure 7.6
Comparative Performance of Equity Multiplier (EM) %



Source: Same as Table 7.6.

7.3.3 Loan to Asset Ratio (LAR) %

Table 7.7
Comparative Performance of Loan to Asset Ratio (LAR) %

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	50.46	63.86	69.93	81.98	85.71	70.39	14.22
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	82.09	83.44	82.81	82.59	82.12	82.61	0.56
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	52.57	52.92	66.73	69.09	80.33	64.33	11.76
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	80.71	81.93	76.32	74.23	70.81	76.80	4.59

Source: Annual Reports of concerned banks, various issues

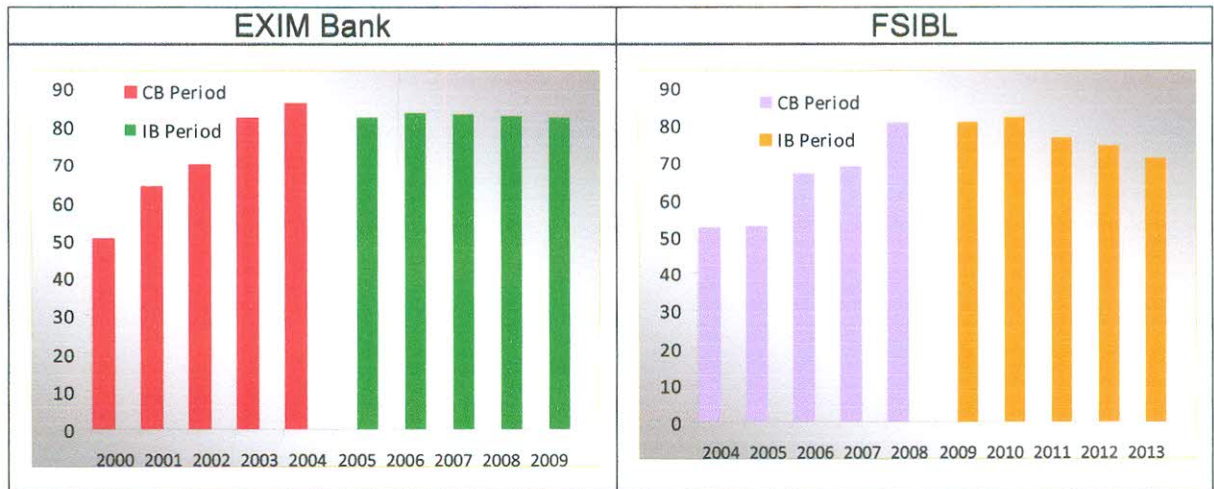
Loan to Asset Ratio (LAR) proves that the EXIM Bank was more liquid in Islamic banking period in comparison to conventional banking period. The bank mobilized its assets more in Islamic banking period. The data show that the value of LAR was 50.46% in 2000 and it increased at 63.86% in 2001, 69.93% in 2002 and it jumped at 81.98% in 2003 and 85.71% in 2004. The value of standard deviation was considerably 14.22. But the value of LAR was above 80% in all the years of Islamic banking period. It was 82.09% in 2005 and it increased at 83.44% in 2006 but from the next year it decreased a little bit as amounted 82.81%. Again, it was 82.59% in 2008 and 82.12% in 2009. The mean value of LAR of EXIM Bank was 70.39 in conventional banking period and it was 82.6 in Islamic banking period. The difference between two means is statistically different at 5% level of significance (see Table 7.14)

It is observed the same result of LAR in FSIBL as like as EXIM Bank. The data show that the bank invests its liquidity more in 2004. However it was increasing from the next years and finally it stood at 80.35% in 2008 which was 34 percent more from 2004. In Islamic banking period, it was 80.71% in 2009, but it increased only at 81.93% in 2010 and it started a decreasing trend from the next year. Finally it stood at 70.81% in 2013. Though it is a decreasing trend but the mean value of LAR of FSIBL was 76.80 Islamic banking period and it was 64.33 in conventional banking

period. The difference between two means strongly significant at 5% significance level (see Table 7.15)

Overall result indicates that the banks were more liquid in Islamic banking period in comparison to conventional banking period. The higher trend of LAR in Islamic banking period proves that the bank had more financial stress where it invest excessive loans and holding less liquid assets.

Figure 7.7
Comparative Performance of Loan to Asset Ratio (LAR) %



Source: Same as Table 7.7.

7.3.4 Current Ratio (CR) %

Table 7.8
Comparative Performance of Current Ratio (CR) %

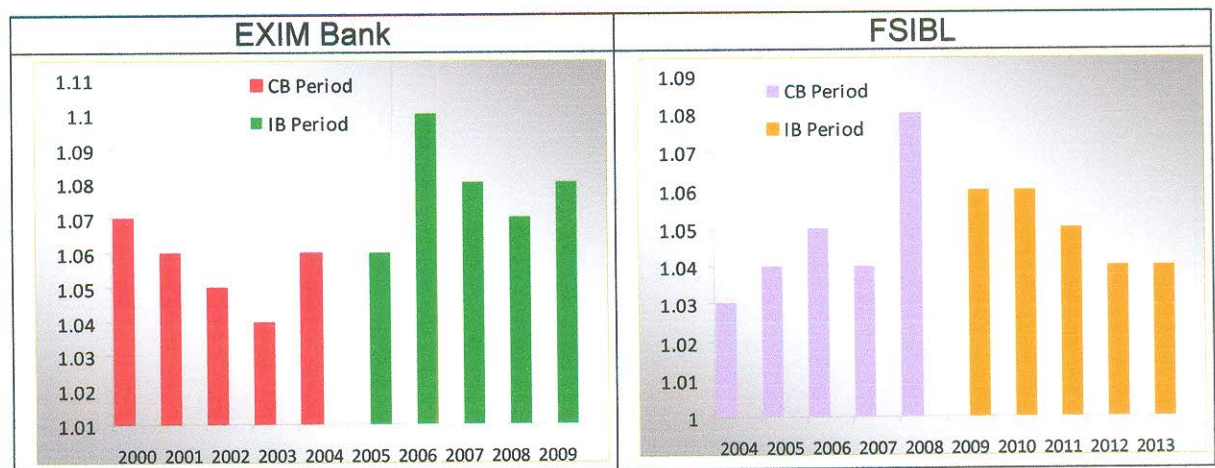
EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	1.07	1.06	1.05	1.04	1.06	1.06	0.01
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	1.06	1.10	1.08	1.07	1.08	1.08	0.01
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	1.03	1.04	1.05	1.04	1.08	1.05	0.02
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	1.06	1.06	1.05	1.04	1.04	1.05	0.01

Source: Annual Reports of concerned banks, various issues

Current Ratio is a commonly used tool of Liquidity measurement. It gives the idea of a firm's ability to meet its short-term obligations. However, table 7.8 indicates slight difference between Islamic banking period and conventional banking period. The data of EXIM Bank show that, it was swinging from 1.04% to 1.07% in conventional banking period and from 1.06% to 1.10% in Islamic banking period. The mean value of CR of EXIM Bank was 1.06 in conventional banking period and 1.08 in Islamic banking period. The value of standard deviation of EXIM Bank was same in both conventional banking period and Islamic banking period. So, the data determines that there is no significant difference between conventional banking period and Islamic banking period (see Table 7.14)

The data of CR of FSIBL also indicate that, it was the same figure both in conventional banking period and Islamic banking period. It was rounded from 1.03% to 1.8% in conventional banking period and it was from 1.04% to 1.06% in Islamic banking period. The statistics shows that it was a higher figure in 2008 and 2009 when the bank ready to convert from conventional banking into Islamic banking. However, the mean value of CR of FSIBL was 1.05 both in conventional banking period and Islamic banking period. The value of standard deviation was 0.02 in conventional banking period and 0.01 in Islamic banking period. So, in case of FSIBL, there is no significant difference between two means (see Table 7.15)

Figure 7.8
Comparative Performance of Current Ratio (CR) %



Source: Same as Table 7.8.

7.4 Business Development

7.4.1 Total Assets

Table 7.9
Comparative Performance of Total Assets

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	4301.23	8035.32	11374.70	17888.66	24355.75	13191.13	7994.18
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	33716.70	41793.54	51503.03	68446.46	86213.37	56334.62	21129.33
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	16169.26	20260.33	20448.66	26942.00	31239.00	23011.85	6001.96
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	47978.55	63619.79	91012.89	129733.17	161822.98	98833.48	46930.42

Source: Annual Reports of concerned banks, various issues

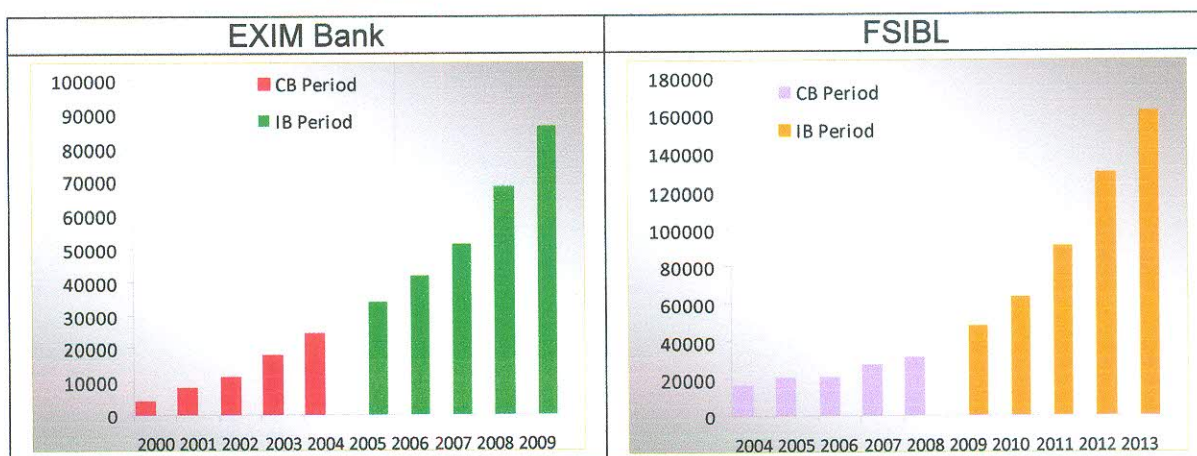
Table 7.9 demonstrates a higher growth of total assets over the years in Islamic banking period of the sample banks. In EXIM Bank it was Tk. 4301.23 million in 2000 but it reached near to double in size in 2001, finally in 2004 it increased at Tk. 24355.75 million which was 82 percent increased from 2004. In Islamic banking period the total assets of EXIM Bank was Tk. 33716.70 million in 2005, it increased at Tk. 41793.54 million in 2006, Tk. 51503.03 in million in 2007, Tk. 67446.40 million in 2008, and Tk. 86213.37 million in 2009 which was 20 percent increase from previous year. However, the mean value of total assets of EXIM Bank was 13191.13 in conventional banking period and it was 56334.62 in Islamic banking period and the difference between two means is significant at 5% significance level (see Table 7.14)

In case of FSIBL it is observed the same result as EXIM Bank. The data show that the total assets of FSIBL were higher in Islamic banking period in comparison to conventional banking period. It was Tk. 16169.26 million in 2004. It increased at Tk. 20260.33 million in 2005 and Tk. 20448.66 million in 2006 where growth rate is not a considerable amount. The total assets were Tk. 31239.00 million in 2008 which was also a small amount. But in Islamic banking period it was Tk. 47978.55 million in 2009; but it increased incredibly in the next years of Islamic banking period. It was increased at Tk. 161822.98 million in 2013 which was 70 percent increase from

2009. The mean value of total assets of FSIBL was 23011.85 in conventional banking period and it was 98833.48 in Islamic banking period and the difference between two means is statistically different at 5% significance level (see Table 7.15)

The overall results prove that the banks accumulate more assets in Islamic banking period which is the base of business development of the banks.

Figure 7.9
Comparative Performance of Total Assets



Source: Same as Table 7.9.

7.4.2 Total Deposit

Table 7.10
Comparative Performance of Total Deposit

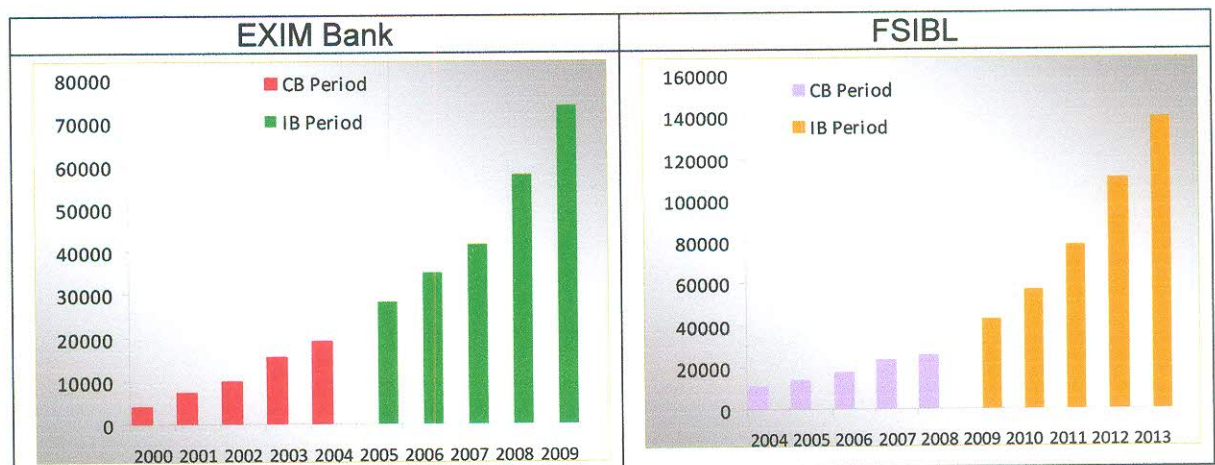
EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	3934.47	7389.54	9945.22	15242.97	19078.18	11118.08	6067.53
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	28319.21	35032.02	41546.57	57586.99	73835.46	47264.05	18397.16
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	11231.67	14012.17	17592.00	23504.04	25854.54	18438.88	6182.73
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	42423.09	56344.95	78145.04	109905.57	139520.95	85267.92	39602.27

Source: Annual Reports of concerned banks, various issues

It is observed a better performance of total deposits of the banks in Islamic banking period in comparison to conventional banking period over the years. The data of EXIM Bank show a slow growth trend of total deposits over the years during conventional banking period. It was Tk. 3934.47 million in 2000, it increased at Tk. 7389.54 million in 2001 and finally it was 19078.18 million in 2004 where the value of standard deviation was only 6067.53. On the contrary of in the Islamic banking period it increased so drastically. It was Tk. 28319.21 million in 2005, it increased at Tk. 35032.02 in 2006 and it was Tk. 73835.46 million in 2009 which was 52 percent increase from 2005. The mean value of total deposits of EXIM Bank was 11118.08 in conventional banking period and it was 47264.5 in Islamic banking period. The difference between two means is significant at 5% significance level (see Table 7.14)

A same result revealed in FSIBL as EXIM Bank over the years. In conventional banking period it was Tk. 11231.67 million in 2004; it increased at Tk. 25854.54 million in 2008 which was 56 percent increase from 2004. In Islamic banking period it was Tk. 42423.09 million in 2009 and it was Tk. 139520.95 million in 2013 which was 69 percent increase from 2009. The mean value of total deposits of FSIBL was 18438.88 in conventional banking period and it was 84267.92 in Islamic banking period. The difference of the two means is strongly significant at 5% significance level (see Table 7.15)

Figure 7.10
Comparative Performance of Total Deposit



Source: Same as Table 7.10.

7.4.3 Investment

Table 7.11
Comparative Performance of Investment

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	2170.53	5131.55	7954.56	14666.19	20875.43	10159.65	7568.14
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	27679.37	34874.52	42652.96	56531.70	70799.45	46507.60	17286.31
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	8500.27	10722.32	13646.38	18616.22	25094.65	15315.97	6649.38
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	38725.87	52123.90	69467.32	96304.23	114601.80	74244.62	31181.16

Source: Annual Reports of concerned banks, various issues

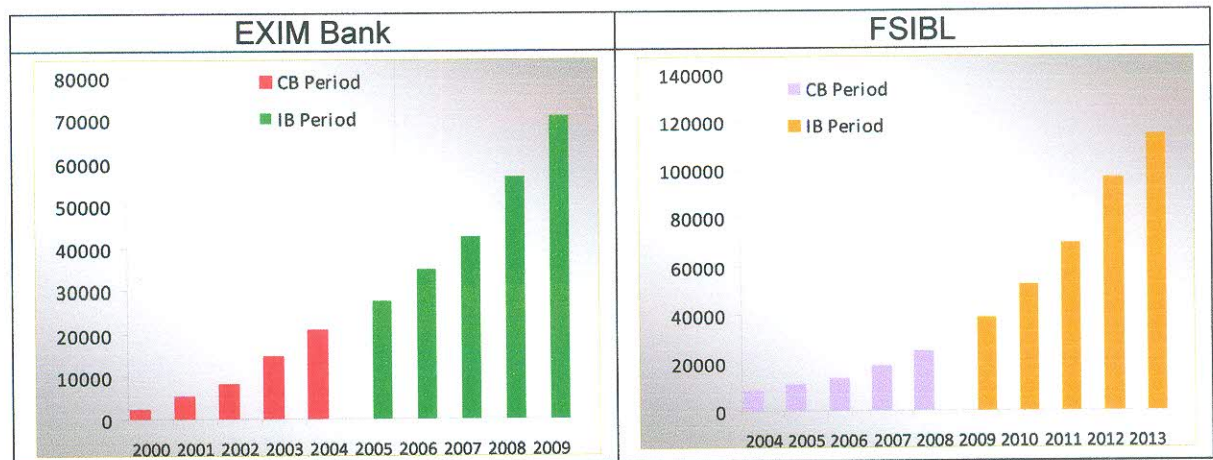
Table 7.11 shows near about four times more investment of EXIM Bank and Five times more investment of FSIBL in Islamic banking period in comparison to conventional banking period. The investment was Tk. 2170.53 million in 200; it increased at Tk. 5131.55 million in 2001 which was more than two times from previous year and it was Tk. 20875.43 million in 2004 which was 89 percent increase from 2000. In Islamic banking period it was Tk. 27679.37 million in 2005; it increased at Tk. 70799.45 million in 2009 which was 60 percent increase from 2005. The mean value of Investment of EXIM Bank was 10159.65 in conventional banking period and it was 46507.60 in Islamic banking period. The difference of the two means is statistically different at 5% significance level (see Table 7.14)

The data of FSIBL show considerable changes in terms of Investment of Islamic banking period in comparison to conventional banking period. The investment of FSIBL was Tk. 8500.27 million in 2004 and it increased at Tk. 10722.32 million in 2005, and Tk. 13646.38 million in 2006 which was not a notable amount. It increased at Tk. 25094.65 million in 2008 which was 66 percent increase from 2004. In Islamic banking period it was Tk. 38725.87 million in 2009; it increased at Tk. 52123.90 million in 2010 which was 25 percent increase from previous year. It increased at Tk. 114601.80 million in 2013 which was 54 percent increase from 2009. The mean value of investment of FSIBL was 15315.97 in conventional

banking period and it was 74244.62 in Islamic banking period. The difference of the two means is strongly significant (see Table 7.15)

The data of the banks resulted that as the bank collected huge deposit so it can invest its deposit efficiently during Islamic banking period.

Figure 7.11
Comparative Performance of Investment



Source: Same as Table 7.11.

7.5 Efficiency and Productivity

7.5.1 Income to Expense Ratio (IER) %

Table 7.12
Comparative Performance of Income to Expense Ratio (IER)

EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	2.13	2.87	2.92	1.40	1.46	2.16	0.73
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	1.52	1.38	1.42	1.43	1.44	1.44	0.05
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	2.84	1.62	1.92	1.44	1.49	1.86	0.58
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	2.30	2.36	2.38	2.08	1.84	2.19	0.23

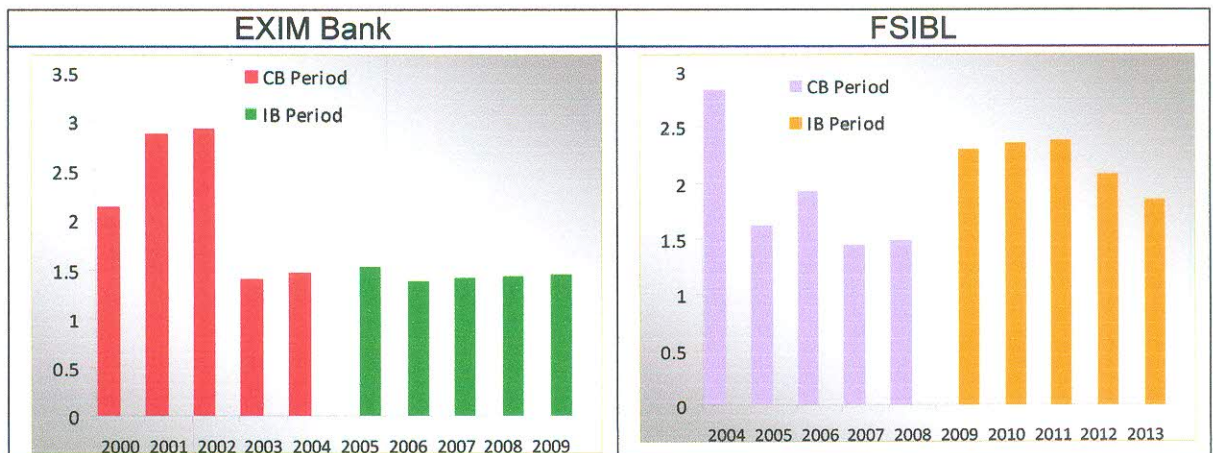
Source: Annual Reports of concerned banks, various issues

Table 7.12 exhibits the performance of income to expense ratio of both conventional banking period and Islamic banking period over the years. The data show that IER of EXIM Bank was higher in conventional banking period in comparison to Islamic banking period but it was higher in Islamic banking period of FSIBL. The data also

indicate that the EXIM Bank was more efficient in managing their expenses during conventional banking period. The First Security Islami Bank Limited (FSIBL) was more efficient in managing their income to expense ratio during Islamic banking period. In EXIM Bank the value of IER was 2.13% in 2000, it was observed an increasing trend for next two years i.e. 2001 and 2002. But it was decreased at 1.40% in 2003 and 1.46% in 2004. In the Islamic banking period of EXIM Bank the Data show a decreasing tendency of IER over the years. It was 1.52% in 2005; it decreased at 1.38% in 2006, again it increased at 1.42% in 2007, 1.43% in 2008 and finally it increased at 1.44% in 2009. The mean value of IER of EXIM Bank was 2.16 in conventional banking period and it was 1.44 in Islamic banking period. But the difference is not statistically significant at 5% significance level (see Table 7.14).

In case of FSIBL the data show opposite result of EXIM Bank. The value of IER was higher in Islamic banking period in comparison to conventional banking period. It was 2.84 in 2004 during conventional banking period; it decreased at 1.62 in 2005 and having increased again at 1.92 in 2006. It decreased further in 2007 and 2008. In the Islamic banking period the value of IER of FSIBL was increasing trend. It was 2.30 in 2009; it increased at 2.36 in 2005 and 3.28 in 2006. However it was observed a decreasing trend in the next two years. The mean value of IER of FSIBL was 1.86 in conventional banking period and it was 2.19 in Islamic banking period. The difference of two means is strongly different from each other at 1% significance level (see Table 7.15).

Figure 7.12
Comparative Performance of Income to Expense Ratio (IER)



Source: Same as Table 7.12.

7.5.2 Operating Expense to Deposit Ratio (OEDR)

Table 7.13
Comparative Performance of Operating Expense to Deposit Ratio (OEDR)

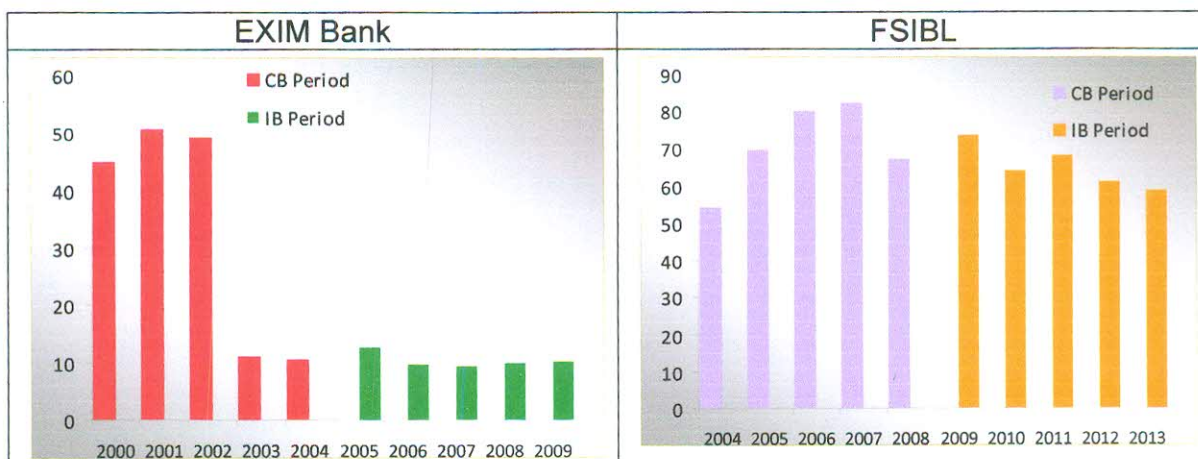
EXIM Bank							
Conventional Banking period	2000	2001	2002	2003	2004	Mean	SD
	44.85	50.72	49.38	10.89	10.54	33.28	20.71
Islamic Banking Period	2005	2006	2007	2008	2009	Mean	SD
	12.54	9.76	9.23	9.86	10.25	10.33	1.29
FSIBL							
Conventional Banking period	2004	2005	2006	2007	2008	Mean	SD
	54.01	69.84	80.20	82.18	67.47	70.74	11.31
Islamic Banking Period	2009	2010	2011	2012	2013	Mean	SD
	73.55	63.91	68.03	61.30	58.52	65.06	5.90

Source: Annual Reports of concerned banks, various issues

Operating Expense to Deposit Ratio is an important measure of efficiency. It can be measured by dividing operating expenses by deposit, the previous result shows that in case of EXIM Bank manages its operating expenses more efficiently in conventional banking period in comparison to Islamic banking period and the FSIBL manages it in Islamic banking period. The data of EXIM Bank show that the value of OEDR was at least five times more in conventional banking period which suggest inefficiency of the bank. It was 44.85% in 2000; it increased at 50.72% in 2001 but it drastically decreased in 2003 and 2004 where the value of OEDR was 10.89% in 2003 and 10.54% in 2004. The value of OEDR was 12.54% in 2005 which followed a decreasing trend thereafter and resulted into decrease in value 10.25% in 2009. The result indicates that the bank decreased its operating expense considerably during Islamic banking period and it proves efficiency of the bank. The mean value of OEDR of EXIM Bank was 33.28 in conventional banking period and it was 10.33 in Islamic banking period. The value of conventional banking period was high 3 times more from Islamic banking period and it proves its inefficiency. The difference of two means is statistically different at 5% significance level (see Table 7.14).

In case of FSIBL the data show a higher growth trend of OEDR in conventional banking period in comparison to Islamic banking period. The value of OEDR of FSIBL increased to 67.47% in 2008 from 54.01% in 2004 showing an upward trend and increasing inefficiency on the part of conventional banking period. On the other hand, the value of OEDR of FSIBL decreased to 58.52% in 2013 from 73.55% in 2009 which followed a decreasing trend thereafter and indicates efficiency of minimizing the operating expense to deposit ratio. The mean value of OEDR of FSIBL was 70.74 in conventional banking period and it was 65.06 in Islamic banking period. Though the difference is not as high as EXIM Bank but it also statistically different at 5% significance level (see Table 7.15).

Figure 7.13
Comparative Performance of Operating Expense to Deposit Ratio (OEDR)



Source: Same as Table 7.13.

Chapter Eight

Summary, Recommendations and Conclusion

8.1 Preamble and Methodology

Economic growth and development lies in mainly sustainable development of banking sector. Though there are so many financial institutions that actively take part in promoting economic development, the banking sector always plays a pioneering role. If the banking sector shrinks all other factors of economic growth trim down ultimately. So, the banking sector can be said just like a heart in the economic structure and the capital provided by it is like blood in it.

The history of banking in Bangladesh is a history of private banking beginning from 1846 with the establishment of 'Dacca Bank'. Up to 1971 she gathered the experience of private banking of a long period of nearly one and a half centuries. After the independence of Bangladesh, the Government which implicit power in 1971, nationalized all banks (except the foreign ones) operating in the country with a view to establish the Government socialist leaning economic policy.

In the banking sector of Bangladesh, Islamic Banking is an important market player. Islamic banking Industry accounted for more than one-fifth share of the entire banking industry in terms of deposits and investments.

However, Islamic banks in Bangladesh have been facing numerous problems and challenges despite their initial success. It is alleged that there is vast discrimination between Islamic banks and conventional banks in terms of operational terms and conditions. Besides, the financial market has become more competitive now a day. In order to compete successfully with conventional banks, Islamic banks should be provided with all the necessary opportunities for enhancing their level of efficiency and effectiveness.

In the case of conversion there are two case studies of conversion in the banking sector of Bangladesh. The EXIM Bank Limited was converted in 2004 and the First Security Bank Limited was converted in 2009 from conventional to Islamic banking.

In this perspective the study was undertaken to evaluate the comparative financial performance of conventional banking period and Islamic banking period and suggest

measures for improvement. No systematic and in-depth study has yet been done to shed light on comparative picture of the performance of conventional banking period and Islamic banking period of the same bank. The study attempts to fill up some of the above mentioned gap. For the study the researcher has studied a number of web-sites, books, articles, reports and manuscripts on banking sector.

The study covers three types of time frame. One type is for the chapter 4 titled Islamic Banking in Bangladesh: Its growth and development in where four full-fledged Islamic banks have been purposively selected to evaluate the growth trend and history of development of Islamic banking in Bangladesh. In that chapter, the researcher selected 10 years from 2003 to 2012 and the 4 banks are namely Islami Bank Bangladesh Limited (IBBL), Export Import Bank of Bangladesh Limited (EXIM Bank), Al Arafah Islami Bank Limited (AIBL) and Shajalal Islami Bank Limited (SJIBL). The second type of time frame is for EXIM Bank limited where the study period starts from 2000 and end at 2009. There were two tiers in that time frame; one was 2000-2004 which the researcher selected as conventional banking period and another was 2005-2009, which was Islamic banking period. Thirdly, the year from 2004 to 2013 was selected for First Security Islami Bank Limited (FSIBL) where 2004-2008 was conventional banking period and 2009-2013 was Islamic banking period.

The main objective of the study is to explore the comparative financial performance of conventional banking period and Islamic Banking period. The specific objectives of the study are to get an overall idea of conventional banking and Islamic banking business; to get an idea of facts of conversion of conventional banking into Islamic banking; to know the growth and history of development of Islamic banking business in Bangladesh, to analyze the comparative financial performance of conventional banking period and Islamic banking period, and to suggest measures for better performance of the banks after conversion.

The study followed the method of documentary analysis. Justification of adopting documentary method is that, it is appropriately applicable in finding out what has happened in course of time and correlating the events. Depending on the nature of the study, data were collected from both primary and mostly secondary sources. Primary sources include unpublished official documents, interviews and discussion with the banks executives, employees, experts, shariah consultant, central bank

authority, newspaper, reports, manuscripts, thesis and dissertations. The secondary sources contain published official statistics, reports, annual reports, documents, laws, ordinances, books, articles, statistics of Bangladesh Bank, Ministry of Finance, Websites of related local and international institutions etc. All the above mentioned sources were incorporated in the study according to their suitability and needs with due care and acknowledgements.

Different statistical and mathematical tools have been used in the study for looking at the relationships between the concerned variables. Different tables and figures are prepared for better presentation and understanding and those are analyzed. Some statistical tools like percentages, simple growth rate, compound growth rate, ratios, indexing, means, standard deviations, coefficient of variation, time series analysis etc. have been estimated to bring out the inner significance of the data.

8.2 The Findings

A short summary of the findings of each chapter is given below for the convenience of the readers.

8.2.1 Concepts and Background of Bank: Conventional Banking and Islamic Banking

It is observed in chapter three that, the history of banking is as ancient as the history of civilization. It is found the concepts and background of bank in this study. Here two types of banking namely conventional bank and Islamic bank are discussed elaborately with its origin, definition, classification, distinguishing features, historical background, objectives functions, differences between conventional banking and Islamic banking etc.

In the discussion of conventional banking system it is found that the idea of conventional bank is many decades old. The banking is established on the basis of profit maximization. In modern times it has gotten multi-dimensions in its nature and functions. A commercial bank is a profit-seeking business firm dealing in money and credit. The distinguishing features of conventional banking found in this study are as follows: artificial entity, profitability, solvency, safety, dealer of money and credit, loan payment, confidence, capital formation, agent of clients etc.

The study shows objectives of conventional bank. To discuss the objectives of conventional bank, it is noted here that the main objective of a conventional bank is to generate profitability for its ownership by providing quality based products and services to the residents of the communities and regions that they represent. In this study we can see the classification of bank in multi- sectoral points of view such as ownership basis, foundation basis, organization basis and scheduled basis.

The study focused on a long historical background of conventional bank in this study. It is elaborately stated here the history of conventional banking from the reference of The New Testament in ancient Greece around 200 B.C. to 1694 the year of establishment of the Bank of England.

Based on this study, we can know the functions of conventional bank. The functions of a conventional bank are classified here into two which are primary functions and secondary functions.

There is another part in this chapter where concepts and background of Islamic banking is discussed elaborately. However, the idea of Islamic banking is a new concept. Though the concept of Islamic banking has been derived from the Holy Qur'an, it has got institutional status at the end of sixty decades by establishing the Mit Ghamar Bank. Due to globalization, rising formation among banks financial inclusion Islamic banking has become a part of mainstream banking.

Islamic bank is a financial institution whose foremost duty is to implementation of interest free banking system which is guided by Islamic shariah. However, in this study the researcher explores the theoretical foundation of Islamic Bank, evolution of the concept, principles, objectives, ethical framework, functions or services, history as well as the basic difference between Islamic bank and conventional bank.

It is observed clearly by analyzing evolution of the concept of Islamic bank that it is based on Islamic principles and values and the prominent scholars have contributed to advance of the theory from the early beginning. The general principles of Islamic banking are under laying the framework of Islamic shariah. The main objective of Islamic bank is to abolish riba (interest), and establish Islamic principles in the financial transactions

After analyzing functions or services of Islamic bank, it is observed significant differences between the functions and services of conventional bank and Islamic bank.

The study also discusses Islamic banking movement all over the world. In the study the Middle East is called the home of Islamic banking. The study also gives the idea of new concept of banking in Western Society.

In this study, it is clearly observed that there are significant differences between conventional banking system and Islamic banking system. It proves that Islamic banking is more welfare oriented to the people.

8.2.2 Islamic Banking in Bangladesh: Its Growth and History of Development

In chapter four a long historical background of Islamic banking business in Bangladesh is observed. The study shows that Bangladesh is the first country in South Asia, where Islamic banking business was started in 1983. The study also proves that the Islamic banking industry has been showing a strong growth since its inception in 1983. It is covering 21 percent market share of banking industry in Bangladesh.

In the case of historical background of Islamic banking in Bangladesh, we can see a long restless period to establish the bank. The Islamic bank has established by the direct patronization of Bangladesh government and sincere contribution of some renowned Islamic scholar. Though the bank starts its journey in a conventional predominant banking environment, it achieves remarkable development over the years.

Based on this study, history of some Institutional development of Islamic banking is observed. They are as follows: Islamic Bank Consultative Forum (IBCF), Central Shariah Board of Islamic Banks in Bangladesh (CSBIBB), Bangladesh Government Islamic Investment Bond (BGIIB), and Islami Interbank Fund Market.

The study tried to draw special attention that, though there is a high growth of Islamic banking business in Bangladesh, it has no complete Islamic Banking Act. It has to conduct its business according to Bank Company Act, 1991 which is based on conventional banking operation.

After analyzing the growth trends of authorized capital, paid up capital, shareholders equity, reserved fund, total assets, deposit, investment, foreign exchange business, return on asset, income, expenditure, net profit, capital adequacy ratio, manpower etc. the study resulted that almost all the variables Islami Bank Bangladesh Limited (IBBL) performed better in comparison to other Islamic banks. The data of IBBL were so high that of all the variables it dealt two-third of all the Islamic Banks in Bangladesh and the bank called itself the market leader not only Islamic banking business but also whole banking business in Bangladesh. It may encourage unethical competition amongst banking business.

In the discussion points of growth of Islamic banking business in Bangladesh, the study also indicates that EXIM Bank is the second highest market player of Islamic banking business. The authorized capital, paid up capital and cost of fund of EXIM Bank are very close to IBBL. But the growth trend of number of shareholders of EXIM Bank is higher than IBBL over the years. The data indicate that EXIM Bank is recognized as stable company at stock market.

Apparently in a highly competitive market the Al-Arafah Islami Bank Limited (AIBL) performed with a slow trend.

It is observed from the study that the simple growth rate of SJIBL was so high in most of the variables in comparison to other sample banks. Thus the data indicate that Islamic banking business performed better in competitive conventional based banking system and it proved its efficacy and trust amongst people of Bangladesh. By continuing this flow of success Islamic banking will cover greater part of market share of banking industry in Bangladesh.

8.2.3 Conversion of Conventional Banking into Islamic Banking: An Overview

As a developing country Bangladesh has a long historical background of banking. They have a long history of nearly one and a half centuries beginning from 1846. In the history of banking business of Bangladesh two banks are converted from conventional to Islamic banking namely Export Import Bank of Bangladesh Limited (EXIM Bank) and First Security Islami Bank Limited (FSIBL).

It is observed from the study that the EXIM Bank commenced its business in 1999 as a conventional bank. But surprisingly, it converted into Islamic banking in 2004. However, the study also discussed the historical background, vision, mission and corporate culture, objectives of conversion into Islamic banking, flow chart of Islamizing of conventional banking into Islamic banking, corporate information, corporate governance, shariah supervisory committee, bank operational area, financial products and services, financial performance of the bank.

It is observed in the study that conversion of conventional bank into Islamic bank is very much critical. However, with this end in view Bangladesh Bank constituted a focus group comprising representatives of the central bank, a number of Islamic Banks and Central Shariah Board for Islamic Banks of Bangladesh to formulate an integrated guideline for conducting Islamic banking. The legal procedures of conversion of conventional banking into Islamic banking is stated in the BRPD Circular number 15 dated 09.11.2009.

It is found in the study that the insufficient legal protection is the main challenge of conversion of conventional banking into Islamic Banking. It is also observed that the customers' attitude towards Islamic banking is another problem of conversion.

After analyzing the banks performance and historical overview it becomes clear to the researcher that the banks converted into Islamic banking for high public demand as well as to do perform better in the competitive conventional based banking environment. The researcher also found that especially the FSIBL did not perform better in conventional banking period, when the bank was selected as a problem bank. Then the bank converted into Islamic bank and renamed as First Security Islami Bank Limited to recover their defame. It seems to the researcher that the banks were not converted only for abiding the Islamic shariah principles in their business transactions; rather it was heavily using the image of Islamic banking concept to attract the customers and branding the name of Islam.

8.2.4 Comparative Growth Trend Analysis of Conventional Banking Period and Islamic Banking Period

Bangladesh has a long history of Islamic banking. The first Islamic Bank of Bangladesh Islami Bank Bangladesh Limited (IBBL) was established in 1983. Since

then, Islamic banking has been showing continuous strong growth, not only in terms of deposits and assets, but also in market share.

In the history of Islamic banking in Bangladesh, the EXIM Bank and the First Security Islami Bank started its operation from end of the 20th Century. Both the banks have the same history. It was conventional bank when started its operation and then converted from conventional to Islamic banking. However, since its inception the growth trend of the banks was good but it got more speed when the banks converted into Islamic banking.

In the case of the growth of authorized capital, it is found in this study that the data were higher in Islamic banking period in comparison to conventional banking period of the banks. It is found in this study that the banks had a continuous positive growth in their paid up capital, shareholder's equity, reserve fund, total assets and total liabilities in Islamic banking period.

It is found in this study that the highest growth rate of deposit of EXIM Bank recorded in conventional banking period. The value of SGR was 96.22 in conventional banking period and it was 40.18 in Islamic banking period. In case of FSIBL we observe the higher growth trend of deposit in Islamic banking period.

The study shows higher growth of Investment of EXIM Bank in conventional banking period. The data of FSIBL show the same result. The data of FSIBL observe fluctuating figures of foreign exchange business in Islamic banking period. Just after conversion from conventional banking into Islamic banking, the figure of foreign exchange business was changed tremendously over the years 2009, 2010 and 2011. But we see the decreasing trends in the year 2012 and 2013.

It is observed in this study that the highest growth rate of Investment as a percentage of total deposits of EXIM Bank recorded in the year 2004 (101.33%). It was very low in the year 2000 (55.16%) during conventional banking period. The average value of growth of Investment as a percentage of total deposit was higher in Islamic banking period. It is observed by the researcher that, the bank invests its equity more in Islamic banking period because, it is less risky to invest in Islamic shariah mode in comparison to conventional banking manner. The result of investment as a percentage of total deposits of FSIBL was almost same as EXIM Bank.

Based on this study we can see the higher SGR value of total income in conventional banking period of EXIM Bank. It was 327.84 in conventional banking period and it was 50.61 in Islamic banking period. In case of FSIBL we can see that the bank suffered gradual loss during conventional banking period. The bank earns profit in Islamic banking period.

The study indicates a poor amount of net profit of EXIM Bank during conventional banking period. The average value of net profit of EXIM Bank was 208.84 in conventional banking period and it was 985.44 in Islamic banking period. In case of FSIBL, the bank loss TK. 117.24 million in 2006 during conventional banking period. The bank was a problem bank during conventional banking period.

In the case of comparative growth trend analysis of EXIM Bank and First Security Islami Bank during conventional banking period and Islamic banking period, the study found that, the growth of all the indicators of financial performance were mostly higher in Islamic banking period in comparison to conventional banking period. It is found that the same bank performed better in Islamic banking period in comparison to conventional banking period. Between the two banks, the EXIM Bank performed better than the FSIBL. Though most of the indicators of financial performance analysis were high when the bank conducted its business by Islamic shariah principles but in some cases it was higher in conventional banking period. Investment as a percentage of total deposits of FSIBL were higher in conventional banking period, similarly the value of SGR and CGR of investment as a percentage of total deposits of EXIM Bank were higher in conventional banking period. It indicates that the banks did not employ its equity efficiently during Islamic banking period. The growth trend of capital adequacy ratio of FSIBL was also higher in conventional banking period in comparison to Islamic banking period. There is a turning point of FSIBL in this study. The data show that the bank did not perform better in the year 2005 and 2006. In that time the bank was considered as problem bank. Continuing a shocking performance the bank was converted into Islamic banking and from that time the bank tried to hold back its defame and performing well. The case of EXIM Bank, it was converted into Islamic banking from a sustainable growth trend. Though the bank performs better in Islamic banking period, the statistics shows that the bank was not a bad one in conventional banking period. It can be concluded by above discussion that the banks perform better in

Islamic banking period in the highly competitive conventional based banking sector in Bangladesh. It proves a high demand of Islamic banking.

8.2.5 Comparative Ratio Analysis of Conventional Banking Period and Islamic Banking Period

The researcher observes in chapter seven overall financial performance of Islamic banking period where it can be easily compare to conventional banking period of the banks. In the case of profitability it is observed to the EXIM Bank that the bank was profitable during conventional banking period, but the FSIBL was a profitable one in Islamic banking period. The mean value of ROE, PER, and EPS of EXIM Bank in conventional banking period was significantly different from Islamic banking period. Further analysis of ROA revealed that the value of conventional banking period of EXIM Bank was closer to Islamic banking period. In case of FSIBL, the mean value of ROA, ROE, and PER was considerably higher in Islamic banking period in comparison to conventional banking period. The value of EPS of FSIBL during conventional banking period was higher than Islamic banking period. Though the EXIM Bank was a profitable bank during conventional banking period, the bank converted from conventional banking into Islamic banking and during Islamic banking period, the bank claimed as a non-profitable bank. On the contrary of, after conversion the First Security Islami Bank performs better in comparison to conventional banking period. So, the study indicates that conversion into Islamic banking may not be always profitable.

In the case of liquidity ratio analysis it is observed that, the mean value of LDR and LAR of EXIM Bank was higher in Islamic banking period in comparison to conventional banking period except the value of EM. It is resulted that, the bank was more liquid in Islamic banking period in comparison to conventional banking period.

In case of FSIBL it is observed that, the mean value of LDR and LAR of Islamic banking period was higher than conventional banking period, but the value of EM was higher in conventional banking period. The value of CR was same both in conventional banking period and Islamic banking period. The data of First Security Islami Bank also resulted that the bank was more liquid in Islamic banking period. From the study the researcher also observes the positive response of the customers in Islamic banking period in lieu of conventional banking period. Ethical values of the

customers and level of trust are other causes of huge liquidity of Islamic banks, though the banks face disparity in maintaining SLR and CRR in central bank.

The data of business development indicate higher assets growth, deposits and investment growth during Islamic banking period both of the banks. It is observed about four times more growth of all the variables during Islamic banking period. Further analysis of business development indicates that deposit level increased so high in Islamic banking period due to people's perception on Islamic banking. They have deposited money in Islamic banking period for the religious perspective as well as more security. It is also evident that, though the banks earn more deposits so it may invest also more. There are several modes of investment in Islamic banking which all are shariah applicable. It is noted that, Islamic bank does not invest in all kinds of business.

Though the EXIM Bank was more profitable in conventional banking period, more liquid in Islamic banking period, the efficiency and productivity tools indicate no absolute result. Here we have used two tools to measure efficiency and productivity. Income to Expense Ratio (IER) indicates a higher value in conventional banking period, and another tool like Operating Expense to Deposit Ratio (OEDR) was also higher in conventional banking period. The higher value of IER in conventional banking period indicates the banks' efficiency and productivity, on the other hand higher value of OEDR indicates opposite result. But, the value of OEDR of EXIM Bank in conventional banking period was more than 3 times from Islamic banking period and the value of IER in Islamic banking period was slightly lower than conventional banking period. From the critical analysis of efficiency and productivity of The First Security Islami Bank, it is clear to the researcher that, the bank was more efficient and productive in Islamic banking period in comparison to conventional banking period. From the experience of problem bank, the First Security Islami Bank tried to enhance the income to expense ratio and reduce the operating expense which indicate the banks' efficiency and productivity.

8.3 Policy Implications, Conclusions and Suggestions for further Research

On the basis of above findings, the researcher would like to provide some important policy recommendations for consideration of the proper authorities. The recommendations are stated below.

8.3.1 Policy Implications

8.3.1.1 Ensure Shariah Compliance

Since the banks are converted from conventional into Islamic banking, so, they have to maintain strictly Islamic shariah principles in all of its transactions. They have to realize that they were converted only for enduring the shariah principles in their business.

8.3.1.2 Improving profitability

Profitability is a prime question of the strength of an organization. The study revealed that the EXIM Bank was more profitable before conversion i. e. conventional banking period. So, to ensure profitability the bank has to establish adequate cost accounting system which should calculate cost of the banking services and reasonable cost for those services. It should be kept in mind that the banking services can be provided at a minimum cost but not a price below the cost. Rather it should also be kept in mind that the Islamic shariah principles are followed in measuring all the cost of services. The First Security Islami Bank was more profitable after conversion i. e. Islamic banking period. So the FSIBL has to improve the increasing trend of profitability. Steps should be taken to reduced cost of funds as well as more control on operating expense.

8.3.1.3 To Reduce Classified Loans

Classified loans adversely affect the profitability and productivity performance of the banks. Through selection of viable loan proposals, evaluation of the entrepreneurs and the quality of the clients and by ensuring proper supervision and monitoring of the banks financed projects, bad and classified loans can be minimized and ultimately the burden of the profitability can be reduced. From the bitter experience in conventional banking period the FSIBL should be more cautious in invest. For the selection of the project financing proper feasibility study should be ensured.

8.3.1.4 Preparation for Competition

At present Bangladesh has 8 full-fledged Islamic banks where Islami Bank Bangladesh Limited (IBBL) is the market leader. IBBL alone covered two third of the all Islamic banks in Bangladesh. So, newly converted Islamic banks like the EXIM

Bank and the First Security Islami Bank Limited should have taken the competitive attitudes in their banking business.

8.3.1.5 Introduction of Modern Banking Policies and Instruments

In the present digital world the banking activities are reforming continuously. The banks are operating by latest technology which bearing the banks to the hands of the customers. The EXIM Bank and The First Security Islami Bank Limited are offering ICT based banking services and they have separate ICT divisions in their head offices to conduct E-banking. But they have to be more reformed or reconstructed in ICT of modern banking with the experience of latest technology. The banks have to communicate with internationally reputed organizations to share the latest technology. The banks should have established a set of high profile expert in ICT to develop latest banking policies and instruments.

8.3.1.6 Special Attention on Mudarabah and Musharakah Mode of Investment

It is observed that unfortunately the basic mode of investment of Islamic finance has failed to cover a desirable portion in the Islamic banks of Bangladesh. So, the banks should have draw special attention on mudarabah and musharakah mode of Investment.

8.3.7 Role of Government and Central Bank

Though the Islamic banking covered a significant portion of banking business in Bangladesh, it is a matter of regret that there is no separate Islamic banking Act. So, it is the foremost duty of the government of the peoples republic of Bangladesh to establish a separate Islamic banking Act like Malaysia, Iran, Pakistan to ensure level playing field for both of conventional and Islamic banking. Nothing more, GOB should also take initiatives to establish Islamic Insurance and other subsidiary companies in order to facilitate the Islamic banking operation. There is a need for establishing a separate audit and Inspection department of Islamic banks with Islamic banking as well as shariah scholars. As a regulatory authority Bangladesh Bank should have developed some Islamic monetary and saving instruments which may be conducted by all the banks. Government should not further allow converting any problem bank as Islamic bank because there may occur a malpractice in the banking sector and it can also obstruct the bright image if Islamic banking in Bangladesh.

8.3.2 Conclusion

Before establishing the Islamic bank in Bangladesh, it was a wishful thinking to some people. But, now it is a reality and Islamic banks take a dominant place in the banking industry in Bangladesh. Of course there are numerous problems and challenges of Islamic banks in Bangladesh. The problems are related to Institutional aspects as well as operational aspects. In recent years some negative comments are made for Islami Bank Bangladesh Limited (IBBL). No such claims are addressed for other existing seven Islamic banks. But the bank is performing well over the years. At the same time, Islamic banking in the country is rapid gaining momentum. The EXIM Bank is considered second largest Islamic bank in Bangladesh and the First Security Islami Bank is performing better after conversion from conventional banking into Islamic banking. It is a positive sign that majority of the peoples want to conduct with Islamic banks, but there is a common problem that most of the peoples cannot differentiate the concepts of Islamic bank and conventional bank. The Islamic banks are performing better in a highly competitive conventional based banking environment. In this study it is found that the EXIM Bank and First Security Islami Bank are performing better in Islamic banking period. It indicates that the Islamic banking is more popular to the customers. Islamic banks in Bangladesh will need to explore more standardized financial instruments and innovations in line with shariah which will operate on a par with, if not better than, their conventional counterparts. It would be beneficial for Islamic banks to develop their own interbank money markets and create financial market for their Islamic financial products. To realize the potential of Islamic bank it requires capacity building in terms of regulators, market professionals, policy-makers and NGOs. Islamic banking cannot be deemed an “add-on” to the conventional banking system. It should be recognized as a distinguishable banking system in its own right. It should also be recognized that their success in abolishing interest has been only partial and they have a long way to go in their search for a satisfactory alternative to interest. So, to make a sustainable economic growth aiming to reach at high medium income level Bangladesh, the main market player of financial market, the banking sector both Islamic and conventional should be well planned by close observation of the government. Otherwise it would be an untouched dream to reach the goal.

8.3.3 Suggestions for Further Research

A complete good research focuses various issues and problems as well as direct initiatives to solve the problems. It is quite impossible to deal with a large number of issues and problems in a single thesis. It is not possible in a sense and it should not be desirable. This study conducted a periodical comparative performance analysis of conventional and Islamic banking period of EXIM Bank and First Security Islami Bank Limited. The present study expected that it would encourage in further researches to explore new dimensions in the banking sector of Bangladesh. In the light of experience of integral limitations of this study, a few suggestions for further research are presented below:

1. A similar study could be conducted in other private commercial banks and state owned commercial banks.
2. There may be conducted a comparative financial performance between conventional banks and Islamic banks.
3. Another comparative study may be undertaken based on such specific area of performance indicators of banks i.e. profitability, efficiency, productivity, risk and solvency.
4. At present Bangladesh have 19 Islamic banking branches of 8 conventional banks. There may be conducted a comparative financial performance analysis of conventional banking branches and Islamic banking branches.
5. An In-depth study may be taken with a view to measuring the impact of conversion of conventional banking into Islamic banking in the money market.
6. In the light of the present study a full-fledged comparative study may be conducted on foreign commercial banks and state owned/private commercial banks in Bangladesh.

Bibliography

- Abedin, M.Z. (1988). *Commercial banking in Bangladesh". A study of disparities of regional and sectoral growth trends (1846-1986* (Unpublished Ph.D. Dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh.
- Abedin, M.Z. (1990). *Commercial banking in Bangladesh: A study of disparities of regional and sectoral growth trends (1846-1986)*. Dhaka: National Institute of Local Government (NILG).
- Agarawal, R.B.L. (1991). *Social banking and banks profitability*, ed. by. C.R. Kothar, Jaipur: Arihant.
- Ahmad. (2010). *Developments in Islamic Banking Practice. The experience of Bangladesh*. Florida: Universal.
- Ahmad, A. (1987). *Developments and problems of Islamic banks*. Jeddah: Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI).
- Ahmad, A.U.F (2002). *Islamic banking in Bangladesh* (Unpublished Masters Thesis). School of Law, University of Western Sydney, Australia.
- Ahmad, B.S. (2011). *The trends of growth, productivity, and profitability of a first generation private sector bank: A case study on AB bank limited* (Unpublished Ph.D. Dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh.
- Ahmad, M. (2008). Non Investment services of Islamic banks. In Akkas et al (Eds.) *Text book on Islamic banking* (pp.253-256). Dhaka: Islamic Economic Research Bureau.
- Ahmad, M.A.A. (2012). *Ethical banking and finance: A theoretical and empirical framework for the cross-country and inter-bank analysis of efficiency, productivity, and financial performance* (Unpublished Ph.D. Dissertation). Faculty of Business, Economics, and Social Sciences, University of Hohenheim, Germany.
- Ahmad, S.M. (2012). Islamic banking in Bangladesh: Challenges and expectations. *Research Journal Faculty of Arts, Rajshahi University*. (18), 247-258.

- Ahmed, A. (1992). Contemporary experiences of Islamic banks. *Journal of Objectives Studies*. Institute of Objective Studies, Delhi.
- Ahmed, A. (Ed.). (1995). The evolution of Islamic banking. In *Encyclopedia of Islamic Banking and Insurance* (pp.15-30). London: Institute of Islamic Banking and Insurance.
- Ahmed, H. (Ed.). (2002). *Theoretical foundations of Islamic economics*, book of readings No. 3. Jeddah: Islamic Research and Training Institute, Islamic Development Bank.
- Ahmed, N. & Haron, S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products & services. *International Journal of Islamic Financial Services*, 3(4), 1-7.
- Ahmed, R.U. (2001). *Performance evaluation of Islamic bank* (Unpublished MBA Thesis). Bangladesh Institute of Bank Management, Dhaka, Bangladesh.
- Ahmed, S. (2006). *Islamic banking finance and insurance, A global overview*. Kuala Lumpur: AS Noordeen
- Ahmed, Z.; Iqbal, M. & Khan, M.F. (1983). *Money and banking in Islam*. Islamabad: International Center for Research in Islamic Economics & Jeddah: Institute of Policy Studies, King Abdul Aziz University.
- Akhtar, H. (2010). Technical efficiency and productivity growth of Saudi banks: A data envelopment analysis approach. *Global Business Review*, 11(2), 119-133.
- Akkas, S.M. A. (1996). *Relative efficiency of conventional and Islamic banking system in financing investment* (Unpublished Ph.D. dissertation). Department of Finance and Banking, University of Dhaka, Bangladesh.
- Akkas, S.M.A. (1995). Modeling operation of Islamic banks under conventional banking framework: A comparative efficiency analysis in deployment of investible fund. *Thoughts on Economics*, 5 (3 & 4), 1-18
- Akkas, S.M.A. (2008). Evolution of Islamic banking and financial institutions. In Akkas et.al (Eds.), *Text Book on Islamic Banking* (pp.47-52). Dhaka: Islamic Economic Research Bureau.
- Al Arafah Islami Bank Limited, *Annual Report*- Various Issues, Dhaka.
- Al Qur'an. Sura Baqara: 2:275

- Alam, B.M. & Misir, M.A. (1998). Analysis of comparative financial performance in banking sector of Bangladesh: A study of interest free and traditional banks. *Thoughts on Economics*, 7 (3 & 4), 35-58.
- Alam, M.N. (2000). Islamic banking in Bangladesh: A case study of IBBL. *International Journal of Financial Services*, 1(4), 10-28.
- Ali, M. & Sarker, A.A. (1996). Islamic banking: Principles and operational methodology. *Thoughts on Economics*, 5(3 & 4), 27-59.
- Ali, S. (2010). *Islamic and conventional banking comparative analysis: Pakistan's perspective* (Unpublished MBA Thesis). Faculty of Commerce, University of Central Punjab, Lahore, Pakistan.
- Amandeep. (1993). *Profit and profitability in commercial banks*. New Delhi: Deep and Deep.
- Ansari, S. & Rehman, A. (2011). Financial performance of Islamic and conventional banks in Pakistan: A comparative study, proceedings 8th International conference on Islamic economics and finance, Centre for Islamic Economics and Finance, Qatar Faculty of Islamic Studies, Qatar Foundation.
- Ashker, A.A.F. (1987). *The Islamic business enterprise*. London: Croom Helm.
- Awan, A.G. (2009). Comparison of Islamic and conventional banking in Pakistan, proceedings 2nd CBRC, Lahore, Pakistan.
- Ayub, M. (2007). *Understanding Islamic finance*. West Sussex, UK: John Wiley and Sons.
- Aziz, H.A. (2009). *Islamic banking*. Kuala Lumpur: IIUM Press.
- Bahar, H. et.al (Eds.), (2000). *Studies in bangladesh banking*. Dhaka: Bangladesh Institute of Bank Management.
- Bangladesh Bank (2009). *Guidelines for conducting Islamic banking*, Dhaka.
- Bangladesh Bank (2014). *Bangladesh Bank Scheduled Bank Statistics- Various Issues*, Dhaka.
- Bangladesh Bank (2014). *Development of Islamic banking in Bangladesh (July-September, 2014)*, Dhaka.
- Bangladesh Bank. *Annual Report- Various Issues*, Dhaka.

- Binhammer, H.H. (1968). *Money, banking and the Canadian financial system*. Toronto: Methuen.
- Bradford, F.A. (1949). *Money and banking*. New York: Longman, Green.
- Brown, K.; Hassan, M. K.; Skully, M. ;(2007). Operational efficiency and performance of Islamic banks. In Hassan, M. K & Lewis, K. M. (Eds.), *Handbook of Islamic Banking* (p. 96). Edward Elgar.
- Bulu, D.A. (2004). *Islamic banking in Bangladesh: Its history and socio economic program* (Unpublished Ph.D. dissertation). Department of Islamic History and Culture, University of Rajshahi, Bangladesh.
- Chowdhury, L.R. (2005). *A Dictionary of banking and finance*. Dhaka: L.R Chowdhury.
- Cooper, D.R. & Pamela S.S. (1998). *Business research methods*, 6th Ed. Boston: IRWIN/McGraw-Hill.
- Das, S.R. (1994). *Performance of public sector banks in Bangladesh* (Unpublished Ph.D. dissertation). Department of Accounting, University of Chittagong, Bangladesh.
- Dey, M. (1985). *A comparative evaluation of the performance of nationalized vs denationalized banks*. Dhaka: Young Economist Association.
- Dusuki, A. W., & Abdullah, N. I. (2007). Why do Malaysian customers patronize Islamic banks? *International Journal of Bank Marketing*, 25(3), 142-160.
- Export Import Bank of Bangladesh Limited. *Annual Report* -Various Issues, Dhaka.
- First Security Islami Bank Limited. *Annual Report*- Various Issues, Dhaka.
- Gitman, L.J. (2012-2013). *Principles of managerial finance*. Boston: Pearson Prentice Hall.
- Goitein, S.D. (1971). *'A mediterranean society, Vol. 2*. Berkley and Los Angels: University of California Press.
- GOB. (1973). *Resume of the activities of financial institutions in Bangladesh* (First Issue), Government of Peoples Republic of Bangladesh: Dhaka.
- Gupta, L.N. (1977). *Profitability in public sector*. New Delhi: Oxford & IBH.

- Gupta, M.C. (1989). *Profitability analysis: An empirical approach*. Jaipur, India: Painter.
- Hamid, M.A. (2009). *Islamic economics an introductory analysis*. Rajshahi: Dr. Md. Ekramul Hamid.
- Hanif, M. (2011). Differences and similarities in Islamic and conventional banking. *International Journal of Business and Social Science*, 2(2), 166-175.
- Hannan, S. (20150, 3 February) 'Ex-secretary, banking division, expert comments on Islamic banking' *The Daily Naya Diganta*.
- Haque, M.S.(2007). *Efficiency of commercial banks in Bangladesh* (Unpublished Ph.D. dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh
- Hasan, Z. (2014). *Islamic banking and finance an integrative approach*. NewYork: Oxford University Press.
- Hassan, M.K. & Lewis, K.M. (2007). *Handbook of Islamic banking*. Cheltenham: Edward Elgar.
- Hassan, M. K. & Ahmed, M. (2001). *Islamic versus conventional banking: A survey of their apparent similarities and differences*. Working Paper, WB.
- Hassan, M.K. (1999). Islamic Banking in theory and practice: The experience of Bangladesh. *Managerial Finance*, 25 (5), 60-113.
- Hassan, M.K. & Islam, M.M. (2004). Islamic banking movement in Bangladesh. *Daily Sangram*. Speical Issue on the fullfillment 21st year of Islami Bank Bangaldesh Limited, Dhaka.
- Homoud, S. H. (1994). Progress of Islamic banking: The aspirations and the realities. *Islamic Economic Studies*. 2(1), 81-92. Retrieved from www.financeinIslam.com
- Hornby, A.S. (Eds.). (2010). *Oxford Advance Learner's Dictionary of Current English*. New York,USA: Oxford University Press.
- Hossain, M.J. (2000). *A study on the performance of public and private sector banks in Bangladesh* (Unpublished Ph.D. dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh.

- Hossain, M.Z. (2007). *Human resource development programmes in the financial intermediaries: A study of two selected Islamic banks in Bangladesh* (Unpublished Ph.D. dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh.
- Huq, M.A. (1989). Measurement of the productivity of Islami bank Bangladesh Ltd. in comparison with Faisal Islamic Bank of Bahrain E.C. and Bank Islam Malaysia Berhad. *Bank Parikrama*. XIV (3 & 4), September & December. Bangladesh Institute of Bank Management, Dhaka.
- Huq, M.A. & Ahmed, M. (1995). Participatory banking", *Thoughts on Economics*, 5 (1 & 2), 157-162.
- Hussain, M. S. (2008). Modes of investment of Islamic banks. In Akkas et al. (Eds.) *Text Book on Islamic Banking* (pp.113-170). Dhaka: Islamic Economic Research Bureau.
- ICB Islami Bank Limited (2012). *Annual Report*, Dhaka.
- Ika, S.R. and Abdullah, N. (2011). A comparative study of financial performance of Islamic banks and conventional banks in Indonesia. *International Journal of Business and Social Science*, 2 (15), 199-207.
- Iqbal, M, & Llewellyn, T.D. (2002). *Islamic banking and finance new perspectives on profit-sharing and risk*. Chetenham: Edward Elgar.
- Iqbal, M. (2001). Islamic and conventional banking in the nineties: A comparative study. *Islamic Economic Studies*, 8 (2), 1-27.
- Iqbal, M. Molyneux, P. (2005). *Thirty years of Islamic banking history, performance and prospects*. New York: Palgrave Macmillan.
- Islam, M. M. (2008). Working capital investment. In Akkas et al. (Eds.) *Text Book on Islamic Banking* (pp.179-190). Dhaka: Islamic Economic Research Bureau.
- Islam, M.M. & Chowdhury, H.A. (2009). A comparative study of liquidity management of an Islamic bank and a conventional bank: The evidence from Bangladesh. *Journal of Islamic Economics, Banking and Finance*, 5(1), 89-108.
- Islami Bank Bangladesh Limited (2012). *Islami Bank 30 years of Progress*. Dhaka.
- Islami Bank Bangladesh Limited (2013). *Islamic Banking in Bangladesh an alterative paradigm for sustainable socio-economic development*. Dhaka.

- Islami Bank Bangladesh Limited. *Annual Report-Various Issues*, Dhaka.
- Islamic Development Bank. *Annual Report-2011-2012*, Jeddah.
- Islamic Economics Research Bureau. (2008). *Text book on Islamic banking*. Dhaka: Dr. S.M. Ali Akkas.
- Jaffar, M . & Manarvi. I. (2011). Performance comparison of Islamic and conventional banks in Pakistan. *Global Journal of Management And Business Research*.11(1),61-68.
- Jalaluddin, A. (1999). *Attitudes of Australian financial institution towards lending on the profit/ loss sharing method of finance* (Unpublished Ph.D. dissertation). University of Wollongong, Australia.
- Jasim, M.K. (2010). *Corporate social responsibility of Islamic banking: A study of two banks in Bangladesh* (Unpublished Ph.D. dissertation). Institute of Bangladesh studies, University of Rajshahi, Bangladesh.
- Jeevanandam, C. (1989). *Practice and law of banking*, 7th ed. New Delhi: Premier Book.
- Johora, F.T. (2013). A comparative performance analysis of conventional banking and Islamic banking in Bangladesh. *Asian Accounting and Auditing Advancement*, 3 (1), 60-72.
- Jonathan. (2008). *Oxford dictionary of finance and banking*.4th ed.New York: Oxford University Press.
- Karbhari, Y., Naser, K. and Shahin, Z. (2004). Problems and challenges facing the Islamic banking system in the west: The case of UK. *Thunderbird International Business Review*, 46 (5),521-543.
- Kettel, B. (2011a). *Introduction to Islamic banking and finance*. West Sussex, UK: John Wiley and & Sons.
- Kettel, B. (2011b). *The Islamic banking and finance workbook*. West Sussex, UK: John Wiley and & Sons.
- Khalekuzzaman, M. (2008). *Higher banking and insuranc*.In Bangla. Dhaka: The Jamuna.
- Khan, M.M. & Bhatti, M.I. (2008). *Developments in Islamic banking, The case of Pakistan*. New York: Palgrave Macmillan.

- Khan, M.S. & Mirakhor, A. (1989). *Islamic banking: Experiences in the Islamic Republic of Iran and Pakistan*. (IMF Working Paper No. WP/89/12_). Washington DC : International Monetary Fund (JEL Classification Nos 3116; 3120, 314).
- Knight, M. D. (2007). The growing importance of Islamic finance in the global financial system, remarks at the 2nd Islamic Financial Services Board Forum, Frankfurt, 6 December 2007. Downloaded on January 10, 2008 from <http://www.bis.org/speeches/sp071210.htm>-
- Mahamud, A.A. & Islam, M.M. (2006). A comparative study on performance evaluation of conventional banks and Islamic banks in Bangladesh with special reference to Islami Bank Bangladesh Limited. *Thoughts on Economics*, 18(5), 25-44.
- Maheshwari, S.N. & Maheshwari, S.K. (2011). *Banking law and practice*. Ludhiana: Kalyani.
- Mamun, M.Z. (2011). Prospects and problems of Islamic bank's perspectives: A study of Bangladesh, proceedings 8th International conference on Islamic economics and finance, centre for Islamic economics and finance, Qatar Faculty of Islamic Studies, Qatar Foundation.
- Mannan, M.A. (2012). *Islamic Banking System*. In Bangla. Dhaka: Central Shariah Board for Islamic Banks of Bangladesh.
- Marro, P. (2013, September). Global overview, Issues and opportunities: Seminar on the prospects and challenges in the development of Islamic finance for Bangladesh, *Islamic Financial Services Board*, Dhaka, Bangladesh.
- Mazid, M.A. (2002). *An exploratory study of Islami Bank Bangladesh Limited: Entrepreneurship, investment and poverty alleviation perspective* (Unpublished Ph.D. dissertation). Department of Accounting, University of Rajshahi, Bangladesh.
- Memon, N.A. (2007). Islamic banking: Present and future challenges. *Journal of Management and social sciences*, 3(1), 01-10.
- Metwally, M.M. (1997). Difference between financial characteristics of interest free banks and conventional banks. *European Business Review*, 97 (2), 92-98.
- Miah, M.H.A. (2008). *A way to Islamic banking: Customs & practice*. Dhaka: Sahera Haider.

- Misir, M.A. & Afser, N. (2001). Comparative performance evaluation of Pubali Bank Ltd and Islami Bank Bangladesh Ltd. *Journal of Institute of Bangladesh Studies, XXIV*, Rajshahi University, Bangladesh.
- Mohammad, S., Hasan, Taufiq, Bader, Mohamed, K. (2008). Efficiency of conventional versus Islamic banks: International evidence using the stochastic frontier approach (SFA). *Journal of Islamic Economics, Banking and Finance*, 4(2), 107-130.
- Mohon, I.K. (2011). *Islamic economics and banking*. In Bangla. Dhaka: Shishu Kanon.
- Moin, M. S. (2008). *Performance of Islamic banking and conventional banking in Pakistan: A comparative study* (Unpublished Masters' Thesis). University of Skovde. Sweden.
- Molyneux, P., Iqbal, M. (2005). *Banking and financial systems in the Arab world*. New York: Palgrave Macmillan.
- Mukharjee, R.N. (1987). *Accounting theory and management accounting*, Second edition. Kolkata: India.
- Mulla, M.A.S. (1997). *The bank companies act (1991)*. Dhaka: Shuma.
- Muslehuddin, M. (1993). *Banking and Islamic law*. New Delhi: Islamic Book Service.
- Nizami, M.H.U (1995). *Productivity of nationalized commercial banks in Bangladesh* (Unpublished M.Phil Thesis). Department of Accounting, University of Chittagong, Bangladesh.
- Owen, L. & Othman, A. Q. (2001). Conventional versus Islamic finance: Student knowledge and perception in the United Arab Emirates. *International Journal of Islamic Financial Services*, 5(4),31-47.
- Pandey, I. M. (1979). *Financial management*. New Delhi: Vikash Publishing House.
- Percin, S., & Ayan, T.P., (2006). Measuring efficiency of commercial banks in a developing economy: The case of Turkey. *Investment Management and Financial Innovations*, 3(2), 217-231.
- Prager, J. (1982). *Fundamentals of money, banking and financial institutions*. New York: Harper & Row.
- Pramanik, A.H. (2009). *Islamic banking how far have we gone*. Kuala Lumpur: IIUM Press.

- Rahman, M.M. & Rahman, B.M.H. (2007). *Islamic financial system and selected Islamic economics issues*. Dhaka: Welfare.
- Rahman, A. H. M. H. (2008). Project financing criteria. In Akkas et al. (Eds.), *Text Book on Islamic Banking* (pp.173-179). Dhaka: Islamic Economic Research Bureau.
- Rahman, Y.A. (2010). *The art of Islamic banking and finance tools and techniques for community-based banking*. New Jersey: John Wiley & Sons.
- Raquib, A. (2006). *Emergence of Islamic banking in Bangladesh and related financial issues*. Dhaka: Sabdarup.
- Raquib, A. (2007). *Principles & practice of Islamic banking*. Dhaka: Panam Press.
- Raveh, A. (2000). Theory and methodology the Greek banking system: Reanalysis of performance. *European Journal of Operational Research*, 120 (2000), 525-534. doi:10.1016/S0377-2217(98)00384-1
- Reed, E.W. (1964). *Commercial bank management*. New York: Harper and Row.
- Robinson, E.W.; Gane, F.H.; Bahmler, E.W.; Farwell, L. C. (1960). *Financial institutions*. Illinois: Richard D. Irwin.
- Rosley, S.A. (2010). *Critical issues on Islamic banking and financial markets, Islamic economics, banking & finance, investments, takaful and financial planning*. Kuala Lumpur: Dinamas.
- Rosly, S. A. & Bakar, M. A. A. (2003). Performance of Islamic and mainstream banks in Malaysia. *International Journal of Social Economics*, 30 (12), 1249-1265.
- Ross, S.A., Westerfield, R.W., Jaffe, J. (2005). *Corporate finance*. Berkshire, England: MacGraw-Hill.
- Sabi, M. (1996). Comparative analysis of foreign and domestic bank operation in Hungary. *Journal of Comparative Economics*, (22), 179-188.
- Saffiullah, M. (2010). Superiority of conventional banks & Islamic banks of Bangladesh: A comparative study. *Journal of Economics and Finance*, 2(3), 199-207.
- Saha, A. (1996). *Profitability of the private commercial bank in Bangladesh* (Unpublished Ph.D. dissertation). Department of Commerce, Kalayni University, West Bengal, India.

- Saha, N.C. (2011). *Managerial performance of commercial banks in Bangladesh: A study on selected banks* (Unpublished Ph.D. dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh.
- Saleh, M.A. (1989). Possibility of non interest based banking in Bangladesh with reference to Arab Middle East. *The Dhaka University Studies, Part C*. 10 (1).
- Samad, A. (2004). Performance of interest free Islamic banks vis-à-vis interest based conventional banks of Bahrain. *IIUM Journal of Economics and Management*, 12 (2), pp. 115-129.
- Samad, A., Kabir, H. (1999). The Performance of Malaysian Islamic Bank During 1984-1997: An Exploratory Study. *International Journal of Islamic Financial Services*, 1(3), 1-14.
- Sarker, A.A. (1999). Islamic banking In Bangladesh: Performance, problems and prospects. *International Journal of Islamic Financial Services*, 1 (3), 15-35.
- Sarker, A.A. (2000). Regulation of Islamic banking in Bangladesh, role of Bangladesh Bank. *International Journal of Islamic Finance Services*, 2 (1) 155-160.
- Scharf, T.W. (1983). *Arab and Islamic banks: New business partners for developing countries*. Paris: Development Centre Studies of the Organization for Economic Co-operation and Development (OCED).
- Shahid, A.T.M.A. (1987). Manpower planning in banks. *Bank Porikroma*, xii (2), 14-28.
- Shahjalal Islami Bank Limited. *Annual Report*-various issues, Dhaka.
- Shakoor, S.A. (1996). *Performance evaluation of nationalized commercial banks in Bangladesh*. (Unpublished Ph.D. Thesis). Department of Accounting, University of Rajshahi, Bangladesh.
- Shamsuddoha, M. (2004). *Misconception about Islamic banking: Accurate statements in the light of Islamic shariah*. In Bangla. Dhaka : Integrated Education and Research Foundation.
- Sharif, R. (1985). *Islamic economics: Principles and applications*. Dhaka: Islamic Foundation.
- Sharma, N.K. (2009). *Text book of banking and finance*. Joypur: Sunrise.
- Shekhar, K.C. (1989). *Banking theory and practice*. New Delhi: Vikas.

- Shirazi, H. (ed.) (1990). *Islamic banking*. London: Butterworths.
- Siddiqui, S.H. (1996). Islamic banking: Rationales, prospects and challenges. *Journal of Islamic Banking and Finance (Pakistan)* 13(2), 26-42
- Siraj, K.K. & Pillai, P.S. (2012). Comparative study on performance of Islamic banks and conventional banks in GCC region. *Journal of Applied Finance and Banking*, 2(3), 123-161.
- Social Islami Bank Limited. *Annual Report-2012*, Dhaka.
- Sole, J. (2008). Introducing Islamic banks into conventional banking systems. *Journal of Islamic Economics, Banking and Finance*. 4 (2), 09-34.
- Somashekar, N.T. (2009). *Banking*. New Delhi: New Age International.
- Swamy, M.R. & Vasudevan, S.V. (1980). *A text book of banking*. New Delhi: S. Chand & Chand.
- Szczepanowicz, A.D. (2011). *Unconventional banking in a conventional environment: Islamic banking and finance in the USA* (Unpublished M.A. Thesis). Faculty of the School of Continuing Studies and of the Graduate School of Arts and Sciences. Georgetown University, USA.
- The World Bank. (2010). *Islamic vs conventional banking, business model, efficiency and stability*. Development research group, Finance and private sector development team, WB.
- Uddin S.M.S. (2004). *Attitudes of customers towards the services of conventional and Islamic banks in Bangladesh: A comparative study* (Unpublished Ph.D. dissertation). Institute of Bangladesh Studies, University of Rajshahi, Bangladesh
- Uddin, M.M. (2009). *An analysis of profitability and productivity of Islamic banks in Bangladesh* (Unpublished Ph.D. dissertation). Accounting Department, University of Rajshahi, Bangladesh.
- Ullah, A.Q.M.C. (2002). *Islamic economics and banking*. In Bangla. Dhaka: Professors.
- Usmani, M.T. (1998). *An introduction to Islamic finance*. Karachi, Pakistan: Idaratul Ma'arif.
- Usmani, M. T. (2002). *An introduction to Islamic finance*. Karachi: Idaratul Ma'arif.

- Vaish, M.C. (1980). *Money, banking and international trade*. New Delhi: Vikash.
- Van Horne, James and Wachowicz, J. (2005). *Fundamentals of financial management*. Pearson Education.
- Varde, S. & Singh, S.P. (1983). *Profitability of commercial banks*. Bombay, India: NIBM.
- Venardos, M. A. (2005). *Islamic banking and finance in south-east Asia, its development & future*. Toh Tuck Link: Word Scientific .
- Visser, H. (2009). *Islamic finance principles and practices*. Cheltenham: Edward Elgar.
- Whittlesey, C.R. (1958). *Principles and practices of money and banking*. New York: The Macmillan.
- Wilson, R. (1983). *Banking and finance in Arab Middle East*. London: Macmillan.
- Wilson, R. (1995). Marketing strategies for Islamic financial products. *New Horizon*, 39, 7-9.
- Wilson, R. (1998, August). Islamic fund management, paper presented in the international conference on Islamic economics in the 21st century, Kuala Lumpur.
- Yaquby, S.N. (2002). Islamic banking and its operations: Shariah requirements for conventional banks. *Journal of Islamic Banking and Finance* .19 (4), 58-62.
- Ziyadat, A.N. (2011, September). Islamic versus conventional banks in Kuwait: A competitiveness analysis. *Islamic Finance News*

Web Link

- <http://www.qfinance.com> [access on 10 September 2013]
- <http://www.investopedia.com> [access on 23 September 2013]
- <http://www.unionbank.com.bd> [access on 22 November 2013]
- <http://www.dhakatribune.com> [access on 29 April 2013]
- <http://www.lai.ut.ee/stork/english/islamic-synsys.html>
- <https://www.dhakatribune.com/business/2013/june/27>[access on 22 November 2013]

<https://bd.linkedin.com/chowdhury-shahed-akbar/98/344/aao>

www.kahf.net [access on 10 November 2014]

www.financeinIslam.com [access on 9 April 2012]

<http://www.eximbankbd.com> [access on 11 January 2014]

<http://www.fsibllbd.com> [access on 15 June 2013]

<http://www.Islamibankbd.com> [access on 2 September 2012]

<http://wwwaiblbld.com> [access on 28 September 2012]

<http://wwwsiblbld.com> [access on 25 August 2014]

<http://wwwsjiblbld.com> [access on 20 June 2013]

<http://www.wponline.org> [access on 18 March 2012]

<http://wwwicbiblbld.com> [access on 29 October 2013]

<http://www.darululoomkhi.edu.pk> [access on 7 December 2014]

<http://www.iium.edu.my> [access on 13 April 2012]

<http://www.spe-uk.org/uk/articles/reviews/sperev/htmal> [access on 21 July 2013]

<http://www.irti.org> [access on 17 May 2014]

<http://www.ifsb.org> [access on 23 September 2013]

<http://www.islamicfinancenews.com> [access on 26 April 2014]

<http://www.REDmoneygroup.com> [access on 5 February 2012]

<http://www.businessdictionary.com/definition/corporate-governance.html#ixzz400DVm50Ri> [access on 27 December 2014]

Appendices

Appendix-1 List of Scheduled Banks

(As on 30 June 2014)

State owned/government controlled banks (4+4=8)

State owned commercial banks (4)

Sonali Bank Limited

Janata Bank Limited

Agrani Bank Limited

Rupali Bank Limited

Specialised banks (4)

Bangladesh Krishi Bank

Bangladesh Development Bank Limited

Rajshahi Krishi Unnayan Bank

Bangladesh Small Industries and Commerce Bank Limited

Private commercial banks (39)

AB Bank Limited

Al-Arafah Islami Bank Limited

Bangladesh Commerce Bank Limited

Bank Asia Limited

BRAC Bank Limited

Dhaka Bank Limited

Dutch-Bangla Bank Limited

Eastern Bank Limited

Export Import (EXIM) Bank of Bangladesh Limited

First Security Islami Bank Limited

International Finance Investment and Commerce (IFIC) Bank Limited

Islami Bank Bangladesh Limited

ICB Islamic Bank Limited\

Jamuna Bank Limited

Mercantile Bank Limited

Meghna Bank Limited
Midland Bank Limited
Modhumoti Bank Limited
Mutual Trust Bank Limited
National Bank Limited
National Credit and Commerce Bank Limited
NRB Bank Limited
NRB Commercial Bank Limited
NRB Global Bank Limited
One Bank Limited
Prime Bank Limited
Pubali Bank Limited
Shahjalal Islami Bank Limited
Social Islami Bank Limited
South Bangla Agriculture and Commerce Bank Limited
Southeast Bank Limited
Standard Bank Limited
The City Bank Limited
The Premier Bank Limited
The Farmer's Bank Limited
Trust Bank Limited
United Commercial Bank Limited
Uttara Bank Limited
Union Bank Limited
Foreign commercial banks (9)
Bank Alfalah Limited
Citibank N.A
Commercial Bank of Ceylon PLC
Habib Bank Limited
National Bank of Pakistan
Standard Chartered Bank
State Bank of India
The Hongkong and Shanghai Banking Corporation (HSBC) Limited
Woori Bank

Appendix-2

Flow chart of Islamizing of Conventional Bank into an Islamic Bank

1. Board decision for Islamizing to Traditional Bank into an Islamic Bank.
2. Write up in respect of Islamic Banking system.
3. Forward to Bangladesh Bank Banking Regulations & Policy Department (BRPD) for permission in principle.
4. Received in principle permission from Bangladesh Bank.
5. Forward the all letter/permission/documents to the lawyer for doing the needful in terms of company Act 1994 and Banking Act 1991 for completion of formalities for conversion of Bank into a full fledged Islamic Bank based on Shariah.
6. Lawyer opinion for changing of Memorandum of Association under section 12 of company Act.
7. Proposed draft of Memorandum of Association as per company act.
8. Vetting of draft of Memorandum of Association.
9. To obtain order from High Court (Company Division) for alteration of object in the Memorandum of Association for conversion of bank as a full fledged Islamic bank.
10. To call an Extra Ordinary General Meeting (EGM) for approval of changes Memorandum of Association.
11. Giving authority to company secretary for filling all application to the commissioner of affiliate in High Court division under section 12 & 13 of the company act 1994.
12. Filling Petition to High Court division for changing the Memorandum of Association.
13. Legal notice served to daily newspaper (Both Bangla and English) within two weeks from petition date to invite any person in the court to give his or her opinion/contest in the court against the conversion.
14. Order received from honorable High Court division regarding confirmation of amendment as proposed above.
15. Forward the application to Bangladesh Bank for final approval of proposed.

16. Submissions of amendment memo of all ascertain and certified copy of confirmation from high court division to the registered joint stock company.
17. Forward the approved Memorandum of Association by RJSC to the Bangladesh Bank for confirmation.
18. Received final approval from Bangladesh Bank for the conversion.

In House Action

1. Letter serves to honorable customer to notifi conversion of the bank.
2. Circular the conversion to the divisional Head and branch manager of the bank.
3. Circular the conversion to the director of the bank about the conversion.
4. Issue office order to the employee of the bank about the conversion.
5. Instruction circular issued for conversion of conventional banking system to Islamic banking system.
6. To confirm the balance to the closing date of conventional banking.
7. To prepare closing balance on the opening date of Islamic banking.
8. Circular to the newspaper about the conversion of the Islamic bank.

Appendix-3

Corporate profile of EXIM Bank Limited

Date of Incorporation	: June 02, 1999
Authorized Capital	: Taka 20,000.00 million
Paid-up-Capital	: Taka 11,566.35 million
Registered Office	: "SYMPHONY"
Plot No. SE (F) - 9, Road No. 142	
Gulshan Avenue, Dhaka-1212, Bangladesh	
PABX: 880-2-988 9363, Fax: 880-2-988 9358	
Website: www.eximbankbd.com	
SWIFT: EXBKBDH	
Share Division	: Head Office, "SYMPHONY" (Ground Floor)
Plot No. SE (F) - 9, Road No. 142, Gulshan Avenue, Dhaka-1212, Bangladesh.	
PABX: 880-2-988 9363	
Credit Rating	
Long Term	: 'A+' (Adequate Safety)
Short Term	: 'ST-2' (High Grade)
Date of Rating	: 14 May 2014
Credit Rating Agency	: Credit Rating Information and Services Limited (CRISL)
Auditors	: M/s. Pinaki & Co., Chartered Accountants
Ahsandell, 2/A Mymensingh Road (2nd Floor), Shahbag, Dhaka.	
Name of the Chairman	: Mr. Md. Nazrul Islam Mazumder
Name of the Managing Director & CEO: Dr. Mohammed Haider Ali Miah	
Name of the Advisor	: Mr. Md. Fariduddin Ahmed
Company Secretary	: Mr. Md. Golam Mahbub
Chief Financial Officer	: Mr. Md. Humayun Kabir
Head of Internal Audit	: Mr. Shah Md. Abdul Bari
No. of Employees	: 2,282
No. of Branches (including SME/Agriculture): 80	
No. of Shareholders (31-12-2013) : 154,398	

Subsidiary Companies

EXIM Exchange Company (UK) Ltd.: Universal House (Ground Floor), 88-94 Wentworth Street, London (A fully owned subsidiary of EXIM Bank) E1 7SA, UK. Tel.: +44-(0) 207 377 2474; Fax: +44-(0) 207 377 1335 Email: eximexchangeuk@eximbankbd.com

EXIM Exchange Company (Canada) Ltd.: 3096 Danforth Avenue, Suite 2, Toronto, Ontario, M1L 1B1, Canada. (A fully owned subsidiary of EXIM Bank) Tel.: +1 41 66 99 5802; E-mail: eximexchangeuca@eximbankbd.com

EXIM (USA) Inc.: 37-18 73rd Street, 1st Floor (Rear), Jackson Heights N.Y. 11372, U.S.A. (A fully owned subsidiary of EXIM Bank) Tel.: +1 347 738 6124; Fax: +1 347 738 6146; Email: eximusa@eximbankbd.com

EXIM Exchange (Australia) Pty. Ltd.: 43 Haldon Street, Lakemba, NSW 2195, Sydney, Australia. (A fully owned subsidiary of EXIM Bank) Tel.: 0061 (02) 80 842 000; 0061 469 979 489 Email: eximau@eximbankbd.com

EXIM Islami Investment Limited (EILL): Printers Building (5th Floor), 5 Rajuk Avenue, Motijheel C/A, Dhaka-1000. (A subsidiary of EXIM Bank) PABX: 88-02-956 1604; Fax: 880-2-956 1937

Appendix-4

Corporate Profile of First Security Islami Bank Limited

Registered Name of the Company	Listing date with Dhaka & Chittagong Stock Exchange Ltd.
First Security Islami Bank Limited	September 22, 2008
Legal Form	Commencement of trading date with Dhaka & Chittagong Stock Exchange Ltd.
A scheduled commercial bank incorporated on August 29, 1999 as a Public Limited Company under the Companies Act 1994 and Bank Companies Act 1991.	September 22, 2008
Registered Office	Vat Registration Number
23 Dilkusha Commercial Area, Dhaka-1000, Bangladesh	9011047423 Dated: 28-11-1999
Tel: 9560229, Fax: 9578587, E-mail: info@fsiblbld.com , Web Site: www.faiblbld.com	
Head Office	Tax Payer's Identification Number
House NO. SW (I) 1/A, Road No. 8, Gulshan-1, Dhaka-1212, Bangladesh	003-201-1101/Co-3/Tax Zone-1/Dhaka
Tel: 9888446, Fax: 9891915, E-mail: info@fsiblbld.com , Web Site: www.faiblbld.com	
Certificate of Incorporation Number	External Auditors
C-38464 (422) / 99, Dated: August 29, 1999	Hoda Vasi Chowdhury & Co., Character Accountants
	BTMC Bhaban (8 th floor), 7-9 Karwan Bazar C/A, Dhaka-1215
Certificate of Commencement of Business Number	Legal Adviser
Issue No, 3060, Dated August 29, 1999	The Law Counsel, Barrister & Advocate City Heart (7 th floor), Suit No. 8/8, 67 Naya Paltan, Dhaka-1000
Bangladesh Bank Approval Number	Tax Consultants
BRPD (P) 744 (73)/99-2931 Dated: 22/09/99	K.M. Hasan & Co., Character Accountants Home Tower Apartment, 87 New Eskaton Road, Dhaka-1000

Appendix-5

Procedure of Conversion of a Conventional Bank to an Islamic Bank in Accordance with BRPD Circular no- 15 by Bangladesh Bank

(A) The necessary measures for conversion

1. The bank will set up all necessary procedures create the required tools, explore alternatives to non-permissible financial practices, and train and promote the personnel required for proper implementation of the procedures of conversion.
2. The appropriate administrative arrangements must be in place, including changing the bank's operating license by Bangladesh Bank, and amending the bank's memorandum and articles of association through the required procedures so that they include objectives and operational measures that are appropriate to Islamic banking. The memorandum and articles of association must be cleansed from anything that contradicts the nature of Islamic banking.
3. Restructuring the organizational structure of the bank and its employment procedures conditions and employee statutes to fit the situation of conversion.
4. Written consent/no objection through an acceptable legal process should be obtained from the existing depositors and clients for transforming their accounts into Islamic mode.
5. The transactions that are concluded before the decision to convert must be ceased or disposed of immediately.
6. Reformatting or designing standard contracts or specimens or exemplars of documents, forms, books, register etc. that comply with Shariah rules and principles.
7. Preparing a special program for preparing personnel and impart them training to deal with the application of Islamic banking practices.
8. Exerting all possible efforts to adapt the ways of dealing with Central banks regarding deposits, liquidity needs or otherwise in a way that does not conflict with the rules of Shariah, especially rules that govern riba transactions.

9. Any dealings with conventional banks must be limited to the magnitude of the need to do so.
10. Revamping the transactions with conventional banks on the basis of riba-free transactions and the application of instruments acceptable by Shariah.
11. Before commencement of business of the converted Islamic bank, the books of accounts and statement of affairs of the conventional bank must be reconstructed as per Shariah principles.

B) The effect of conversion on the interest based receivables, impermissible earnings, obligation and their Shariah alternatives

1. All traces of conventional transactions whereby the bank originated any monetary assets and is liable to pay interest for them must be liquidated prior to date of conversion. This is the rule whether such transaction involve individuals, banks or Central bank.
2. The bank must confine itself to permissible operations for acquiring the necessary funds to operate or to meet its liabilities.
3. If the capital of the bank has increased due to non-permissible transactions or the accumulation of reserves based on non-permissible transactions, then its treatment must be in accordance with the treatment of non-permissible receivables or other non-permissible assets in the possession of the bank.
4. All interest-based investment instruments must cease to be used and must be replaced by permissible investment instruments prior to date of conversion.
5. All interest-based loans that the bank has made prior to date of conversion must be terminated or converted to Shariah based transaction.
6. All liabilities in the form of obligation to provide non-permissible service must be terminated by refunding the consideration, even if it has to pay compensation for non-fulfillment of such obligations.

Starting from the financial period in which the bank decides to convert, the following must be done

1. If a conventional bank is acquired with the intention to convert it to an Islamic bank, the new owners are not obliged to dispose of interest and impermissible
2. If a conventional bank is converted by its existing shareholders into a bank, then the process of disposing of interest and impermissible earnings should be considered as commencing at the beginning of the financial period in which the conversion starts to take effect. However, for any impermissible earnings that have been distributed prior to conversion, it is necessary, on ethical grounds, for the shareholders and depositors to whom these earnings have been distributed to dispose them of personally. The bank is not bound to do so.
3. Revenues not yet received that are of doubtful permissibility are not subject to compulsory disposal, whether they were earned before or during the financial period in which the bank decides to convert. The same rule applies to revenues of doubtful permissibility that have been already received because of a belief that they are permissible on the basis of (a) an interpretation of a person who is qualified to perform ijtihad on issues that are subject to personal Juristic interpretation, (b) Juristic position of an authoritative school of Shariah or (c) the opinion of some eminent and knowledgeable scholars.
4. If the bank has rights to prohibited non-monetary assets, it may receive them with the intent to destroy them. If the bank is entitled to receive consideration for supplying non-permissible assets or services, the bank may receive the consideration with the intent to donate it to charity. The same rule applies to any income that has been acquired from non-permissible assets during the period in which the bank decides to convert. All impermissible and doubtful earnings must be spent for charity.
5. If the bank is converted and it has, among its tangible assets, impermissible commodities, the bank is obliged to destroy them. If the bank has sold some of these commodities and is yet to receive the price thereof, the price must be received and be spent for charity.

6. If the liabilities are in the form of payment of interest, the bank should employ all lawful means to avoid paying such interest. This rule does not apply to the principal amounts of debts or loans. The bank should not pay interest except on the basis of dire need.
7. If the liabilities are in the form of obligations to provide non permissible services, then the bank is obliged to make every effort to terminate such liabilities, by refunding the consideration, even if it has to pay compensation for non-fulfillment of such obligations.

D) External conversion through acquisition of the bank by parties interested in converting it

If the purchaser is capable of negotiating a deal that could exclude all non permissible receivables (e.g. interest and non-permissible assets) from the acquisition deal in a way that will make the seller solely liable for non-permissible liabilities, then the Shariah requires the purchaser to do so. However, if the acquisition cannot be concluded unless all assets of the bank including the non-permissible assets and receivables are acquired, then there is no objection to the acquisition on this basis on condition that the purchaser acts as quickly as possible to dispose of non-permissible liabilities even if the purchaser has to suggest to the creditors of the bank an earlier repayment for a discount.

E) The Zakah Obligation

When the conversion is initiated by outsiders who acquired the conventional bank for the purpose of converting it, then they are not obliged to make zakah payment for the past financial periods because the zakah for previous periods is the liability of the previous owners. The zakah liability will start to exist for the new owners from the date of the decision to convert. However, if the decision to convert was made by the shareholders and the zakah was not paid for the previous financial periods, the shareholders are obliged to pay zakah for these periods. They must take into account that they are obliged to pay zakah even if the revenues and the money earned are impermissible because the shareholders are obliged in the first place to dispose of all accrued interest and impermissible earnings, so, the payment of zakah is part of the obligation to dispose of impermissible earnings and interest.

Appendix-6 (A)

Table 7.14
Comparative Statistical Result of Export Import Bank of Bangladesh Limited
(EXIM) during Conventional Banking period and Islamic Banking Period

Performance Measure	Conventional Banking Period		Islamic Banking Period		t-test
	mean	S.D	mean	S.D	
Profitability					
ROA	1.56	0.33	1.71	0.17	.423
ROE	30.57	9.12	24.03	3.22	.299
PER	0.95	0.72	0.26	0.03	.098
EPS	60.16	22.62	43.60	6.20	.246
Liquidity					
LDR	77.31	16.94	93.59	1.83	.093
EM	19.23	3.53	14.07	2.03	.086
LAR	70.39	14.22	82.61	0.56	.128
CR	1.06	0.01	1.08	0.01	.807
Business Development					
Total Asset	13191.13	7994.18	56334.62	21129.33	.002
Total Deposits	11118.08	6067.53	47264.05	18397.16	.003
Investment	10159.65	7568.14	46507.60	17286.31	.002
Efficiency & Productivity					
IER	2.16	0.73	1.44	0.05	.10
OEDR	33.28	20.71	10.33	1.29	.068

Appendix-6 (B)

Table 7.15
Comparative Statistical Result of First Security Islami Bank Limited (FSIBL)
during Conventional Banking period and Islamic Banking Period

Performance Measure	Conventional Banking Period		Islamic Banking Period		t-test
	mean	S.D	mean	S.D	
Profitability					
ROA	0.11	0.44	0.64	0.14	.082
ROE	3.09	10.95	12.71	1.04	.136
PER	0.22	0.57	0.95	0.21	.063
EPS	5.81	17.14	1.69	0.19	.622
Liquidity					
LDR	81.14	8.62	88.49	4.04	.257
EM	22.31	6.67	20.21	3.85	.664
LAR	64.33	11.76	76.80	4.59	.163
CR	1.05	0.02	1.05	0.01	.867
Business Development					
Total Asset	23011.85	6001.96	98833.48	46930.42	.015
Total Deposits	18438.88	9708.87	85267.92	39602.27	.008
Investment	15315.97	6649.38	74244.62	31181.16	.006
Efficiency& Productivity					
IER	1.86	0.58	2.19	0.23	.221
OEDR	70.74	11.31	65.06	5.90	.449

Rajshahi University Library
Documentation Section
Document No. D-4052
Date... 6... 4... 2017...