The concept of Islamic Banking System in Bangladesh

Project Report on:

Concept of Islamic Banking System in Bangladesh

Submitted to

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Sub: Submission of project on “Concept of Islamic Banking System in Bangladesh”

Dear Madam,

With due respect, I would like to inform you that, it is a great pleasure for me to present my research report on the “Concept of Islamic Banking in Bangladesh” under your supervision as a requirement for obtaining my BBA degree from United International University. I have tried my best to prepare this research paper as comprehensive, informative, and analytical as possible despite having some limitations. However, in this field, my limited knowledge and lack of adequate analytical ability might result in some unintentional errors and mistakes. I hope that you would be kind enough to overlook them considering that I am still in the process of learning.

Yours sincerely

…………………….

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Acknowledgement

At the very beginning of the report, I would like to show my deep gratitude to almighty Allah who has given me the capability to complete successfully this report named "Concept of Islamic Banking in Bangladesh". Then I would like to thank my honorable supervisor, Ishrat Jahan, Assistant Professor - Accounting, United International University. Her proper supervision and guidance significantly helped me to prepare this report. So I am very much grateful to her.

Now I show my cordial integrity to all the people who helped me to prepare this report. I wish all of them best of luck and long lives.

Absract

The main purpose of this study is to understand the concept of the Islamic banking system and Islamic banking in Bangladesh. Islamic Banking systems prohibit interest or riba. The concept of riba (usury) and what is riba are also discussed in this paper. The history of Islamic banking in Bangladesh is briefly discussed where Islami Bank Bangladesh being the pioneer of Islami bank of southeast Asia commenced its operation in 1983. It is also very important to know the difference between the conventional bank and Islamic bank which has been compared in this project paper.

Conventional banks use interest as a means of their earnings, however, as interest is prohibited in Islam, Islamic banks use equity basis profit and loss-sharing products and services to generate income and sustain the financial industry. Different schemes, modes, term, source of funds, and how they utilize the funds to generate profit has been elaborately discussed in this thesis paper.

10 banks in Bangladesh completely follow the Islamic Sharia in their operation. Their products and service, history, mission, vision, and objectives are briefly discussed. Lastly, How Islamic banks are performing in Bangladesh has been discussed with quantitative data.

Table of Contents

CHAPTER 1

INTRODUCTION

Chapter 1: Introduction

1.1 Background

In Bangladesh with a population of 168 million people, the majority of the people are Muslims who follow the teaching of Islam. Islam is a lifestyle where Muslims need to live their life according to the Quran and Sunnah of Prophet Muhammed (Peace be upon him). As the banking sector is a vital part of our life and in this modern era, without the bank, it is near impossible to operate business and transactions, the demand for Islamic banks has busted among Muslims. Islamic banks are operated per the Islamic Sharia, In Islam, riba or interest is completely prohibited. As a result, Islamic banks operate on an equity basis profit-sharing model and are interest-free.

Islamic financing started long ago during the time of Prophet Muhammed (Peace be upon him). However, the institutional and modern era of Islamic banking in Bangladesh emerged in 1983. Islami Bank Bangladesh Ltd was the first bank in Bangladesh to introduce the Islamic banking system. It was the first bank in Bangladesh as well as in South East Asia to operate its banking system fully based on Islamic Sharia.

Banks are financial institutes that take deposits from clients and make loans. However, Islamic banks operate differently from conventional banks because conventional banks earn profit from interest on the loan. Whereas Islamic banks cannot deal with interest. Islamic banks take deposits and give loans to clients but not based on interest. Rather, they invest that money and share profit or loss with their client. They use various principles and schemes to create innovative products and services to serve clients.

Recently, Islamic banking has become very popular around the world, as well as in Bangladesh. There has been tremendous growth in Islamic banks in Bangladesh where 10 fully fledge Islamic banks are operating as well as many conventional banks now have Islamic windows to meet the demand for Islamic financing of their clients.

1.2 Objectives of the Study

The Islamic Banking sector plays a vital role in an economy. Islam is the fastest-growing religion in the world and the demand for Islamic finance is also growing rapidly. However, the concept of Islamic banking is vague to many general people.

The main purpose of this study is to understand the distinctive concept of Islamic banking and how Islamic bank operates. Other objectives include:

- Understanding the concept of riba or interest because interest is prohibited in Islam. As Islamic banks follow Islamic sharia, they cannot operate with interest.
- To evaluate and understand the different products and services of Islamic banks such as Al-Mudaraba saving account, Bai-Muajjal investment account, and many more.
- To understand the sources of funds for Islamic banks
- To review how the funds of Islamic banks are utilized through different schemes
- To evaluate how the Islamic banking sector is performing in Bangladesh and how they contribute to the economy.

1.3 Scope of the Study

The purpose of the study is to explore the concept of Islamic banking systems in Bangladesh and how Islamic banks operate compared to conventional banks. The concept of Islamic banking is vast, however, the gist of the Islamic banking system has been discussed. The concept of riba and how banks get the funds and utilize the funds has been discussed.

There are lots of financial instruments or schemes which banks use as their products and services. However, this report broadly discusses the major principle, products, and services offered by Islamic banks.

Lastly, quantitative research shows how Islamic banking sectors in Bangladesh are performing in regards to investments, total deposits, and proportion of Islamic banks compared to conventional banks

1.4 Limitation of the Study

Conducting research takes a lot of time and every research has some limitations because time is limited and information is vast. Being a BBA student, I had to conduct the research within a tight academic period of one trimester. So I could not go to the bottom of the study in such a limited time.

Besides time constraints, lack of information is another limitation of the study. Islamic banking has emerged and become popular in the past few years. So there was insufficient information and scattered information which cause a constraint to the study.

1.5 Research Methodology

This research paper has been done mainly through secondary data. Information from various articles, journals, other thesis papers, Islamic books, financial statements of different Islamic banks, and the internet has been used to compile this research paper.

The concept of riba or usury has been taken from the Quran and Hadith and articles about this topic. The products and services provided by Islamic banks in Bangladesh have been taken from the websites of various Islamic banks in Bangladesh. Lastly, the Islamic Banks auditor report and financial report have been analyzed to present the performance of the Islamic banking sector in Bangladesh.

CHAPTER 2

Overview of Islamic Banking System

Chapter 2: Overview of the Islamic Banking System

2.1 Introduction to Islamic Banking

A bank is a financial institute in an economy whose main function is to receive deposits and make loans to customers. So it is involved in borrowing and lending of finances in an economy. They also provide other financial-related services such as money exchange, securities, insurance, bill of exchange, locker, and many more. Banks are categorized according to the products and services that they provide such as retail banking, commercial banking, investment banking, and Islamic Sharia-based banking.

For the development of an economy, the financial sector plays an important role. Banks are one of the branches of the financial sector in an economy. So the banks need to run efficiently and utilize their resources at an optimal level, without this economic growth is not possible in a county.

The main aim of a commercial bank is to earn profit through interest. Although the central bank aims to ensure financial stability in the economy through policies. So the bank is a profit-oriented institute as well as a service-oriented institute that provides a safe place to keep money and do financial transactions for the general people of a country.

The main motto of Islamic banks are same as any other conventional bank, to earn profit and provide services to the people but the means through which profit is generated is different. Islamic banks generate profits through equity-based financing which is sharing of profit and loss based on the Islamic laws known as sharia. Islamic banks do not deal with any interest which is known as Riba in Islam because, in Islam, riba or interest is totally prohibited and considered a major sin.

2.2 Concepts of Riba (Interest) in Islam

The word "Riba" has been derived from the Quran, which means an excess, surplus, increase, or addition. So, riba is known as interest, usury, or excess of something in English. According to Islamic law (shariah), riba is any excess compensation without any due consideration.

Riba can be divided into two categories:

1. **Riba al-nashi'ah:** It means the increase or addition or interest of the delay. It means, any additional or extra amount to any transaction or exchange that commodity gains simply due to the passing of time. For example, if someone buys a commodity and pays an extra amount for that commodity due to the passing of time or paying at a later time and the increase in amount rises as time passes, then it is riba al nashi'ah.
2. **Riba al-Fadl:** It means the interest of excess. When an unequal exchange of the same commodity or products occurs, it is known as Riba Al-Fadl. For example, if someone trades any products such as gold with gold and the transaction includes an excess amount of gold in exchange for the same commodity which is gold, then it falls under riba al-fadl. Here, time value does not play any significance due to spot trading.

In the Quran, Surah Al-Baqarah [2:279], Allah forbade to take riba and in many sayings and teachings of the Prophet (peace be upon him), he warns us of great punishment against riba and prohibited riba which is considered as one of the major sins in Islam.

So according to Islamic guidelines and Shariah Law, riba or interest is totally prohibited whether it be in the banking sector or any other part of life. Banks have been operating around the world for centuries. However, there was no Islamic banking system around that time and Islam being the fastest growing religion and interests being prohibited in Islam, Muslims were in difficulties in doing transactions and savings. To solve this problem, Egypt initiated the first Islamic Bank in 1963. That's why Islamic Banking introduce the interest-free banking system because it is haram in Islam and introduced equity based banking system where the predetermined return is not fixed and where profit and loss are shared by the banks and the customers.

2.3 History of Islamic Banking

Islamic banking started during the era of the Prophet Muhammed (peace be upon Him) and it was based on mudaraba which means cost plus financing. During that era, Prophet's wife gave him money to capital to do business. So Prophet Muhammed (peace be upon Him) was the agent and his wife was the investor. They agreed on a share of profit and loss beforehand and the lender (his wife) got the principal amount as well as the share of profit. Prophet Muhammed (peace be upon Him) also received the same share of profit as the lender without giving any capital due to providing his entrepreneurship and time and managing the money.

However, the modern era institutional Islamic banking system started long after the era of Prophet Muhammed (peace be upon Him) started during the 1960s. In 1963, the first modern Islamic bank, Mit-Ghamr Savings Bank was established. It originated in Egypt and the bank loaned money to businesses on an equity-based profit-sharing basis. Looking at the demand of Muslims for the Islamic banking system, many financial institutes started providing Shariah-based banking services without any interest, and many banks were incorporated in the Middle East. Since then, the Islamic banking system following Islamic Shariah has been one of the fastest growing industries in the financial sector and now there are more than 400 banks and financial institutions operating in more than 50 countries around the world under Islamic Shariah, serving both the Muslims and the non-Muslims. Day by day, Islamic banks and financial institutes are becoming more popular among Muslims as well as the non-Muslim community as the services and products of these banks are becoming more efficient and better. This contributes to the efficient growth of the economy.

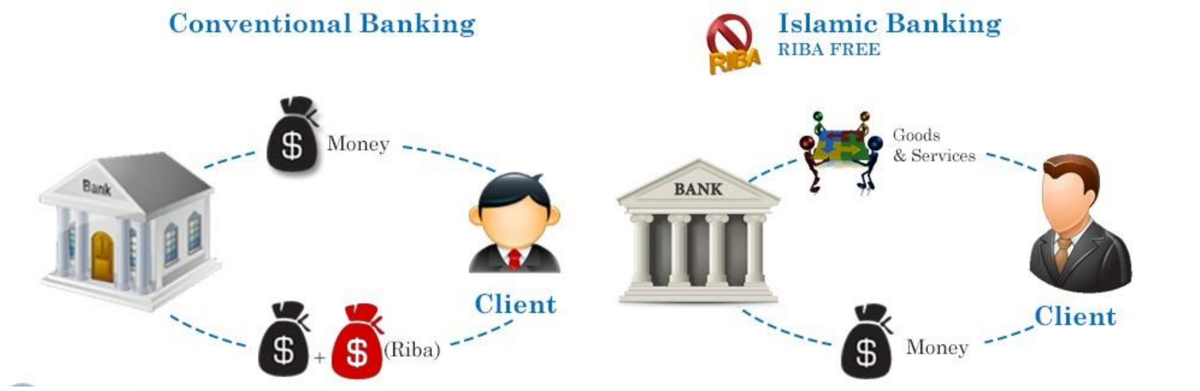
2.4 History of Islamic Banking System in Bangladesh

Brief History of Bangladesh:

Bangladesh also known as the “People’s Republic of Bangladesh” is located in South Asia. Bangladesh was liberated in 1971 and it was part of Pakistan which is an Islamic county before that time. Bangladesh is surrounded by India, the Bay of Bengal, and Myanmar. With a population of more than 164 million people, it consists of Muslims, Hindus, Buddist, and Christian. Although more than 90% population consists of Muslims. So a huge demand for the Islamic Banking sector and Islamic financing is in Bangladesh as the majority of the people are Muslims.

Although Bangladesh was liberated in 1971, Islami Bank Bangladesh Ltd (IBBL) is the first Islamic bank in Bangladesh which started its operation on 30th March 1983. In 1982, a representative of the Islamic Development Bank (IDB) came to Bangladesh and saw huge demand for interest-free banks which operates through Shariah. So they contributed to opening Islamic Bank in Bangladesh by providing training, and holding seminars and workshops to the top bankers of Bangladesh so that they can get leadership skills in the Islamic Banking sector. Through long training and activities, Islami Bank Bangladesh Ltd was incorporated as a public limited company on 13th March 1983. Now, there are 10 fully operated Islamic Banks in Bangladesh that are operating according to Islamic Shariah with more than 1600 branches across the country.

2.5 Difference between Islamic Banking and Conventional Banking System



Conventional banking systems involve taking deposits from people and giving a loan to people who need finance. One of the main objectives of conventional banks is to make a profit through interest earn from giving the loan. Although one of the objectives of Islamic banks is to earn profit but not from interests, rather they make money from sharing profit and loss with the customers.

The main difference between conventional and Islamic banking systems is interest or Riba. As discussed earlier, riba is totally prohibited in Islam and is one of the major sins in Islam, so Islamic Banks operate on an equity-based profit-sharing method. I

Differences between conventional and Islamic banks are:

- Islamic banks operate on an equity basis where profit and loss are shared by doing trade. Whereas, conventional banks operate on an interest basis and earn profit mainly through interest.
- The principle of the Islamic Bank is to follow the Islamic laws (Shariah) and operates according to the Quran, Hadith, and the sayings and practices of the Prophet Muhammed (Peace be upon Him). Whereas conventional banks do not operate on any religious principles, rather their principle is to follow the world banking systems to stay competitive and earn profit through interests or exchange of money.

- In the Islamic banking system, real assets are the product of the bank and money is just a medium of exchange. Whereas, the product of conventional banks is the money.
- Islamic Banks earn profit and bear losses through the profit and loss from trading, where the passing of time does not affect earnings. Whereas in the conventional banking system, interest on capital is charged based on time value and earns profit through interest.
- In the Islamic banking system, there is no predetermined fixed rate of return whereas, in the conventional banking system, the predetermined rate of return which is interest is fixed beforehand.
- In case the organization suffers a loss then the loss is shared between the bank and customer in the Islamic banking system. But in the case of the conventional banking system, interest is charged even If the bank or the customer suffers from loss.
- When Islamic banks disburse finances, there must be an agreement for the exchange of goods and services. Whereas, when conventional banks disburse funds, an agreement for the exchange of goods and services is not made.

CHAPTER 3

How Islamic Banking System Works

Chapter 3: How Islamic Banking System Works:

3.1 Principles of Islamic Banking System

Islamic banks are kind of the same as conventional banks where deposits are made and loans are sanctioned. However, Islamic Banks operate following the Islamic Law or Shariah and the principles of lending money to customers and taking deposits from customers are different. Sharia law means Islam's legal system, where how the bank will operate and the activities of the banks are derived according to the Quran, Hadith (sayings of the Prophet Muhammed peace be upon him), actions of the Prophet Muhammed (peace be upon him), and rulings gave by the learned Islamic scholars if it is not mentioned in the Quran or Hadith.

There are lots of principles followed while operating an Islamic bank. However, the core principles of an Islamic banking system are sharing of profit and loss with the customer and secondly, the prohibition of interest or riba while collecting money from customers or making payments to customers.

Major principles of the Islamic banking system are discussed below:

1. **Profit and loss sharing:** Sharing of profit and loss is the fundamental principle of the Islamic banking system. In Islamic banking, customers and banks will be partners and invest in a business where if the business makes any profit then it will be shared according to the percentage of share. Also if any loss occurs, then it should be shared equally according to the current equity share of the partnership. So there will be no fixed rates of return and no guarantee of the returns in the Islamic banking system. Also, banks and customers will be considered partners rather than lenders and creditors.
   For example: If someone wants to buy a property, then the bank will form a partnership with that individual and purchase the property where both the party will provide capital at an agreed percentage. Then the property will be rented to the borrower and income from rent will be shared equally according to the equity of share in the property. At the same time, that individual will pay installments at an agreed amount to purchase the share of the equity of the bank. After all the installments are paid to the banks, the partnership ends and that individual now fully owns the property. So, profit and loss have been shared between the bank and the customer.
2. **Share of risk:** In the economic transaction, both the bank and the customer share the risks of that transaction. So the burden of the risk from the transaction, partnership, or investment will be divided among the parties and it will improve the economic activity of the country. In our example stated previously, if the property gets damaged, then the risk of being damaged should be shared between the bank and the customer.
3. **Prohibition of Riba or interest:** One of the fundamental principles of Islamic banking is the prohibition of riba or interest. Banking activity cannot deal with any riba or interest. Conventional banks' main earning source is interest. However, interest has some major issues, regardless of the outcome of the business and economy, the borrower has to pay the interest amount to the lender and the lender will get the return without any risk or effort. So Islamic banks earn their profit through partnership and profit sharing instead of riba or interest.
4. **Prohibition of Gharar or uncertainty:** It means, both parties are not allowed to invest or conduct uncertain or ambiguous transactions. So both the party should

have proper control over the transaction and the partnership business. Also, both parties should share complete and transparent information so that the profit and loss can be equally and justly shared.

5. **No investment in the prohibited industries:** Investments in unethical businesses or businesses that are harmful to society are prohibited. So acceptable and ethical investments must be made by both parties where they cannot invest in businesses that deal with alcohol, pork, and drugs.

3.2 Sources of Funds of Islamic Banks

The sources of funds of a bank are very important. Without a vital source of funds, a bank cannot operate efficiently and may occur loss. The source of funds of conventional banks are the deposits made by the customers and the banks pay interest at different rates to customers. However, in Islamic banking, interest or riba is prohibited, so the source of funds are mainly capital & equity, current accounts, saving accounts, and investment deposits. Sources of funds are discussed below:

3.2.1 Capital & Equity:

When an Islamic bank is established, the money that is initially injected to start the business is known as capital. So the money that is invested to start the operation of the bank is the capital of the bank. Capital is the main source of an Islamic bank or any other business during the initial stage of the bank to start its operation. During the operation of the business, the banks earn profit. The accumulated profit or earnings that are retained by the bank is known as equity. The bank needs to have adequate equity or retained earnings to sustain the business.

3.2.2 Current Accounts:

The current account is an account where customers deposit their money in the bank and can withdraw the partial or full amount of deposited money anytime without prior notice given to the bank. It is also called a demand deposit account and operates similarly to any conventional bank. The bank utilizes the deposits from the customers at their own risk, so the depositor does not get any share of the profit from such an account. Al-Wadiah principle is applied in the current account. Al-Wadiah means trusteeship where the depositors are guaranteed to get their full amount of deposits anytime from the bank.

3.2.3 Saving Accounts:

Islamic bank's saving account follows the principle of Wadih, where the customers who deposit their money in a saving account are entitled to receive the full amount when demanded. It may sound like, the savings account is the same as the current deposit account, however, there is a slight difference between these two accounts. The bank has the authority to use the funds of saving deposits from the customers at its own risk the same way in a current account. However, the banks repay the full amount of deposits to the customer with a voluntary share of the profit. Also, in some saving accounts, the depositor needs to maintain a minimum amount for a certain period.

3.2.4 Investment Accounts:

Investment accounts of Islamic banks are similar to term deposit accounts in the conventional banking system. However, Islamic banks follow the Al-Mudaraba Al-Mutlaqah principles when operating investment saving accounts. Under this principle, the Rab-ul-mal who is the depositor lends money to the mudarib (the bank that manages the money). The bank has absolute freedom to manage and utilize the money from the depositor. Instead of interest earned in conventional banks, the depositor in return shares the profit and loss generated from the investment in this account.

This is also called a profit and loss account where the customer needs to deposit their money for a certain period of time such as 3 months, 6 months, 1 year, and even more than 1 year and the investor (depositor) will get a share of profit on pro-rata basis. In this account, the depositor cannot withdraw money from the bank whenever they want, if they withdraw the money, then he will not get a share of the profit any longer.

It is different from a savings account because, in this account, the minimum deposit amount is higher and the depositor needs to keep the money in the account for a long period of time. This type of account can be opened by any individual as well as any organization or business.

If the investment is huge and any institute is wanting to invest in a specified project, then they fall under special investment accounts. It also follows the Mudaraba principle but the investor can choose to invest among the various projects of the banks.

3.3 Utilization of Funds of Islamic Banks

Conventional banks utilize the funds and return gives interest to the customers. However, Islamic banks are interest-free, so they give out financial services and facilities based on Islamic concepts and the committee of the Islamic sharia council. The concepts or modes of financing of Islamic banking systems are discussed below:

3.3.1 Mudarabah (capital financing or profit sharing)

In this financing mode, one party or the lender known as “Sahib Al-Maal” lends money to “Mudarib” (agents or managers) who trade with that money to earn profit. The profit and loss are shared at an agreed term and conditions between both parties.

So it is a partnership agreement between the bank and the client where the bank invest or finances the business of the client and the client with his managerial expertise and skills to run the business to earn profit. The bank does not interfere with the operation or management of the business. However, all the information about the business should be transparent and available to the bank.

Example: Hasan wants to start a business and needs some capital to start the business. To finance his business, he will get into a partnership agreement with the bank where the bank will provide the finance and any profit and loss will be shared among the parties at an agreed proportion. Here, the business should be legal, unambiguous, and free of gambling or not deal with any products which are prohibited in Islam such as alcohol or pork, etc. The bank will get the principal amount along with any profit earned according to the proportion agreed at an agreed period of time. The bank also bears loss if any loss occurs from Hasan's business.

3.3.2 Al-Murabaha (Cost-plus profit or markup financing)

This is the most common method of financing in the Islamic banking system. It is a contract between the bank and the client, where the bank purchase a commodity required by the client and then sell that commodity to the client at a higher price to make a profit. The client will repay the money at a later date or on an installment basis agreed beforehand.

For example, if Hasan wants to buy a car, then he will go to the bank and will give his requirement and model. The bank will purchase the car at the market price on behalf of Hasan but registration will be in the bank's name. Once the ownership is transferred to the bank, it will sell the car at a markup price. A contract will be made which will specify whether Hasan needs to pay the price of the car at a lump sum amount at an agreed date or in an agreed small sum of installments. So the bank earns a profit without bearing any risk because the bank is just a reseller and not an investor.

3.3.3 Musharaka (Partnership)

Musharaka is another method of utilizing the funds of Islamic banks which means partnership. It is a profit-sharing joint venture between the bank and the client where both the parties provide finance and managerial expertise at an agreed proportion and share the profit and loss from that joint venture at the proportion of equity invested. The duration of this kind of agreement is very long term.

For example, Hasan wants to start a project which requires huge capital of 100 million taka. So he will form a joint venture with an Islamic bank and the bank will finance 50 million taka whereas Hasan will finance 50 million taka to start the project. Both bank and Hasan will be actively managing the business. It is also permissible for Hasan to manage the business on behalf of the bank. Any profit generated will be then proportionately shared and any loss will be shared according to the equity contributed by both parties.

Hasan will, in predetermined installments and for a certain period of time repay the 50 million taka to the bank. After repayment, the bank does not have any equity in that business and will not get any share of profit or loss. Geranally, banks do not want to go into Musharaka because Musharaka needs the bank to have vast expertise in the specific business of Hasan and it is a very long-term contract.

3.3.4 Bai'Muajjal (deferred payment or credit sale)

The word Bai'Muajjal has been derived from the Arabic word "Bai "which means buy and sale and "Ajal" which means specific period. It means sales are made but payment is made at a later specified date. In simple words, it is credit sales. In this financing method, the bank purchases a commodity as per the order of the client and sells that commodity to a client at an agreed price that is payable at a later date. So the bank is selling the products or goods on credit to the client. Here, the ownership of the goods and services is transferred to the client at the time of transfer of that commodity but payment is made later. So, it is different from Al-Murabaha in which the ownership is not transferred until full repayments are made.

For example, Hasan wants to buy some products for his business such as shirts. He will go into an agreement with the bank to provide him with the shirts according to his needs and requirement. Then the bank will buy those shirts as per order and sell them to Hasan at a price greater than their cost price and ownership will be transferred to Hasan at the time when Hasan receives the products. Hasan will repay the money at a later date in lump sum amounts or installments agreed by both parties. So, the bank is selling shirts to Hasan on credit.

3.3.5 Bai'Salam (advance payment or pre-paid purchase)

The word Bai'Salam has been derived from Arabic word "Bai" which means buy & sale and the word "Salam" means advance. In this type of financing, the client pays the price of the commodity in advance and receives the product at a later specified date. In simple words, it means advance purchase and sale of a commodity. The commodity that is being traded must be permissible under Islamic Sharia.

Bai'Salam is exactly the opposite of Murabaha. In this type of agreement, the client provides the monetary value for a commodity ahead of time, and the bank hand over that specific commodity at at later specified period of time. This type of financing is mainly used for agricultural products where the products will be cultivated at a later date.

Example: Hasan wants to buy a worth of 5 lac taka 1 year later. So he will get into an agreement with the bank and pay cash to the bank beforehand. Hasan can pay full advance or can pay advance installment until it reaches 5 lac before the car is transferred to Hasan. The banks, for example, will buy the car at 480,000 taka and after 1 year the car will be handover to Hasan at the maturity date. In the agreement, the total price, model, quantity, quality, and all the details must be mentioned without any ambiguity. Also, the bank needs to deliver the car at the specified time agreed beforehand.

3.3.6 Ijara (leasing or hire purchase)

Ijara has been derived from the Arabic word which means to give something on rent or leasing. Leasing is another technique used by Islamic banks to utilize their funds and provide financing to customers.

It is a legally binding contract where the bank buys commodity like machinery, land, or property and lease them to the client. In this financing method, the profit sharing principle is implemented where the lessee and lessor both give a certain agreed amount to purchase the commodity and both of them enjoy the rent or income from that commodity. The lessee pays the rent monthly or at an agreed installment and eventually after all the payments equal to the value of the asset are made, the ownership is transferred to the lessee. So, the ownership stays with the lessor (bank) until all the payments are done and after the ownership is transferred, the bank can't earn any profit from it.

Example: Hasan wants to purchase an apartment worth 50 lac taka. So he will get into an Ijara contract with the bank where the bank will purchase the apartment by financing 25 lac and the remaining 25 lac will be financed by Hasan but the ownership will be with the bank. Let's say, the rent of that property is 20,000 taka. As they both financed 50% of the total worth of the asset, rent will also be shared according to that ratio or any agreed ratio. So, every month bank will receive 10,000 taka rent from that asset and as Hasan is using that apartment, he needs to pay only 10,000 to the bank. In addition to the rent, Hasan will pay a large sum of money at an agreed time period or installment to acquire that asset from the bank. After paying 25 lac to the bank, the ownership of the asset will be transferred to Hasan and from that time bank will not receive any share of the rent. However, damages to the asset, risk associated with maintaining the assets, insurance, and repairs are bearded by the bank during the contract period because the ownership of the asset is still in the bank's name at that period.

3.3.7 Qard Hassan (Benevolent loan or interest-free loan)

It is a financing method where the bank gives a loan without charging any interest. So, it is an interest-free loan where the borrower or client only needs to repay the principal amount to the bank without any increase in the amount. The bank earns zero rates of return on such loans. However, if the borrower wants, he can add a margin to the principal amount and return the extra amount with the loan amount.

This type of loan is not sanctioned to common people or everyone. It is given to the people who are needy and cannot pay an extra amount such as students or small entrepreneurs such as the farmer who can't get any source to finance their business. The main purpose of this interest-free loan is to raise the standard of living of the needy and for the well-being of society. However, many banks sanctions such loan only to the investment account holder of that specific bank.

3.4 Products and services of Islamic Banks

The products and services provided by a business or bank play a vital role because with that product or service, the business will earn profit and sustain itself in the industry. The conventional banking system's products and services are very different from the Islamic banking system because the conventional banking system earns profit from interest and can organize or provide its products and services according to interest. However, the Islamic banking system follows sharia guidelines where interest is completely prohibited. So, Islamic banks cannot work with interest or riba. Rather, they make their products and services interest free and follows equity based profit and loss sharing model.

Many products and services are offered by various Islamic banks in Bangladesh. Some of the common and vital products and services provided by Islamic banks are discussed below:

3.4.1 Deposit Scheme:

It is a scheme where general people can deposit their money in the bank. The products or services provided follow either the Al-Wadiah principle or the Mudaraba principle.

Al-Wadiah Accounts: Current accounts mainly follow Al-Wadiah principles where the customer opens a current account and can withdraw their money at any time from the bank. However, the bank has the authorization to utilize the client's funds. In this type of account, no profit or loss is shared by the bank.

In Islamic banking terms, current accounts are called Al-Wadiah Current Account (AWCA) where the minimum deposit to open an account ranges from 500 taka to 5000 taka in various Islamic banks in Bangladesh.

Mudaraba Accounts: In this type of account, the Sahib Al-Mal (depositor) deposits their money in the bank, and the bank act as an agent (Mudarib) and invest the money in other business to earn profit. The depositor earns profit instead of interest. The rate of profit and when the client will receive profit will depend on the types of mudaraba accounts. Various mudaraba accounts are:

- Mudaraba Savings Account (MSA): It follows mudaraba principles of Islamic sharia. This type of account is suitable for people who have some savings and the transaction will not be huge. Also, in this type of account customers do not need any business expertise. Funds of this account can be withdrawn at any time like the current account, however, it differs from the current account because a small portion of the profit is shared by the bank with the depositor. Initial deposits start from 500 taka and vary from bank to bank in Bangladesh.

- Mudaraba Term Deposit Account (MTDR): In this account, the depositor deposits their money for a fixed period of time and earns a share of the profit on the total deposits. It follows the mudaraba principle. The depositor cannot withdraw money on demand. The period ranges from 3 months to 36 months. The minimum deposit starts from 1,000 taka.
- Mudaraba Monthly Profit Deposit Account (MMPDA): In this account, the client needs to deposit a minimum of 100,000 taka for a longer duration of time. After opening the account, the client will get monthly from the bank based on the deposited amount. During that period of time such as 5years, the depositor cannot withdraw any money from their account. However, after maturity, they can withdraw their principal amount.
- Mudaraba Hajj Savings Account (MHSA): This account is for the individual who wants to perform Hajj at a specified later date ranging from 1 year to 25 years. The customer will do a monthly deposit to accumulate the expense of hajj and can choose a maturity period from 1 year to 25 years. During this period, the depositor cannot withdraw any money on demand.
- Mudaraba Muhor Savings Account (MMSA): When a person marries, it is obligatory for the husband to give maharana which is a gift given to the wife. Maharana can be in monetary form, gold, or even Quran can be gifted. Husbands who want to give monetary maharana can open this account with a minimum monthly installment of 500 taka. The term of this account can range from 1 year to 10 years in different Islamic banks in Bangladesh. During that period, a monthly installment must be deposited by the client and the client can't withdraw it on demand until it is matured.
- Students Mudaraba Savings Account (SMSA): This type of account is only for students who are below 18 years old. Any guardian can open this account on behalf of their child with a minimum deposit of 100 taka. This type of account is very vital for school-going children because they will learn to save their money little by little which will be a large sum at a later period.

3.4.2 Investment Scheme:

In this type of account, the client deposits the money to the bank and the bank invests that money. Both parties earn profit and bear losses. Various investments scheme are offered by different banks, however, common and popular investment schemes are discussed below:

- Bai-Mudaraba: As discussed earlier, the word “Bai” means purchase and sale. So Bai-Mudaraba means purchase and sale where profit and loss is shared. When the client wants to buy a specific product, they will open a Bai-Mudaraba account where the bank will purchase the commodity and then sell it to the client at a cost plus agreed profit. The client will repay by depositing in a lump sum or on an installment basis over an agreed period of time. Usually, the duration for this type of account ranges from 1 year to 2 years.
- Bai-Muajjal: The concept Bai-Muajjal has been discussed earlier which means credit sales. The bank will purchase commodities as per the client’s requirement and then sell it to the client at a cost-plus profit basis. The ownership of the commodity is transferred at the time of sale. This means the bank is selling the product on credit. The bank will open an account for the client where he will repay his money within an agreed period at installment or in a lump sum.
- Ijarah scheme or hire purchase: In this scheme, the bank will purchase an asset required by the client and will lease it to the client. The profit from that asset is shared proportionately among the parties. The client needs to repay the price of capital in an agreed installment amount within a specified period. The ownership of the asset stays with the bank until the cost price of the asset is fully paid by the client.

More investment products and services of Islamic banks are briefly discussed below:

- Household Durable Scheme (HDS): This type of account is mainly for individual who wants to purchase durable goods such as washing machine, cycle, furniture and fixtures, and equipment etc.
- Investment Scheme for Doctors (ISD): This account is targeted at doctors who want to buy some medical equipment such as x-ray, ECG machine, or any other accessories and decorative to setup their chamber.
- Car Investment Scheme (CIS): Any client who wants to purchase reconditioned or brand vehicles such as private cars, motorcycles, auto rickshaws, jeeps, etc can take a car investment scheme.

- Small Business Investment Scheme (SBIS): This type of product is mainly targeted at jobless people or any service holder who wants to start a small business. This service is very helpful for unemployed youth who want to be self-employed. It helps to reduce the unemployment rate of Bangladesh and contributes to its economic growth of Bangladesh. However, the business that the client is starting should be legal in Islam such as dairy, printing press, vegetable, farming, restaurant, digital marketing business, confectionary, general store or any other business that is not prohibited in Islam.
- Agricultural Implement Investment Scheme (AIIS): This type of scheme is for farmers or agricultural businessman who wants to buy equipment or accessories to operate their agricultural business such as power pump, tractor, seeder, tube-well, and any similar types of commodity. As Bangladesh is an agricultural-based county, this type of service is very important for the development of the agricultural sector.
- Housing Investment Program (HIP): Any businessman, landlord, or professional who wants to construct or purchase any residential or commercial building or apartment, renovate a house or install house equipment such as a lift, generator etc can avail this investment scheme.

3.4.3 Foreign Remittance Service:

People who are non-resident Bangladeshi who leaves abroad can also avail services from Islamic banks of Bangladesh.

- Investment Scheme for Foreign Expiates: People who are non-resident Bangladeshi and earn in foreign currencies can deposit their money in such an account to form a partnership, where the bank will invest this money in the productive sector of the county and share profit and loss with the client. It encourages SME investors abroad to contribute to the growth of the GDP of Bangladesh while earning profit. It is like a partnership and the term of investment can be as long as 10 years depending on the client and business. Only non-resident Bangladeshi aged from 18 to 60 years are eligible for such a scheme. There is also an investment limit which varies among different banks ranging from 50,000 taka to 10 crore taka.
- Remittance Card Service: Some non-resident Bangladeshis wants to transfer their money to Bangladesh for their family or friends. Seeing this opportunity,

many Islamic banks in Bangladesh provide foreign remittance card services through which clients can easily and quickly transfer their money from abroad.

3.4.4 ATM Service:

Automated Teller Machine also known as ATM has become an important service that all banks whether it be Islamic or conventional banks need to provide. It is a machine that disburses cash when the card of the bank is inserted. It also performs other banking services such as balance inquiry, mini statements, fund transfer etc.

So, all Islamic banks must offer ATMs in different locations so that customers can easily and hassle-free withdraw their money anytime. However, there is a daily limit and monthly limits on the amount that can be withdrawn from the ATM booth. Also, there is an annual ATM fee of around 300 taka charged by the bank to the cardholder.

3.4.5 Online Banking:

In this modern era, there is a huge technological advancement and everything is done via the internet. Banks also introduced online banking services in the 21st century to become more innovative and competitive. Through online banking, clients can check their transactions, balance, and statements, transfer money to another bank and even recharge their phone sim. Now, most banks even have their own personalized mobile phone apps for internet banking which makes banking more convenient and easy than before. However, there is a transaction limit and service charge which varies among banks.

3.4.6 SMS Banking:

There may be some situations where the internet may not be available to many clients at that moment but they may need to check their bank balance. To solve this issue, banks have introduced SMS banking through which they can do balance inquiries, and see mini statements and account information.

Also, banks now send SMS to the registered mobile number whenever any transaction of that account or card takes place. Clients need to register for SMS banking and a small charge is applicable for SMS banking.

3.4.7 Locker Service:

A bank is a place where people can safely store their valuable things. That's why all the banks now have locker deposit services where clients can safely keep their precious valuables such as gold or confidential documents.

However, the person who wants to avail locker service in a bank must be an account holder of that bank and there is a charge to avail this service.

CHAPTER 4

Islami Bank Bangladesh LTD (IBBL)

Chapter 4: Islami Bank Bangladesh Ltd (IBBL)

4.1 IBBL at a glance

Bangladesh is one of the largest Muslim communities counties where the majority of the people are Muslim. After liberation in 1971, there was no Islamic banking system in Bangladesh to serve the desire of Muslims. However, in 1983, Islami Bank Bangladesh started its operation to meet the demand of the Muslims. It was the first sharia-compliant interest-free Islamic bank in Bangladesh as well as South East Asia. On 13^{th} March 1983, IBBL was incorporated under the Companies Act 1913 as a public company with limited liability. It is a joint venture multinational bank based in Islamic Sharia where 63.92% of equity is contributed by Islamic Development Bank and Financial Institutes such as Islamic Investment and Exchange Corporation of Qatar, Kuwait Finance House, and Currency Exchange and Commerce of Saudi Arabia, etc. IBBL started its Islamic banking operation on 30^{th} March 1983 which brought a new era in the history of Bangladesh's financial market.

The first branch of Islami Bank Bangladesh Limited was located in Motijheel Dhaka. Now, IBBL has more than 350 branches and more than 2700 agent outlets, and more than 1800 ATMs located in different areas of Bangladesh. It is also listed in Dhaka Stock Exchange Ltd (DSE) and Chittagong Stock Exchange Ltd (CSE) with an authorized capital of 20,000 million taka and paid-up capital of 16,099.91 million taka as of December 2021.

4.2 Mission and vision of IBBL

Mission: IBBL's primary mission is to establish an Islamic Banking system with zero interest to serve the welfare of the general people of Bangladesh. Besides this, IBBL wants to ensure that all the economic transactions and activities are just, fair and equitable among the people. They also aim to invest in the priority sector and less developed and rural areas of Bangladesh to increase the standard of leaving of rural areas as well as to gain balanced and equitable growth in the county.

Vision: The primary vision of IBBL provide superior financial performance and aim to be the leading Islamic bank in Bangladesh by performance and reputation.
Their vision is also to establish and maintain modern banking techniques based on Islamic Sharia so that the financial system of Bangladesh can develop and be efficient by employing highly motivated experts of banking sectors so that the general people of Bangladesh can be benefited through transparency, accountability, integrity, and ease of use of the financial transaction.
Another vision of IBBL is to encourage savings in the form of direct investment which will contribute to the well-being of the society and lead to a higher employment rate in Bangladesh.

4.3 Objectives of IBBL

- ✓ To ensure customers are satisfied with the product and service
- ✓ To guarantee that their banking system contributes to the welfare of the society
- ✓ To adopt technological changes to sustain in the banking industry
- ✓ To ensure a stable position in the banking sector through performance and efficiency
- ✓ To diversify investment and expansion by investing in the priority sector of Bangladesh, women entrepreneurs, rural areas, and SMEs who show potential in the development of the country
- ✓ To pay more importance to the human resource so that talented and expert people can be employed
- ✓ Develop a corporate culture driven by talented and efficient employees
- ✓ To maintain global standards
- ✓ To ensure corporate social responsibility (CSR)

4.4 Products & Services of IBBL

IBBL provides a vast range of products and services to its client while complying with Islamic Sharia. Innovative products and services are offered by IBBL to satisfy the customers which are:

Deposit products:

- Al-Wadeah Current Account (AWCA)
- Mudaraba Savings Account (MSA)
- Mudaraba Term Deposit Account (MTDR)
- Mudaraba Special Notice Account (MSNA)
- Mudaraba Hajj Savings Account (MHSA)
- Mudaraba Special Savings (Pension) Account (MSSA)
- Mudaraba Savings Bond (MSB)
- Mudaraba Monthly Profit Deposit Account (MMPDA)
- Mudaraba Muhor Savings Account (MMSA)
- Mudaraba Waqf Cash Deposit Account (MWCDA)
- Mudaraba NRB Savings Bond (MNSB) Account
- Mudaraba Foreign Currency Deposit Account (MFCD)
- Students Mudaraba Savings Account (SMSA)
- Mudaraba Farmers Savings Account (MFSA)

Investment products:

- "Household Durables Scheme (HDS)"
- "Investment Scheme for Doctors (ISD)"
- "Transport Investment Scheme (TIS)"
- "Car Investment Scheme (CIS)"
- "Small Business Investment Scheme (SBIS)"
- "Micro Industries Investment Scheme (MIIS)"
- "Agricultural Implement Investment Scheme (AIIS)"
- "Housing Investment Program (HIP)"
- "Real Estate Investment (Commercial & Working Capital)"
- Agricultural Investment of IBBL
- NRB (Non Resident Bangladeshi) Entrepreneurs Investment Scheme(NEIS)
- Women Entrepreneurs Investment Scheme (WEIS)

- “Housing Investment Programme for the Govt. Employees (HIPGE)”
- “Palli Griho Nirman Beniyog Prakalpa (PGNBP)”
- “Solar Panel Investment Scheme (SPIS)”

Rural Development Scheme

Services:

- NRB(Non Resident Bangladeshi) Entrepreneurs Services
- SME Services
- Foreign Exchange Business Services
- Locker Services
- Offshore Banking Services
- ATM Services
- Remittance Card
- Fund Transfer
- Internet and SMS Banking
- Credit and Debit Card
- Cheque Clearing
- DESCO Bill Payment
- University Tuition Fee Payment
- Agent Banking

CHAPTER 5

Social Islami Bank Limited (SIBL)

Chapter 5: Social Islami Bank Limited (SIBL)

5.1 Overview of SIBL

SIBL was incorporated on 5th July 1995 as a public limited company and started its operation on 22nd November 1995. SIBL was established to serve society and reduce poverty in Bangladesh to increase the standard of living. Their motto is “Working Together for a Caring Society”. This motto and the name of the company Social Islami Bank Limited show that they are devoted to creating a caring society and working for the well-being of society while following the Islamic Sharia of banking.

In 2010, SIBL was listed on Dhaka Stock Exchange (DSE) with an authorized capital of 10,000 million taka and 8,933 million taka paid-up capital. Currently, SIBL is operating with 4000 employees serving 172 branches of SIBL across Bangladesh.

5.2 Mission and Vision of SIBL

Mission: Their motto is "Working Together for a Caring Society" which means they want to serve society by eliminating poverty of Bangladesh.

Vision: Their main vision is to one-stop solution for any financial and banking service while following the Islamic sharia and becoming a leading financial institution in Bangladesh while eradicating poverty and working for the wellbeing of the society. SIBL aims to utilize modern technology to give innovative, better, and more efficient products and services to satisfy the needs of the customers. Also, maintain sustainable growth so that optimal return on equity is generated. They want to empower real poor families by creating income opportunities and increasing their income level so that poverty is eliminated.

5.3 Values of SIBL

- Honesty
- Transparency
- Efficiency
- Accountability
- Religiousness
- Innovation
- Flexibility
- Security
- Technology

5.4 Products and Services of SIBL

Deposit Schemes:

- Al-Wasiyah Bil Waqf (Cash) Account
- Mudaraba Scheme Deposits
- Al Wadiah Current Account
- Mudaraba Savings Deposit
- Mudaraba Term Deposit
- Mudaraba Notice Deposit Cash Waqf. Deposit

- SIBL Super Savings Account

Investment Products:

- SIBL Islamic Auto Finance
- SIBL Islamic Home Finance
- Islamic Consumer Finance
- Bai-Muazzal
- HPSM
- HPSM-IJARA
- Murabaha
- Musharaka
- Bill Purchase
- Bai-Salam (PC)
- Quard

Other products and services:

- SIBL Student Account
- Mudaraba Education
- Insurance service
- SIBL Gift Card
- SIBL Dual Prepaid Card
- Visa Islamic Credit Card (Dual)
- Visa Islamic Credit Card (Local) SIBL Zameel Debit Card
- Locker Services
- Insurance Services
- Internet Banking
- Agent Banking
- Trade Finance & RMG
- Working Capital Financing
- Project Financing
- Foreign remittance service
- Offshore Banking
- Digital Banking

CHAPTER 6

Overview of Other Islamic Banks in Bangladesh

Chapter 6: Overview of Other Islamic Banks in Bangladesh

In this section, all the Islamic banks in Bangladesh are briefly discussed.

6.1 EXIM Bank

Exim Bank also known as Export-Import Bank of Bangladesh was established in 1999 and started its operation on 3rd August 1999. First, EXIM bank was registered as Bengal Export Import Bank Ltd (BEXIM), however, due to legal constraints, the name was changed to EXIM Bank on 16th November 1999.

EXIM Bank was established as a conventional commercial bank at first. However, in July 2004, it was migrated from a conventional bank to Islamic Bank under the founder managing director Mr. Lakiotullah.

EXIM Bank's primary mission is to ensure a full Islamic banking system for its customer while maintaining transparency, accountability, quality, CSR, and utilization of technology to introduce innovative and efficient products and services.

Their vision is to work together to get to the desired goal which is constant growth and economic development through efficient financial services while complying with the Islamic Sharia. Their motto is "Together Towards Tomorrow".

Exim Bank has diversified its investment into various sectors such as textile, RMG, steel, telecommunication, agriculture, and many more. Its foreign exchange department is one of the leading in Bangladesh and plays a vital role in the development of the country's economy. EXIM bank now has more than 130 branches and 126 ATMs across 41 districts of Bangladesh.

6.2 Al Arafah Islami Bank Ltd (AIBL)

The bank was founded and established in 1995. A group of dedicated, Islamic scholars, economists, and pious personalities established AIBL which was registered as a Private Limited Company on 18th June 1995. AIBL has 201 branches and 175 ATMs with 3866 employees working for AIBL. Its authorized capital is 15,000 million taka with paid-up capital of 10,649 million taka.

AIBL's mission is to attain fully establish Sharia Based Islamic Banking to contribute to the growth of the national economy of Bangladesh.

AIBL vision is to be the leading Islamic Bank following complete Islamic Sharia to make Bangladesh economically developed by giving enhanced financial services.

6.3 First Security Islami Bank ltd (FSIB)

FSIB was incorporated as a commercial bank on 29th August 1999 and got the license from the central bank of Bangladesh (Bangladesh Bank) on 22nd September 1999. First Security Islami Bank Ltd commenced its operation on October 25, 1999.

Until 2009, FSIB was a conventional commercial bank. In 2009, it changed from a conventional banking system to Islamic Banking System. FSIB started its operation with 10,000 million taka and now has paid up capital of 7,840 million taka. FSIB consists of 184 branches across the country with more than 150 ATM booths.

6.4 Shahjalal Islami Bank Limted (SJIBL)

SJIB is a full fledge Islamic Bank that was incorporated under the Bank Company Act 1991 on 1st April 2001. It started its operation on 10th May 2001 and was listed on Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The authorized capital is 15,000 million taka and now, the paid-up capital stand at 10,291 million taka. It now consists of 132 branches and more than 125 ATM Booths across Bangladesh.

SJIBL's motto is “Cordial Service and Welfare Banking”. The main mission is to operate a banking system in accordance with the principle of Islamic Sharia to serve the well-being of people. SJIBL vision is to create a brand of itself in Islamic banking and investment sector and provide superior products and services to clients and create sustainable benefits for all stakeholders.

Oher full fledge Islamic banks in Bangladesh are:

- Union Bank BD Ltd
- ICB Islamic Bank Ltd
- Standard Bank Limited
- Jamuna Bank Limited

CHAPTER 7

Performance of Islamic Banking Sector in Bangladesh

Chapter 7: Performance of Islamic Banking Sector in Bangladesh

The banking sector plays an important role in the development of an economy. Globally, the Islamic financial sector is rapidly growing to support the overall growth of the economy. In line with global growth n Islamic finance, Islamic banks in Bangladesh are also showing tremendous growth and performance in the past year. This has been possible mainly due to the Muslims demanding Islamic financial services in Bangladesh as the majority of Bangladeshi are Muslims. Also, Bangladesh bank which is the central bank of Bangladesh has made easy policies for Islamic Banks which support the development of Islamic banks and the economy.

In 2022, Bangladesh consists of 61 scheduled banks that are fully operated in compliance and in accordance with Bangladesh Bank's policy and system. Bangladesh Bank being the central bank of Bangladesh controls them and make policy that are followed by other banks. Out of these 61 scheduled banks, currently, there are 10 full fledge Islamic banks in Bangladesh operating with the principles of Islamic Sharia.

There are a total of 10,942 branches of banks in Bangladesh, out of this, 1679 branches are operated by Islamic banks. Nine of the conventional banks in the Bangladesh banking sector has 41 Islamic Banking branch such as City Bank Limited, Southeast Bank Limited, AB Bank Limited, etc., and 13 of the conventional commercial banks has 434 Islamic banking windows such as United Commercial Bank, Midland Bank Limited, Bank Asia Limited, etc.

Total Deposits			
Date	March 2022	December 2021	March 2021
BDT (Billion)	3996.79	3931.11	3577.92
Change (BDT Billion)	65.68	353.19	
% Change (%)	1.67 %	9.87%	

This table illustrates the total deposits of Islamic Banks from March 2021 to March 2022 and the % change from March 2021 to December 2021 and from December 2021 to March 2022. The total deposits of Islamic Banks in March 2022 was 28% as compared to the total deposits of the entire banking sector in Bangladesh. Here, we can see that the total deposits stand to 3996.79 billion taka which is 1.67% or 65.68 billion taka more compared to the total deposits in December 2021. So we can see a growth in total deposits in Islamic banks.

Total Investments (Loans and advances)			
Date	March 2022	December 2021	March 2021
BDT (Billion)	3606.49	3534.48	3223.98
Change (BDT Billion)	72.01	310.50	
% Change (BDT Billion)	2.04%	9.63%	

This table illustrates the total investments from loans and advances of Islamic Banks from March 2021 to March 2022 and the % change from March 2021 to December 2021 and from December 2021 to March 2022. The total investment of Islamic Banks in March 2022 was 27.78% as compared to the total investments of the entire banking sector in Bangladesh. Here, we can see that the total investment from 3534.48 billion taka in December 2021 to 3606.49 billion taka in March 2022 which is 1.67% or 65.68 billion taka more compared to the total investments in December 2021. So we can see a growth in total investments in Islamic banks.

Number of branches and manpower			
Date	March 2022	December 2021	March 2021
Branches	2,154	2,080	1,755
Manpower	47,927	45,260	43,288

This table illustrates the number of branches or Islamic windows and manpower Islamic bank has from March 2021 to March 2022. Here, we can see that the branches of the Islamic banking sector have drastically increased from 1,755 outlets in March 2021 to 2,154 outlets in March 2022. Also, the manpower has increased from 43,288 in March 2021 to 47,927 in March 2022. We can see that Islamic bank Is constantly growing in terms of location and manpower. The total number of bank branches in 2022 is 10,942. This means, of all the branches of the banking sector in Bangladesh, the Islamic Banking sector holds 19.69% of bank branches.

CHAPTER 8

FINDINGS

Chapter 8: Findings

The concept of the Islamic banking system is not as clear as the concept of the conventional banking system to many people of Bangladesh. The conventional banking system has been operating throughout the world for decades, however, the modern era of the Islamic banking system has been developed in late 1983 in Bangladesh with very few people having knowledge about Islamic banking.

The concept of Islamic banking is very vast however, through this research paper, people can have some knowledge about the concept of the Islamic banking system and how it works. The Islamic banking system follows the Sharia law in its operation. The main principle of the Islamic banking system is, it is interest-free banking instead it operates on a profit and loss sharing basis.

It is also very important to understand the concept of riba or usury in Islamic banking. Riba is the excess, increase, or surplus of any commodity in exchange for the same commodity. Interest puts a burden on the borrower because if any economic downturn or the borrower faces any loss situation, still he has to bear interest. However, in profit and loss sharing Islamic Banking, profit and losses are shared proportionately among the parties. So interest leads to inflation, and unemployment and promotes inequality.

Islam is a way of life that promotes equality and justice. As Islamic banks follow the Quran and Islam, it promotes transparency, accountability, justice, economic development through trade, and improve economic infrastructure.

As Islamic banks do not deal with interest, banks need to provide innovative products and services. Understanding the nature of the product and service is very important. Lack of knowledge in this area has caused many potential clients not to invest and deposit in Islamic banks. Also without authentic and clear knowledge of what is permissible and what is prohibited in Islam, doing Islamic banking is very difficult. So, the product schemes and services of the Islamic banking system have been briefly discussed in this project.

The source of finance of Islamic banks is capital & equity, current account based on Al-Wadiah, savings accounts, and investment accounts. Banks utilize these funds through various investment and deposits schemes such as Mudaraba (profit sharing), Musharaka (partnership), Murabaha (cost plus financing), Bai-Muajjal (credit sales), Bai-Salam (advance payment), etc.

Lastly, Bangladesh is a Muslim country, majority of the people are Muslim. So, the demand for Islamic banks in Bangladesh has drastically increased in Bangladesh. Total deposits, total investments, the number of branches, and manpower have also increased.

CHAPTER 9

CONCLUSION

Chapter 9: Conclusion

Islam is a complete code of life. Bangladesh consisting of majority of Muslims, and there is a potential demand for an Islamic banking system that follows the Islamic Sharia. The financial sector contributes the majority of the economic growth of any country. So having a strong Islamic financial product and service is very important. However, the concept of Islamic banking is very limited to many people of Bangladesh.

Islamic banks mainly operate by collecting deposits from clients and then investing those deposits in various business sectors of the country. Because interest is completely prohibited in Islam and follows Islamic Sharia, they operate on an equity profit and share basis. This means they invest in various projects and businesses of the economy and share profit or loss with their clients. This injects money into the economy and money is utilized which contributes to economic growth, the development of society's standards alleviates poverty, and increases the employment level in a country.

Banks are financial institutes whose aim is to earn profit. However, besides earning a profit, Islamic banks' target is to achieve the welfare of the society, stabilize economic growth and reduce unemployment. There are 10 full fledge Islamic banks in Bangladesh out of 61 scheduled banks. Around 20% of the banking sector consists of Islamic banks and day by day the percentage is increasing. This means people are understanding the concept of the Islamic banking system as days are passing. The overall performance of Islamic banks is also growing as discussed in this thesis paper.

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